

Reason for Change – the German Situation

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1. Health insurance coverage

There are two full coverage health insurance systems in Germany – the social and the private health insurance system

Most Germans are obligated to have social health insurance. However, certain groups of the population may choose between social and private full coverage health insurance. These groups are determined in two ways:

1. Employment status

Civil servants usually have private health insurance. People who are **self-employed** can choose between private and social health insurance, or choose to be uninsured

2. Income level

Employees with an income exceeding a certain level can choose freely between private and social health insurance. Therefore, those parts of the population that have a comparatively **high income** may choose to get **private insurance**

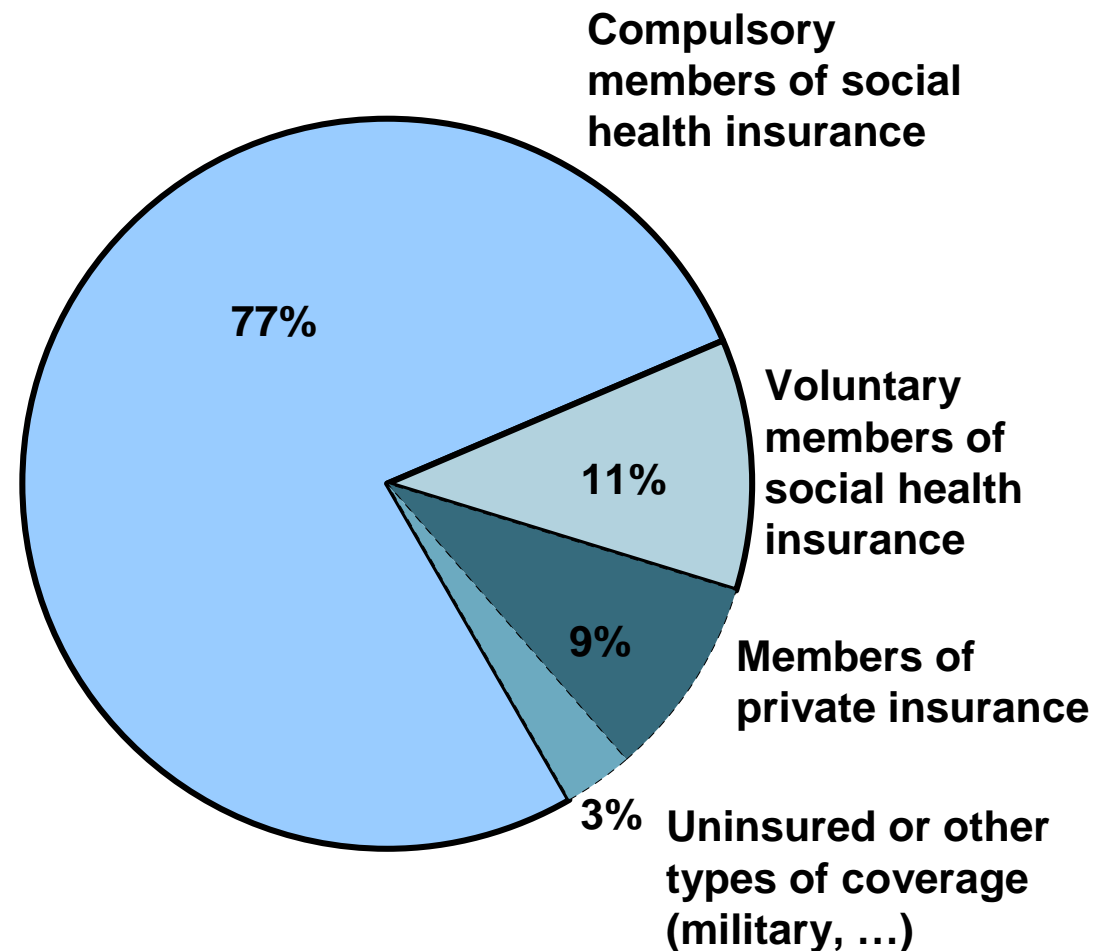
Social and private insurance are based on different guiding principles – private insurance incompatible with solidarity principle

Dimensions of solidarity	Private health insurance	Social health insurance
Healthy with sick	Rates based on risk assessment (no solidarity)	Rates independent of risk assessment (solidarity)
High income with low income groups	Flat insurance rates, no state aid (no solidarity)	Rates proportional to income (solidarity)
Singles with families	Flat rate for every family member (no solidarity)	No contributions for children and spouses without income (solid.)
Young with old	Rates calculated separately for each cohort (no solidarity)	One rate for all cohorts (solidarity)

**Private health insurance is not part of the social health insurance system
 → High-income earners with good risks can opt-out of the solidarity system**

Social health insurance is the dominant type of full coverage health insurance in Germany

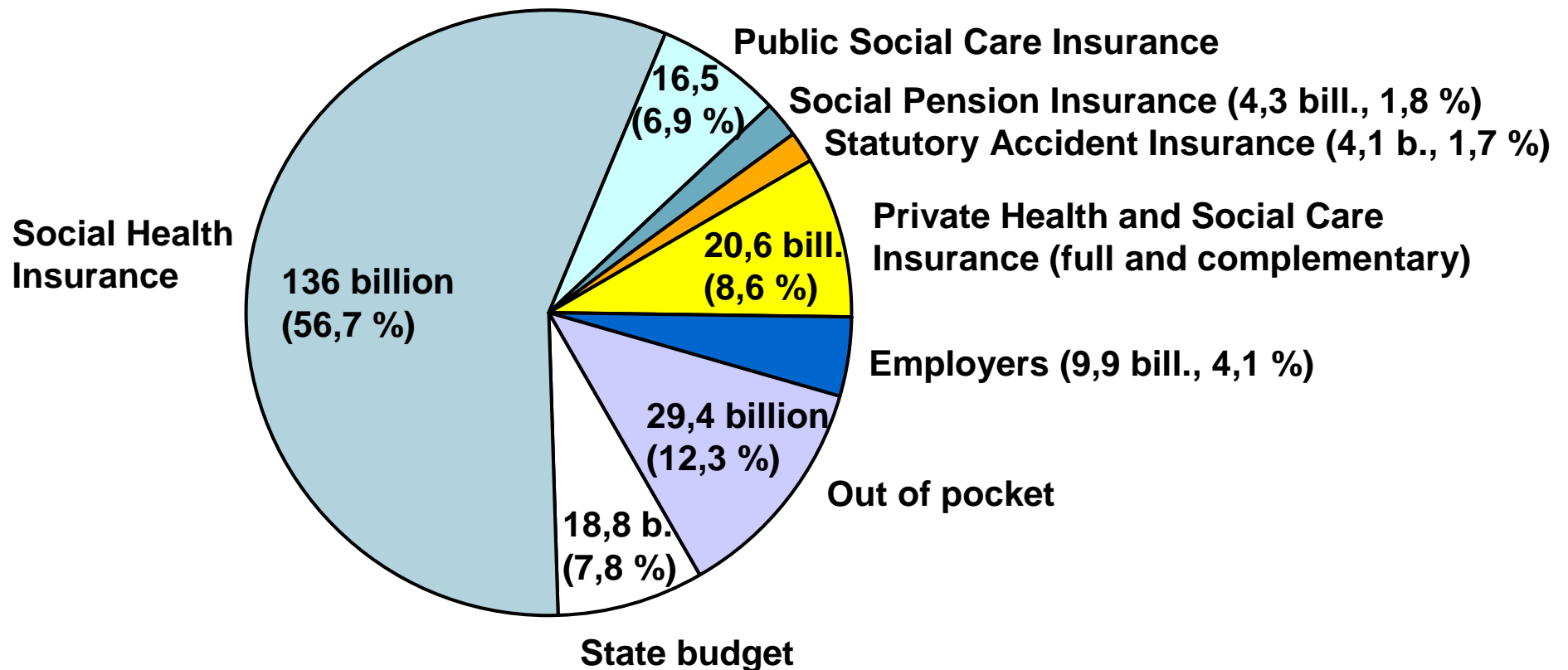
- About 88 % of the population are insured through the **social health insurance**
- Of these 88 % about 13 % are **voluntary members** of the social health insurance
- Roughly 9 % of the population are members of **private health insurance**



Source: VdAK Homepage, August 2005, calculations based on „Mikrozensus“-data

Social health insurance covers more than half of total German health expenses, but there are many different financing bodies

Healthcare expenses 2003 in Euro (total: 239,7 billion)

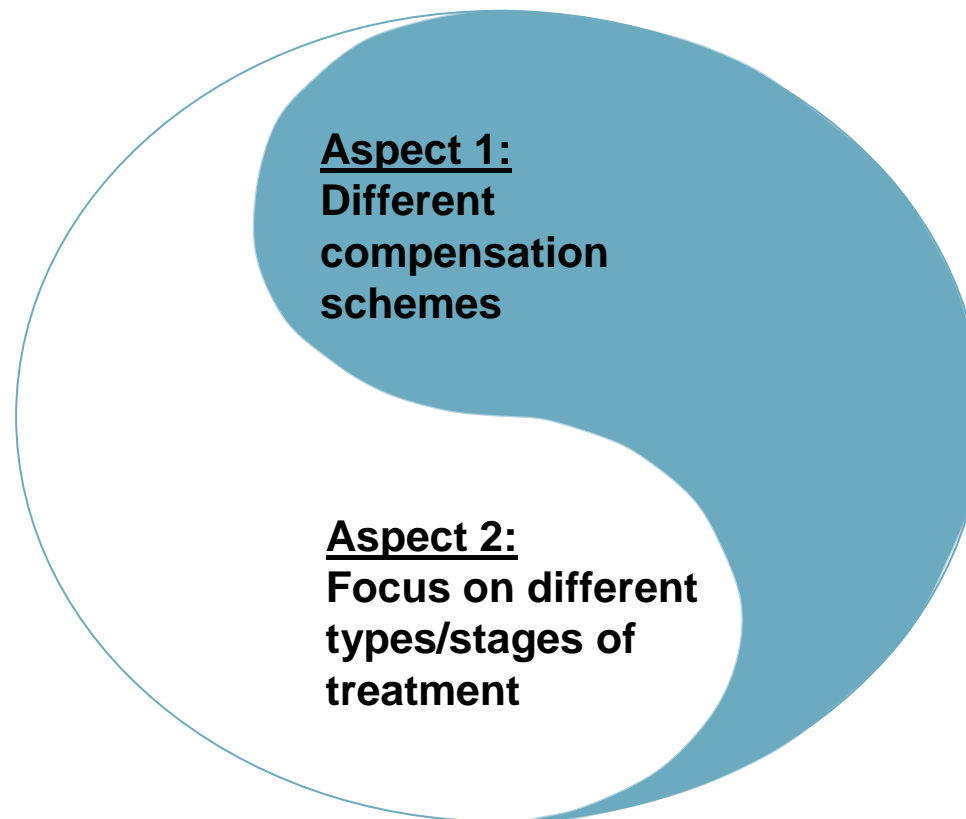


Source: Federal Bureau of Statistics

2. Sectoral division in patient care

The German healthcare system is divided into sectors – this sectoral division has two aspects

Sectoral division



The sectors to some extent resemble the different types and stages of patient treatment

Types and stages of patient care



Sectors

Out-patient sector

Ambulatory diagnosis and treatment

Primary care

Acute care hospital sector

In-patient diagnosis and acute care

Out-patient treatment to a very limited extent

Emergency treatment

Limited rehabilitative treatment

Rehabilitation sector

Rehabilitative treatment, usually after major illness and/or hospital treatment

Social care sector

Social care

Geriatric care

Home care

Each sector offers different kinds of health care providers with varying organisational setups

Ambulatory sector

Self-employed doctors with **individual private practices**

General practitioners as well as specialists

Other medical professions (i.e. osteopaths) with individual private practices

Acute care hospital sector

Teaching hospitals;
General hospitals;
Psychiatric hospitals

Doctors are usually employees, not self-employed

Hospitals may be private for profit, state-owned or private non-profit

Rehabilitation sector

Ambulatory and in-patient rehabilitation facilities

Care providers are doctors and health care providers from other medical professions as well as nurses

Social care sector

Nursing homes, home care providers

Care is usually performed by employed nurses

Care providers may be private for profit, state-owned or private non-profit

Each sector has its own compensation scheme – a systemic perspective on funding is lacking

Out-patient sector

Uniform compensation scheme (**fee for service**)

Doctors from a specific region have a **joint budget**

Acute care hospital sector

DRG-system (**case fee**)

Each hospital has **individual budget**

Rehabilitation sector

Compensation based on individually negotiated **per diems**

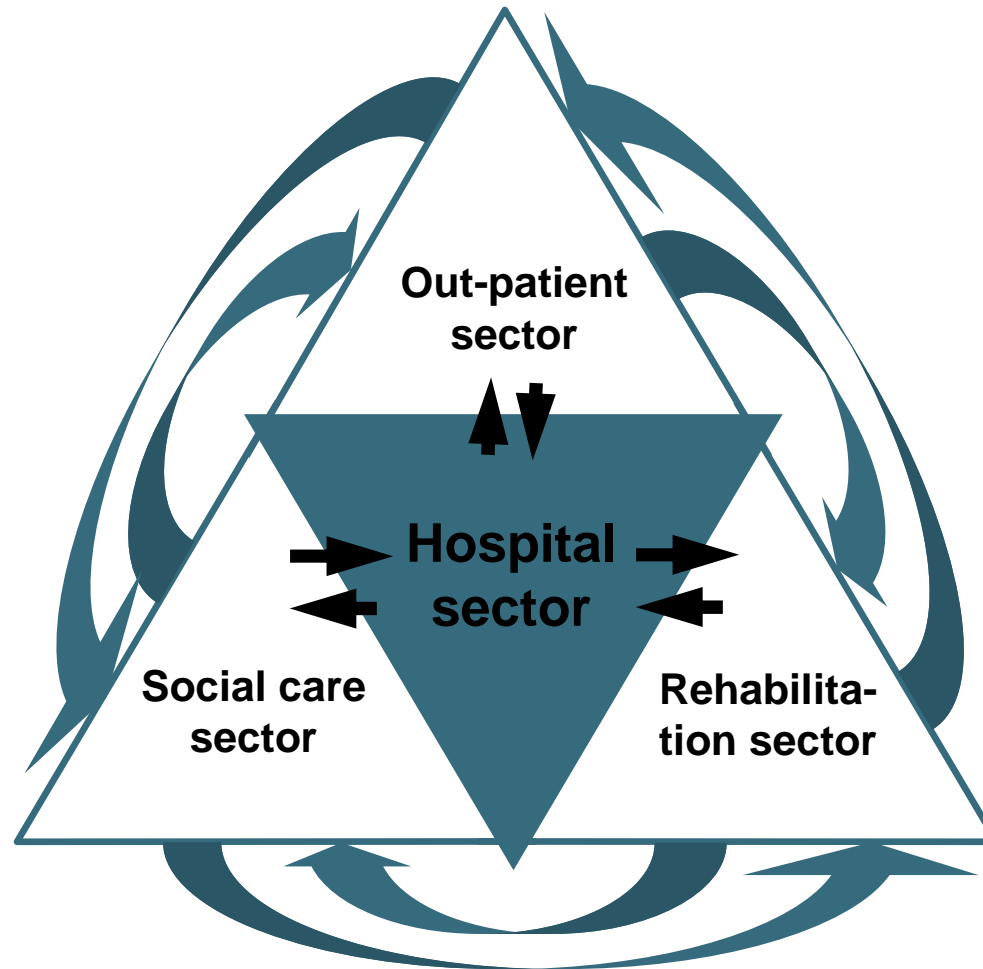
No budgets

Social care sector

Compensation based on **monthly fees** for service packages

No budgets

The hospital sector is connected to all three other sectors – there is a need for managing these interfaces



Sectoral division leads to disruptions in the process of patient care – there is no holistic case management

Ideal: Holistic case management

Process of patient care

Situation today: Fragmented case management

Out-patient
sector

Hospital
sector

Rehabilita-
tion sector

Social care
sector

The lack of cross-sectoral management leads to inefficiency and is detrimental to the quality of patient care

Inefficiency

- Lack of coordination of treatments
- Excess provision of infrastructure
- Inadequate flow of information
- ...

Incompatible with DRGs

- Sectoral division is not compatible with holistic case perspective
- Case-based quality assurance has to be cross-sectoral

Medical progress

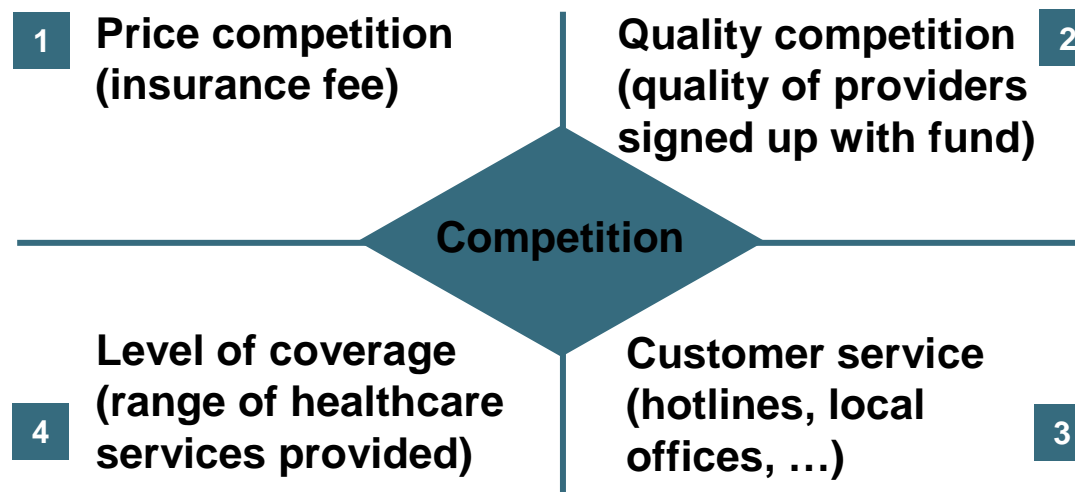
- Treatments have changed
- For more and more diseases periods of out-patient and in-patient treatment repeatedly alternate (i.e. modern oncological treatments)
- Necessity for integrated care

Deficits resulting from the sectoral division have to be eliminated

3. Competition of social health insurance funds

In Germany about 260 social health insurance funds are competing for customers – competition is fierce

- Members of the social health insurance system can **freely choose** their social health insurance fund - social health insurance funds are **public non-profit corporations**
- Competition is fierce. The number of social health insurance funds is rapidly declining as a result of **frequent mergers**
- But: What is the **nature of competition** among social health insurance funds?



Currently most contracts with healthcare providers are signed by all funds collectively – competition is very limited

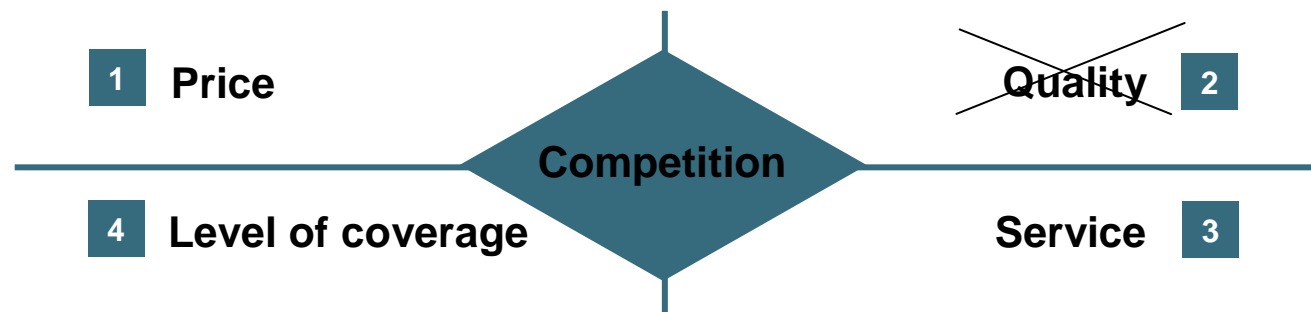
Quality of healthcare providers

Standard procedure

Social health insurance funds **collectively sign contracts** with individual hospitals and with physicians` associations

Implications for competition

Funds cannot compete with each other by offering the services of different healthcare providers



All social health insurance funds by law have to offer the same level of coverage – competition is very limited

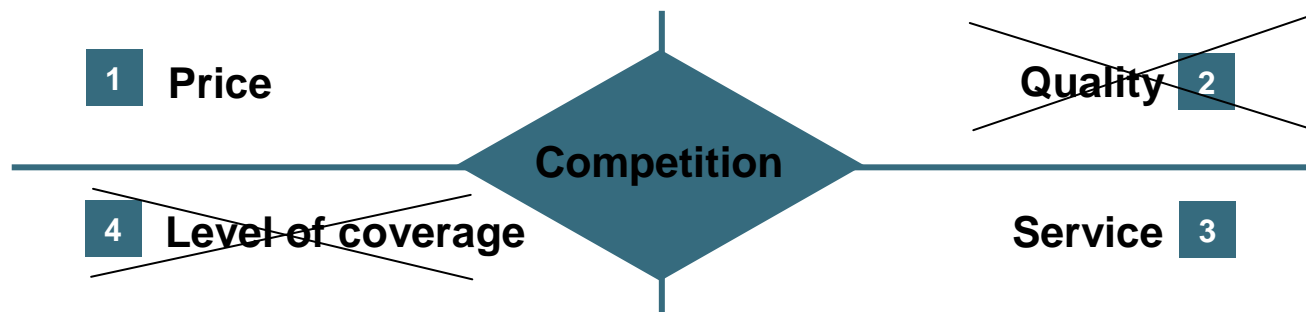
Level of coverage

Standard procedure

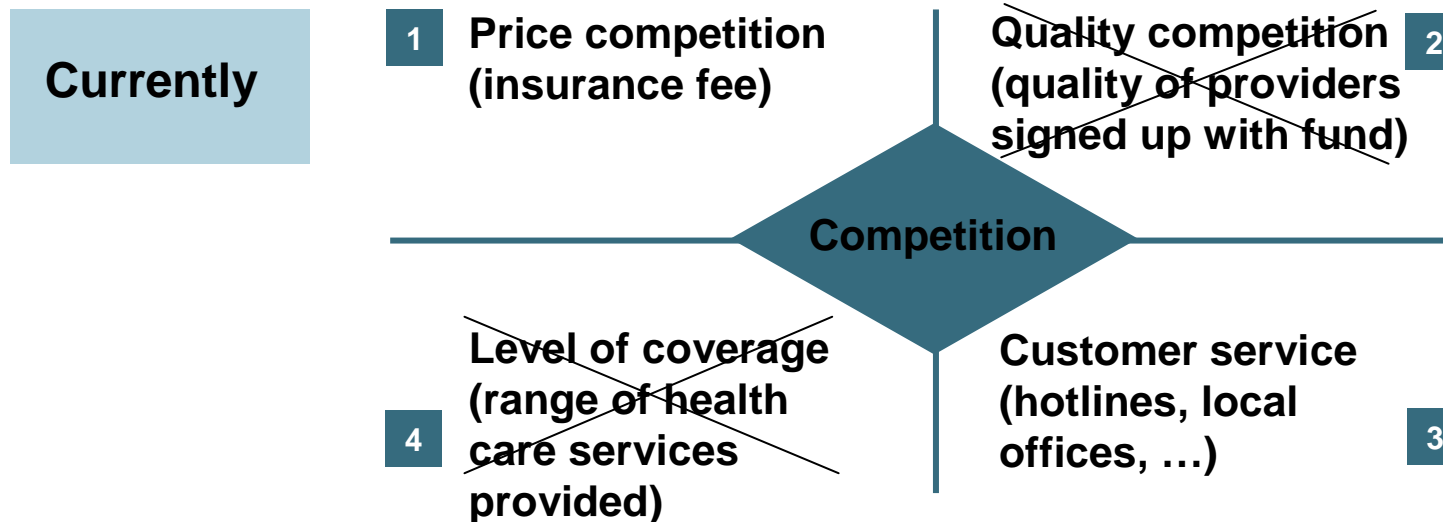
All funds by law have to offer a very **comprehensive, uniform benefits catalogue** that **covers almost all necessary treatments**

Implications for competition

Funds cannot offer different packages of healthcare services and levels of coverage



Currently, price competition to a large extent is based on risk selection – limited influence on efficiency of healthcare provision



Problem

Due to **collective contracting** (uniform compensation schemes) insurers have almost **no room for individual price negotiations**

→ **price competition** to a large extent is based on **risk selection**, not on differences in customer service and the efficiency of healthcare provision

4. Summary: The German agenda for healthcare reform

The German reform agenda is crowded – some of the reforms have begun, for others necessary political decisions have to be made

Main topics on the reform agenda

- Redefine the **scope and role** of **private health insurance**
- Eliminate the **deficits** resulting from the **sectoral division** in patient care
- Redefining the **role** of social health insurance funds and the **nature of their competition**
- Reforming the current **risk-based fiscal equalization scheme**