Medical service fees are defined as the fees received by a medical facility or pharmacy in exchange for insured medical services or products provided to an insured person. These fees are overseen by the Ministry of Health, Labour, and Welfare (MHLW), which sets the fee schedule and determines the billing conditions for medical services, medical devices, and pharmaceuticals all providers must adhere to. There are prohibitions against setting fees higher than those in the fee schedule and providers are restricted from combining non-listed services and products with listed ones, with very few exceptions.

Since the system was established in its current form in 1961, healthcare fees have been administered on a fee-for-service (FFS) basis. When a service, pharmaceutical product or medical device is provided through the insurance system, the provider calculates reimbursements based on the number of points allocated for each item. The provider is then reimbursed for the service or product based upon the number of points.

Similar to the diagnosis related groups (DRG) prospective payment system (PPS) found in the U.S., DPC is prospective and uses codes based on diagnosis categories and diagnosis groups. As of April 2012, there were 2,927 DPC codes. The unique part of this payment system, however, is that it is per-diem and integrates standard FFS payments. Providers are paid a flat-rate prospective fee per day of inpatient hospital stay for certain DPC services and paid FFS for non-DPC services.

More specifically, DPC payments:
- Are dispersed for hospital stays, diagnostics, injections, pharmaceuticals, and medical treatments valued at less than 1,000 points. Payments are calculated on a per-day basis depending on the DPC code and medical institution's coefficient, which was previously unique to each institution. This coefficient is currently being revised to reflect hospital type giving hospitals of similar type across Japan the same coefficient.
- Do not cover surgery, radiation therapy, anesthesia, and medical treatments valued at
more than 1,000 points. These instead are paid FFS.

- Differ according to hospitalization stage. Per-day payments for the first stage are higher than the latter two stages. The second stage lasts until the average length of stay and per-day payments within this stage are set lower effectively neutralizing the higher payment provided in the first stage. Per-day payments for hospitalization within the third and last stage are lower than the payment rates of the second stage. If length of stay becomes exceptionally extended, all payments become FFS.

Various analyses have been conducted to determine whether DPC is succeeding in achieving its intended purposes. While it has largely been shown that DPC has not resulted in lower costs due to its unique mix of PPS with FFS, there is strong opposition against further integration of PPS.iii

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