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**Health System and Policy in Germany**

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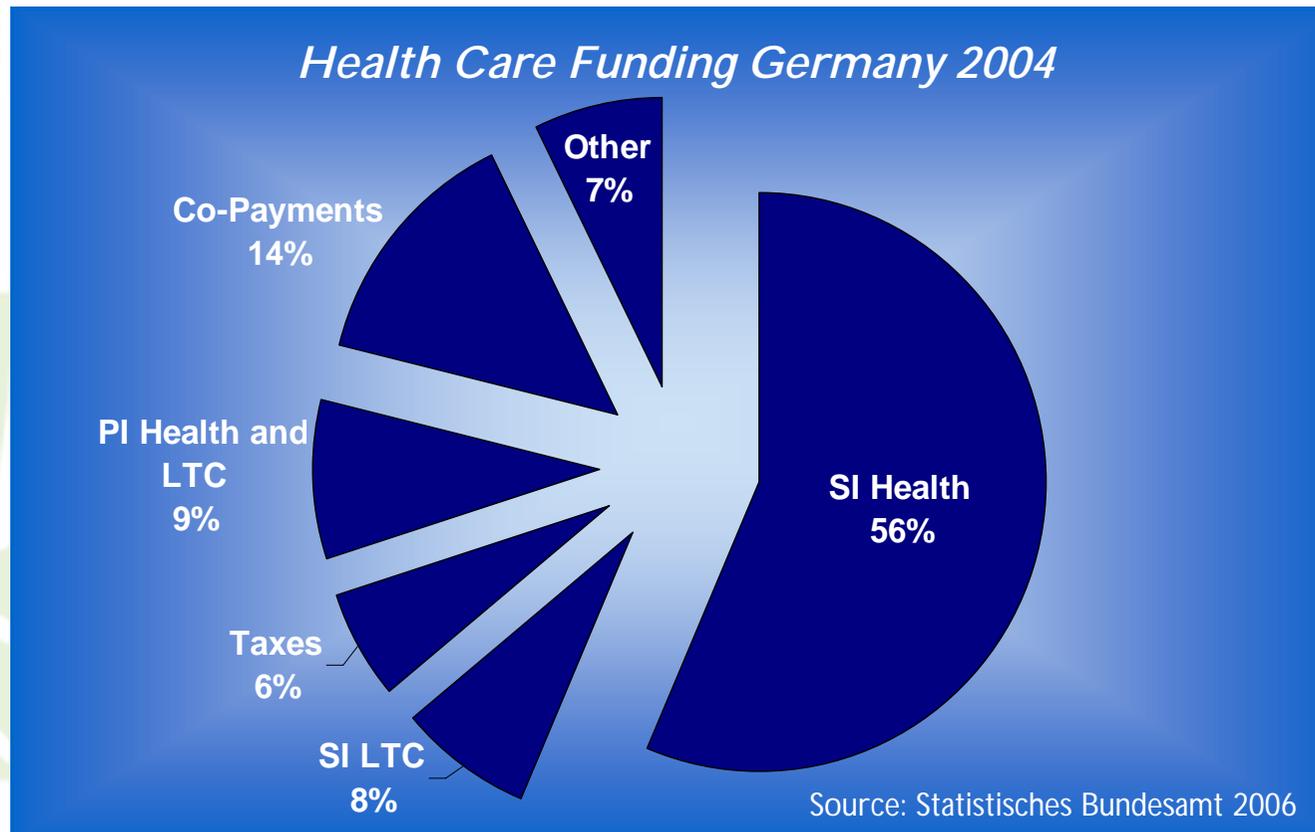


## Overview

1. Core features of the health system in Germany
  - Financing
  - Regulation of demand
  - Regulation of supply
2. “Hot” health policy topics
  - Financial sustainability of social health insurance
  - Regulation of private health insurance
  - Integration of care
  - Financial Sustainability of Long-term care insurance



## Core features: Financing





## Core Features: Financing

- 85% of the population are covered by social health insurance
  - Income-dependent premiums
  - 230 competing sickness funds
  - Free choice for consumers
  - Risk adjustment system
- 8% of the population are covered by private health insurance
  - Risk-based premiums
  - High-income employees; self employed; civil servants
- Separate LTC-scheme



## **Core Features: Regulation of Demand**

- Moderate user charges
  - 10€per three months in outpatient care
  - Max. 10€per prescription for pharmaceuticals
  - 10€per day in inpatient care
  - Maximum: 2% of income (1% for chronically ill persons)
- Extensive benefits package in social health insurance
  - Inpatient/outpatient care
  - Pharmaceuticals
  - Dental care
  - Separate scheme for home care and care in nursing homes



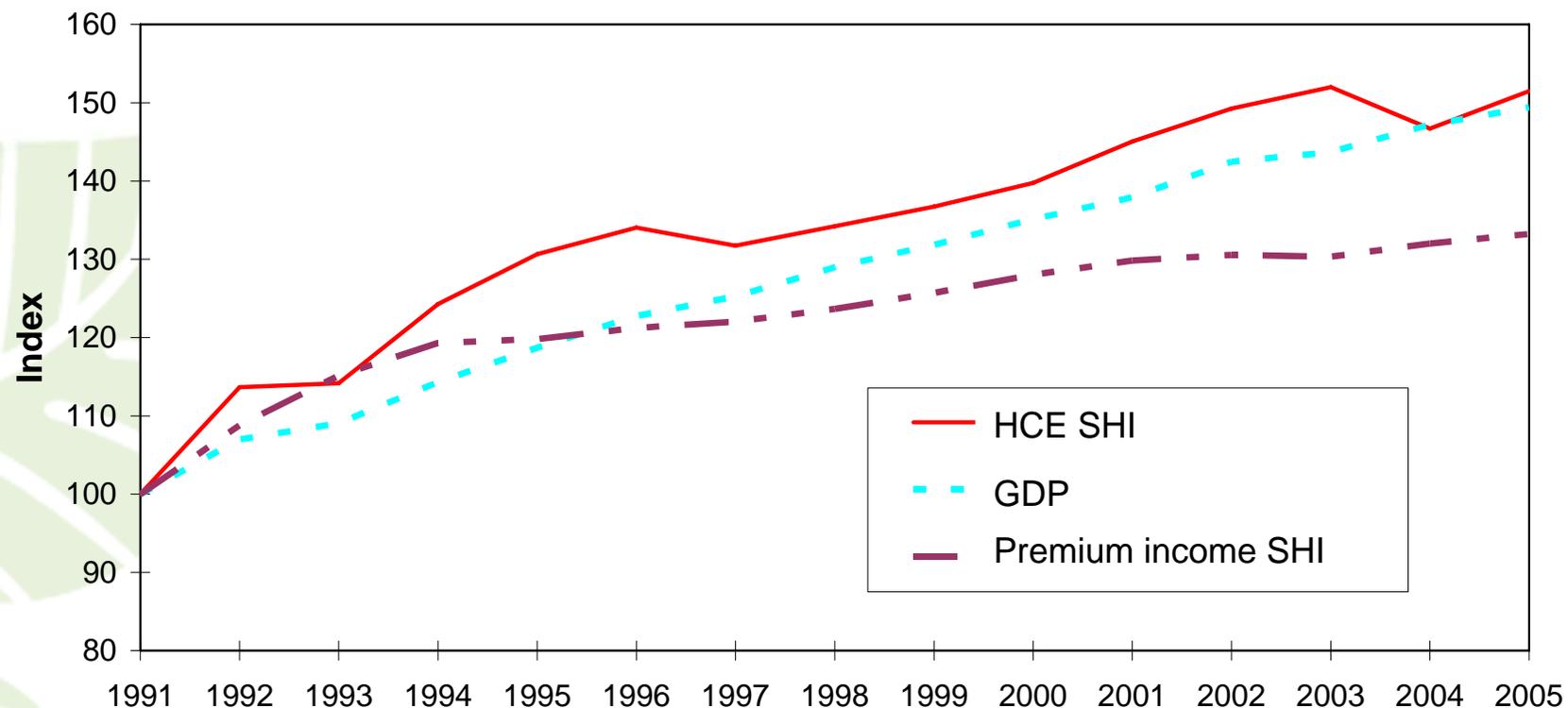
## **Core Features: Regulation of Supply**

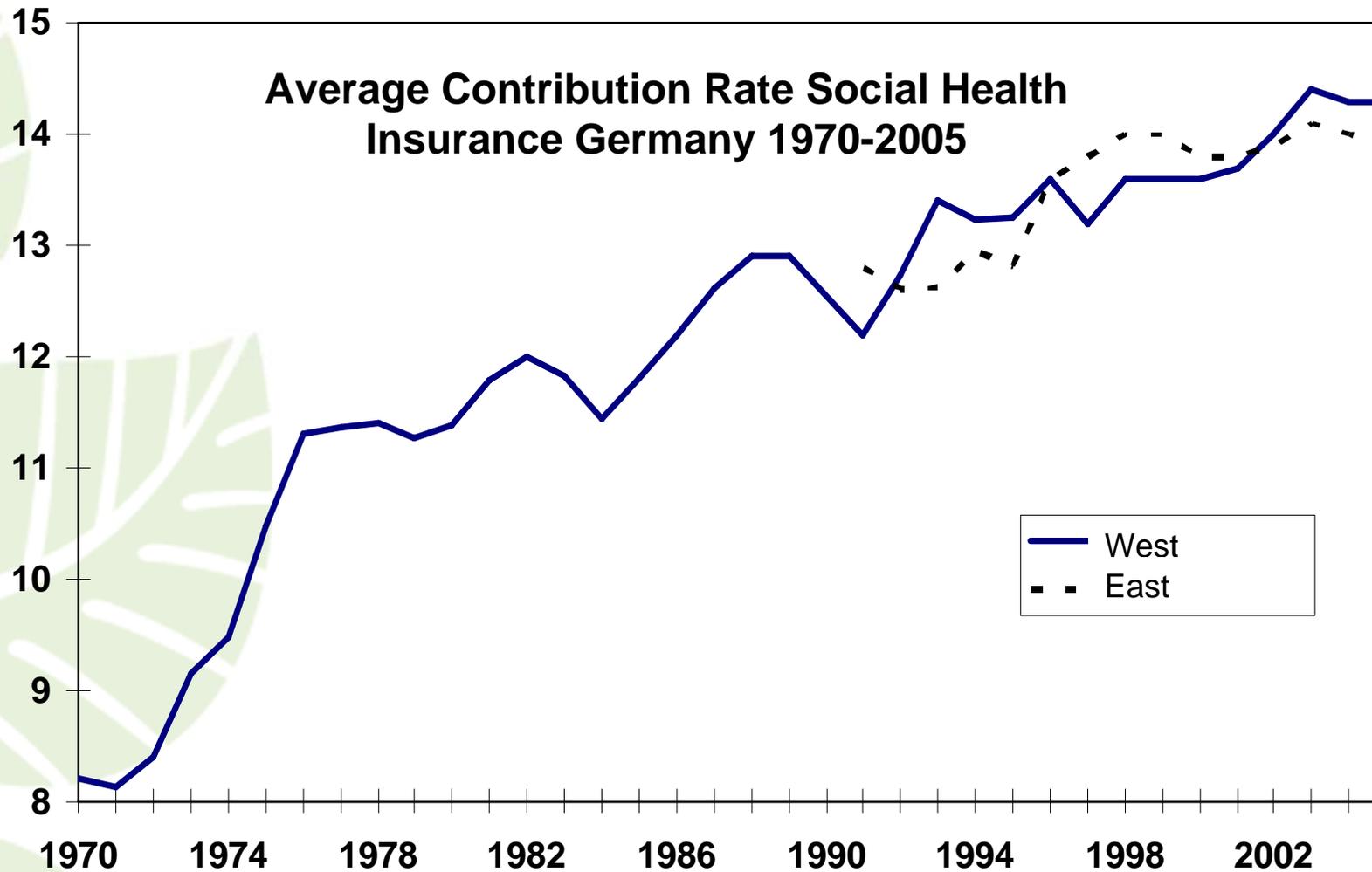
- Capacity planning in inpatient care and outpatient care
- Fee-for-service and volume restrictions in outpatient care
- DRG-system and volume restrictions in inpatient care
  - Fierce competition between hospitals
  - Reduction of overcapacities
- Manufacturers are free to determine prices for pharmaceuticals; so far only few restrictions for the reimbursement
  - Introduction of cost-effectiveness as a criterion for reimbursement
  - Development of decentralized price negotiations between sickness funds and manufacturers



## Hot Policy Topics: Financial Sustainability SHI

Growth Rates Health Care Expenditure, Premium Income and GDP 1991-2005 (per capita, 1991=100)







## Hot Policy Topics: Financing

- Current funding system is not sustainable
- Problems on the labor market
- Adverse selection against social health insurance
- Cost shifting between social insurance schemes
- Demographic changes
- ▶ Reform proposals
  1. to increase tax financing
  2. to introduce community-rating
  3. to increase the number of persons contributing
  4. to increase the categories of income contributing



## Hot Policy Topics: Financing

	Social Insurance	Tax-Financing
Is everybody contributing?	No High-income employees and self-employed may opt out	Yes
Which income categories are contributing?	Employees: Income from salaries only Pensioners: Income from pensions only Self-Employed: All income categories	Taxed income (direct taxes, 50%) All income (indirect taxes, 50%)



## Hot Policy Topics: Financing

- Universal health insurance system (Social Democrats)
  - Ideal model: Unified health insurance system (Netherlands)
  - Income dependent premiums
  - Risk solidarity and income solidarity
  - Possible compromise: Payments of private health insurers to social health insurance in order to compensate effects of adverse selection
- Community-rated premiums in dual health insurance system (Christian Democrats – Conservative Party)
  - Untying of health care costs and labour costs
  - Risk solidarity in health insurance
  - Income solidarity by means-tested subsidies (tax money!)
  - Traditionally strong position of private insurers and physicians

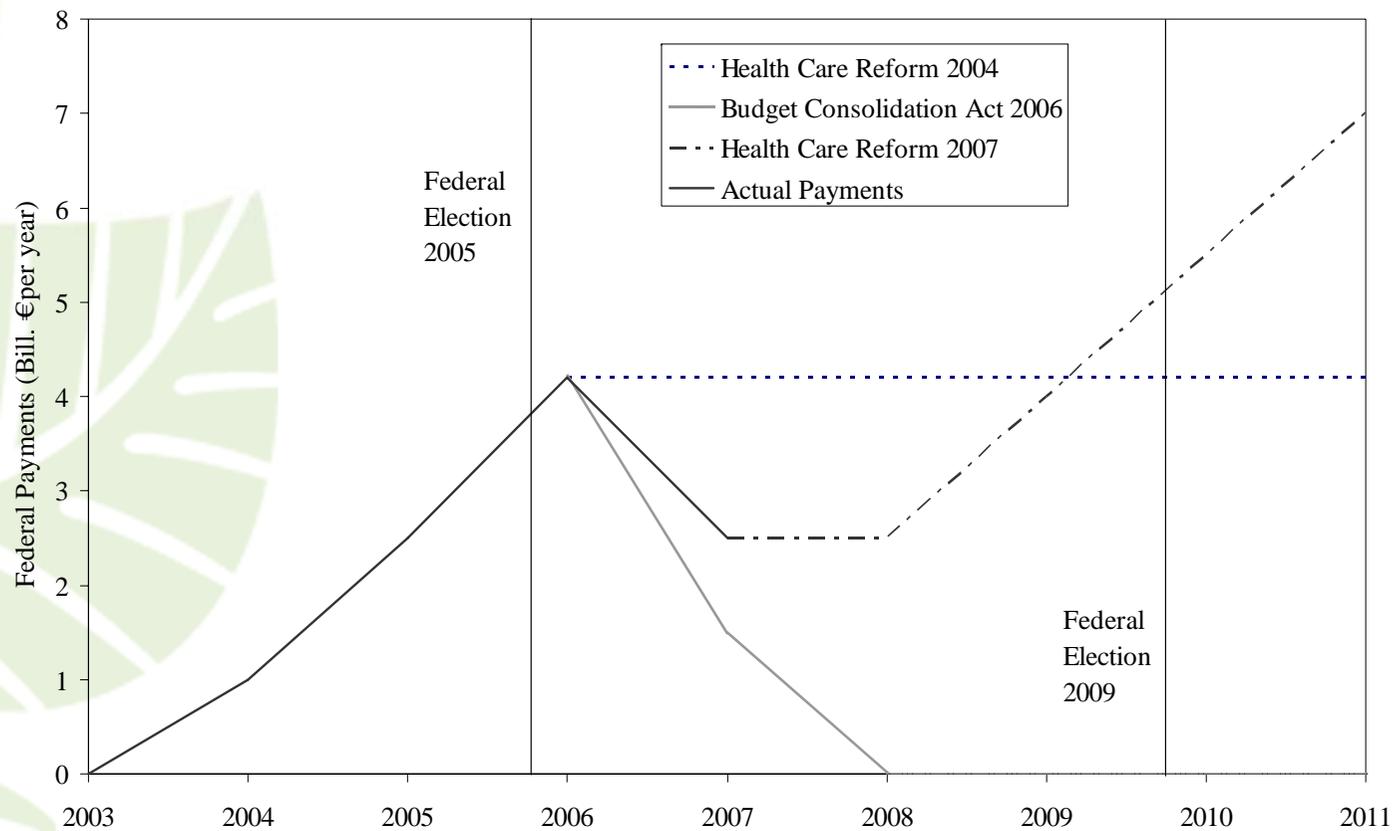


## Hot Policy Topics: Financing

- Health care reform 2007
  - Introduction of a central fund in 2009
  - Introduction of flat-rate premium (5 percent of HCE) which will be determined by health insurers
  - Income-dependent premium (95 percent of HCE) will be determined by government
  - Income-dependent premiums for children will be paid by taxes – at least in the long run



## Hot Policy Topics: Financing





## Hot Policy Topics: Private Health Insurance

	SHI	PHI
Coverage of the population	85%	8%
Mandatory for...	Low- and middle income employees, students, recipients of unemployment benefits	-
Voluntary for...	High-income employees, self-employed persons and civil servants	High-income employees, self-employed persons and civil servants



## Hot Policy Topics: Private Health Insurance

	SHI	PHI
Risk	Income-dependent	Risk-rated
Time	Pay-as-you-go	Capital-funded
Children	Free co-insurance	Risk-rated (Community-rated at birth)
Non-working spouses	Free co-insurance	Risk-rated



## Hot Policy Topics: Private Health Insurance

	SHI	PHI
Man, 35 years, healthy, income p.a. 60,000 Euros	504 €*	230 €*
Dependent 1: Woman, 35 years, healthy, no income	-	325 €
Dependent 2: Child, 5 years, healthy	-	130 €
Dependent 3: Child, 2 years, chronic condition	-	200 €
<b>Sum per month</b>	<b>504 €</b>	<b>885 €</b>

\*50 percent paid by employer



## Hot Policy Topics: Private Health Insurance

	SHI	PHI
Contractual relations?	Yes	No
Payment system GPs and specialists	Fee-for-service Volume restrictions Low price level	Fee-for-service No Volume restrictions High price level
Payment system hospitals	Diagnostic-Related Groups (DRGs) Volume Restrictions No differences in price per DRG	



## Hot Policy Topics: Private Health Insurance

Characteristics	SHI	PHI
Female (%)	52.7	34.7
Household income €per month	1,950	2,930
Graduation grammar school (%)	20.3	42.0
Number of acute and chronic conditions (average)	3.52	2.89
Bad self-assessed status of health (%)	17.9	9.1

Source: Kriwy/Mielck 2006 with Federal Health Survey Data (1998; n=6,800 individuals)



## **Hot Policy Topics: Private Health Insurance**

- Enrollees in private health insurance are more healthy, have higher income and fewer dependents than enrollees in social health insurance.
- Adverse selection decreases average premium income and increases average health care expenditures in social health insurance.
- Financial incentives for health care providers lead to preferential treatment for privately insured patients in outpatient care.



## Hot Policy Topics: Private Health Insurance

- 2007 health care reform
  - Three year waiting period before opting-out of SHI
  - Private health insurers have to offer basic contracts
  - Benefits are comparable to social health insurance
  - No risk-rating
  - Maximum premium
  - Eligible are persons for whom enrolment in SHI is not mandatory
  - Deficits need to be financed by non-standard contracts
  - PHI will become more expensive and less attractive
  - No consequences for preferential treatment of privately insured patients



## **Hot Policy Topics: Integration of Care**

- Provision of care is highly segmented
- Collective contracting between providers and health insurers
- Result: Over-, under- and misuse of health care services
- 1% of all inpatient and outpatient expenditures are earmarked for integrated care projects
- Selective contracting between individual health insurers and individual providers – competitive process
- Development of highly innovative forms of health care delivery



## Hot Policy Topics: Long-Term Care Insurance

- Problems
  - Financial Sustainability: How to adapt to (relatively modest) demographic changes?
  - Benefits I: Dementia usually not covered by LTC insurance
  - Benefits II: Benefits not adjusted for inflation since 1993 (Inflation ca.1.5% per year)
  - Private long-term care insurance: Adverse selection against social long-term care insurance (Average expenditure social LTC: 250€, private LTC: 100€)
  - Continuity of care: Incentives for rehabilitation in a non-competitive system of third-party payers



## Hot Policy Topics: Long-Term Care Insurance

- Reform measures (not yet put into law)
  - Increase of contribution rate (sufficient to cover new benefits and adjustment for inflation; not sufficient to cover demographic changes)
  - First steps towards coverage for demented persons
  - Adjustment of benefits for inflation: 0.7% annually until 2012; discretionary adjustment after 2015
  - No transfers from private LTC insurance towards social LTC insurance
  - Incentives for rehabilitation: LTC institutions yes; payers no



## Conclusions

- Financial sustainability of social health insurance (and of LTC insurance) will be the most important reform issue after the next elections
- Growing economy right now alleviates the problem – but what happens during the next recession?
- Private health insurers and physician associations so far were able to fend off major attacks against private health insurance
- Quality of care increasingly becomes an important policy issue



**Thank you very much for your attention!**

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