Fiscal dilemma’s in funding Germany’s long term care

Celsius Invitational Conference
’Ever increasing levels of healthcare, is it sustainable?’
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I. The introduction of LTC insurance: Goals and rationale (1/2)

• Underlying problem perception
  – Demographic change: number of dependent elderly was expected to grow
  – Socio-structural change: care capacities of families were expected to decrease
  – Increasing numbers of dependent elderly in nursing homes were relying on (means-tested) social assistance

• LTCI was fostered by two distinct discourses
  – Welfare state discourse:
    • German welfare state aims at status maintenance.
    • It is “unworthy” if citizens with after a normal working life depend on welfare just because of needing long-term care
    • High share of welfare recipients was perceived as social scandal
  – Fiscal policy discourse
    • Municipalities were increasingly suffering from high expenditures for people in nursing homes. Federal states acted as advocates.
I. The introduction of LTC insurance: Goals and rationale (2/2)

- Reshaping of the welfare state rather than expansion:
  - Introduction of LTCI was accompanied by cuts in other welfare state areas
  - LTCI marks break with German tradition of service provision according to needs (as in health insurance)
  - LTCI Act was shaped in order to prevent any “cost explosion” thereafter
    - Tight definition of dependency plus assessment by a third party
    - Capped benefits (nominally fixed)
    - Discretionary adjustment of benefits

- Compromise between Christian Democrats and Liberals: two-pillar system with
  - Social LTCI as PAYGO system, but
  - Private mandatory system as funded system
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II. LTCI in Germany: Institutional arrangements after 1994 (1/2)

- Mandatory insurance for the total population:
  - 87% Social Long-term Care Insurance (LTCI)
  - 13% private mandatory LTCI
  - Additionally: 3-4% supplementary (voluntary) LTCI

- Financing:
  - PAYGO system in Social LTCI, contributions levied on income from wages and salaries up to a certain income cap. Parity between employers and employees, extra contribution for the childless since 2004.
  - Funding in private mandatory LTCI, but with strong elements of PAYGO as premiums are capped (for the elderly)

- Entitlement:
  - According to ADL scheme, differentiated according to three levels of care, no age limit, assessment by Medical Service of funds
II. LTCI in Germany: Institutional arrangements after 1994 (2/2)

- **Benefits:**
  - Cash benefits, in kind benefits (for home care) and benefits for nursing home care with choice for the beneficiary
  - Capped benefits with caps below need, no provision for automatic adjustment of nominally fixed benefits
  - In nursing home care: only capped benefits for care costs, nothing for room and board or for investment costs

- **Administration:**
  - Social LTCI is administered by LTCI funds founded as branches sickness funds. LTCI is independent but under the umbrella of health insurance
  - No competition between funds as all contributions go into one fund which covers all expenditure → difference to health insurance
## II. Basic facts: Overall financing

### Sources of Funding for Long-term Care in 2015

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>In million Euro</th>
<th>As % of Public / Private Spending</th>
<th>As % of All Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Funding (total), consisting of ***</td>
<td>28,730</td>
<td>100.0</td>
<td>62.8</td>
</tr>
<tr>
<td>Social LTCI*</td>
<td>24,330</td>
<td>84.7</td>
<td>53.2</td>
</tr>
<tr>
<td>Private Mandatory LTCI*</td>
<td>860</td>
<td>3.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Social Assistance</td>
<td>3,340</td>
<td>11.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Welfare for War Victims</td>
<td>20</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Out-of-pocket Private Funding (total)** on:</td>
<td>16,990</td>
<td>100.0</td>
<td>37.2</td>
</tr>
<tr>
<td>Nursing Home Care</td>
<td>11,890</td>
<td>70.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Home Care</td>
<td>5,100</td>
<td>30.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Total</td>
<td>45,720</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

**Notes:**

* Cash allowances are included

** Estimated.

***Federal states shall fund investment costs of LTC providers. Respective activities have been declining and recent figures are not published and therefore not included her

Source: Rothgang et al. 2015: 126
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III. Fiscal developments: Balance Sheet of Social LTCI

- Introductory phase
- Fiscal problems

Source: own depiction based on data published by the Federal Ministry of Health
III. Fiscal developments: Development of contribution rate

Contribution rate at end of year

Source: own depiction based on data published by the Federal Ministry of Health
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IV. Trade-off between purchasing power and contribution rate

- **Expenditure side**
  - Number of dependent people is going to increase (2.7m in 2015 → 4.6m in 2050)
  - Informal care-giving is declining → more expansive formal care
  - Nurse shortage might lead to more than average wage rises

- **Contributory side**
  - Number of people in gainful employment is going to decline
  - Wages will increase at least with productivity gains

- **Dilemma**
  - Increased contributions can be used to adjust benefits (care costs rise in line with wages) → contribution rate goes up
  - Increased contributions can be used to finance additional number of beneficiaries → real value of capped benefits declines
IV. Basic dilemma: Benefits and co-payments

• From 1994 to 2008 LTCI benefits have been kept constant in nominal terms.

• Real purchasing power has been decreasing considerably and out of pocket payments increased.
### IV. Basic dilemma: Nursing home remuneration

**Monthly rates, LTCI benefits and out of pocket payments in € / Month**

<table>
<thead>
<tr>
<th>Level of dependency</th>
<th>Care (1)</th>
<th>Room &amp; Board (2)</th>
<th>investment (3)</th>
<th>(4) = (1) + (2)</th>
<th>(5)</th>
<th>(6) = (1) – (5)</th>
<th>(7) = (4) – (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level I</td>
<td>1,414</td>
<td>651</td>
<td>406</td>
<td>2,471</td>
<td>1.023</td>
<td>391</td>
<td>1,448</td>
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<tr>
<td>Level II</td>
<td>1,875</td>
<td>651</td>
<td>406</td>
<td>2,933</td>
<td>1.279</td>
<td>596</td>
<td>1,654</td>
</tr>
<tr>
<td>Level III</td>
<td>2,365</td>
<td>651</td>
<td>406</td>
<td>3,423</td>
<td>1.550</td>
<td>815</td>
<td>1,873</td>
</tr>
</tbody>
</table>

Data from December 2013

- Today LTCI benefits do not even cover care costs
- Out of pocket payment is higher than LTCI benefits – in all levels of dependency
IV. Basic dilemma: Benefits and co-payments (1/2)

- From 1994 to 2008 LTCI benefits have been kept constant in nominal terms.
- Real purchasing power has been decreasing considerably and out of pocket payments increased.
- Only 2008 a first adjustment was introduced
  - Increase: 1.4 per cent per year for 2007-2012, about inflation rate
  - Financed by an increase in contribution rate from 1.7 to 1.95 percent
  - For some benefits there is no increase at all
  - In nursing homes nevertheless we see increasing copayments
- 2015: next adjustment: 4 % for all benefits in order to adjust for the inflation 2012-15
IV. Basic dilemma: Benefits and co-payments

In Euro / month

Level I
Level II
Level III

<table>
<thead>
<tr>
<th>Year</th>
<th>Level I</th>
<th>Level II</th>
<th>Level III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>133</td>
<td>242</td>
<td>163</td>
</tr>
<tr>
<td>2001</td>
<td>303</td>
<td>394</td>
<td>224</td>
</tr>
<tr>
<td>2003</td>
<td>576</td>
<td>222</td>
<td>253</td>
</tr>
<tr>
<td>2005</td>
<td>667</td>
<td>545</td>
<td>423</td>
</tr>
<tr>
<td>2007</td>
<td>696</td>
<td>454</td>
<td>284</td>
</tr>
<tr>
<td>2009</td>
<td>726</td>
<td>513</td>
<td>339</td>
</tr>
<tr>
<td>2011</td>
<td>779</td>
<td>532</td>
<td>346</td>
</tr>
<tr>
<td>2013</td>
<td>768</td>
<td>596</td>
<td>391</td>
</tr>
<tr>
<td>2015</td>
<td>815</td>
<td>575</td>
<td>372</td>
</tr>
</tbody>
</table>
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V. Funding as a supplement in a PAYGO System

• Two new mechanisms for introducing funding in LTC
  1. 2013: Supplementary subsidised voluntary LTC insurance ("Pflege-Bahr"), introduced by a Christian Democrats / Liberals government
  2. 2015: Collective provident fund within Social LTCI ("Pflegevorsorgefonds"), introduced by a Christian Democrats / Social Democrats government
V.1 Funding in a PAYGO System: “Pflege-Bahr”

What is the “Pflege-Bahr”?

- Tax-financed subsidy of 5 Euro per month on contracts
  - with a premium of at least 10 Euro / month
  - benefits of at least 600 Euro in care level III
  - obligation to except every applicant not yet in need of LTC
  - no medical underwriting, but age specific premiums
  - Waiting time no longer than 5 years
V.1 Funding in a PAYGO System: “Pflege-Bahr”

Effects and problems of the new subsidy ("Pflege-Bahr")

• Number of insurees will be limited
  – For 2013: Government put 90 million Euro aside → 1.5 million contracts
  – By the end of 2015: still around half a million contracts (about 1% of working population)
  – In the long run: < 5% of working population

• Due to social welfare: insurance is unattractive for households with low income

• Redistribution from the bottom to the top as those with lower income will finance tax-subsidy for better off households that buy insurance
V.1 Funding in a PAYGO System: “Pflege-Bahr”

Effects and problems of the new subsidy (“Pflege-Bahr”)

• Benefits are insufficient

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Care costs</td>
<td>total</td>
<td>Care costs</td>
</tr>
<tr>
<td>Care level I</td>
<td>346</td>
<td>1.380</td>
<td>120</td>
</tr>
<tr>
<td>Care level II</td>
<td>532</td>
<td>1.566</td>
<td>180</td>
</tr>
<tr>
<td>Care level III</td>
<td>768</td>
<td>1.802</td>
<td>600</td>
</tr>
</tbody>
</table>

Source: own calculation using the „Musterkalkulation“ of private insurance companies
V.1 Funding in a PAYGO System: “Pflege-Bahr”

Effects and problems of the new subsidy (“Pflege-Bahr”)

• adverse selection
  – New insurance is particularly attractive for those who could not buy “normal” insurance
  – Due to this risk selection premiums must be higher
  – In the US a respective programme (CLASS Act) was stopped as “unworkable” and then withdrawn
  – Insurance companies are safe as waiting time works as a safety net for the first five years and premiums may be raised thereafter

• Biggest danger: “Pflege-Bahr” might legitimize insufficient adjustments in Social LTCI
V.2 Funding in a PAYGO System: “Pflegevorsorgefonds”

What is the “Pflegevorsorgefonds”?

• Pflegevorsorgefonds is a funds collected within the S-LTCI

• Starting in January 2013 contribution rate is increased by 0.1 percentage point → revenue of about 1.2 billion Euro

• This additional contribution rate is collected until 2033 and managed by the Deutsche Bundesbank

• From 2035 onwards a maximum of 5% of the capital reached then is given to Social LTCI every year to prevent increasing contribution rates

• Once all is spent the fund will be closed
V.2 Funding in a PAYGO System: “Pflegevorsorgefonds”

Effects and problems of the “Pflegevorsorgefonds”?

1. The effect is very small
   - For 20 years the contribution rate is increased for 0.1 percentage point
   - For another 20-25 years the contribution rate is then reduced by 0.1 percentage points

2. It is difficult to protect such a fund against politicians once there is a fiscal crisis → the recent reform reduces liquidity as much as the “Vorsorgefonds” is filled

3. The fund will be empty when we have the highest number of LTCI beneficiaries. While number of beneficiaries will decrease then, contribution rate will not.
V.2 Long-term projection of contribution rate

Projection by Bowles/Greiner
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- Original definition of entitlement was very strict and neglected cognitive impairments

- Since 2006 we have been discussing a new definition of entitlement in three expert councils

- As a result a new definition has become part of the law and will be applied from 1-1-2017 onwards
VI. Recent reform: New entitlement for LTCI benefits

<table>
<thead>
<tr>
<th>Einstufungsrelevante Module des Begutachtungsassessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mobilität</td>
</tr>
<tr>
<td>2. Kognitive und kommunikative Fähigkeiten</td>
</tr>
<tr>
<td>3. Verhaltensweisen und psychische Problemlagen</td>
</tr>
<tr>
<td>4. Selbstversorgung</td>
</tr>
<tr>
<td>5. Umgang mit krankheits- und therapiebedingten Anforderungen</td>
</tr>
<tr>
<td>6. Gestaltung des Alltagslebens und soziale Kontakte</td>
</tr>
<tr>
<td>7. Außerhäusliche Aktivitäten</td>
</tr>
<tr>
<td>8. Haushaltsführung</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Modul 1</th>
<th>Mobilität</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Module 2 &amp; 3</td>
<td>Kognition und Verhalten</td>
<td>15%</td>
</tr>
<tr>
<td>Modul 4</td>
<td>Selbstversorgung</td>
<td>40%</td>
</tr>
<tr>
<td>Modul 5</td>
<td>Umgang mit krankheitsbedingten Anforderungen</td>
<td>20%</td>
</tr>
<tr>
<td>Modul 6</td>
<td>Gestaltung des Alltagslebens, soziale Kontakte</td>
<td>15%</td>
</tr>
</tbody>
</table>
VI. Recent reform

The reform is remarkable generous and expensive

1. The ministry made some last minute changes in the assessment tool aiming at a higher grade structure

2. Benefits are set higher than expected, there are guarantees for those already in the system that their situation cannot be deteriorated due to the reform

3. As a consequence
   - 95% of those in home care will receive higher benefits, the rest remains as it is
   - 1/3 of those in nursing homes have to pay less due to the reform, for the rest the situation is unchanged

4. To finance the reform, contribution rate goes up by 0.5 percentage point, that is about ¼ of its current rate
VI. Recent reform: Political reactions

• Interestingly there is hardly any resistance against the costly reform – not even from employers’ association

• Even during implementation now some costly decisions have been made concerning daily rates for nursing homes – and the only critique still is that this might be too little

• In an area of “permanent austerity” this reform is different as higher welfare expenditures for long-term care are accepted – right across all parts of the society

• While for 1.5 decades contribution rate was kept constant at the cost of decreasing purchasing power of benefits, now a rising contribution rate is accepted – for now!
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VII. Conclusions

- Social insurance is a good solution for financing LTC, but it should include the total population and contributions should be levied on all kinds of income, not just on income from gainful employment.

- Additional funded systems do not contribute to sustainable financing.

- Rising expenditures can be controlled for a while by not adjusting capped benefits to inflation – but this solution is not sustainable. In an ageing society therefore contribution rates will rise if the real value of LTCI benefits is kept constant.

- In Germany, at least at the moment, you might increase LTC expenditure without being punished by the electorate.
The end

Thank you for your attention!

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