

Health Care Industry in Germany

Course: ACTUK4625 Health Insurance

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German Health Care Industry—Introduction

Germany, with an area of 357,021 km² and a population of 81.8 million (Health in Germany), is one of the most significant members in European Union and has acted as a leading role in many fields, such as economy, politics, Pharmaceuticals and so on. It also has a good reputation for its health care system. In 2000, The World Health Organization released *The World Health Report* and ranked German health system the 25th (World Health) among the 191 members, based on disability-adjusted life expectancy, speed of service, protection of privacy, quality of amenities and financial contribution factors (The World 185). According to *CIA World Factbook (2011 estimates)*, ten years later, Germany ranked the 19th in Life Expectancy, with 77.82 years for male and 82.44 years for female, and the 218th in birth rate, with 8.3 birth per 1000 population (List of Countries). The Infant mortality rate was 3.54 deaths per 1000 live births (Germany Demographics).

In year 2009, Germany's health care expenditure was approximately 278 billion euros, equivalent to 11.6 percent of its gross domestic product, ranked after US, Netherlands and France. Moreover, the total health expenditure per capita for that year was 4218 USD, 30% higher than the OECD average. However, the health care spending stayed very low from 2000 to 2009, which was only around 2% of its gross domestic product. Actuarially, German maintains a fairly stable spending in both per capita and percent of GDP from 1980 till now (OECD Health 1).

According to the *Statistical Yearbook of German Insurance 2011*, published by the German Insurance Association, the premium income of health insurance was 29,394 EUR million in 2009 and 31,185 EUR million in 2010 (Wolgast 12). Health insurance Benefit in EUR million achieved 35,191 EUR million in 2009 and 36,000 EUR million in 2010. In addition, there were 65.7 and 64.8 million health insurance contracts in 2009 and 2010 respectively (Wolgast 17).

German Health Care Industry—System

Germany has the oldest universal health care system in the world. Nowadays, Germany operates a multi-payer system with two types of providers: the statutory health insurance and the private health insurance (Geyer). Unlike US, the German government doesn't provide health care to insure people; instead, it regulates the non-profit associations with public health funds. Generally, statutory health insurance covers basic health care include in-patient and out-patient care with registered doctors, hospital care, medical aid, mental health care and basic dental care, while private health plans have more additional coverage for medical, dental or private doctor treatment (Health Insurance Options).

Since the health care reform in 2007, everyone who lives in Germany must get insured for at least hospital and out-patient medical treatment, but has the freedom to choose from statutory, private or a combination of both (Health Insurance Options). For year 2012, employees with gross income less than 50,850 euros per year or 4238 euros per month are mandated to be enrolled with the statutory system, while employees who earn more than 50,850 euros per year or self-employed can choose their own providers. The basic monthly premium of public health insurance is around 15.5 % of the monthly salary or a maximum 593 Euros. As of 2011, the 15.5% of gross wage is separated into two parts: the insured employee paid 8.2% and the employer contributed 7.3% (International 7). The basic rate is the same for all members. However, the private medical insurance premium is different for each person covered (Health Insurance Options). About 87.5% residents are covered by statutory system, while the rest 12.5% opt for private health insurance (Health).

The German public health insurance system also provides limited cover for travel within the EU. If residents plan to travel to non-EU countries, they can buy travel insurances (Health Insurance Options).

Another significant sector of the German health care is the aging society. With very low birth rate and long life expectancy, currently 20.7% of the Germany population

is over 65 years old, which is one of the highest proportions of elderly in European (Wolgast 87). Therefore, providing services for the elderly, such as long-term care, is very indispensable. According to Dr. Busse from Berlin University of Technology & Charite, “since 1995, long-term care is covered by a separate insurance scheme, which is mandatory for the whole population” (Busse 1). The benefit of long-term care limits to certain maximum amount and depends on individual needs (Busse 1).

German Health Care Industry—Company

Germany currently has 592 insurance companies in total (Wolgast 13) and statutory health insurance scheme is operated by 154 associations (International 58). Some of them are very large and have millions of members, for instance, AOK- Die Gesundheitskasse and DAK Gesundheit. Other examples of the leading private insurance players are Allianz Private Krankenversicherung AG and Central Krankenversicherung AG.

German Health Care Industry—History

The earliest German health care system, referred as the Bismarck system, dates back to 1883, when the Bismarck parliament mandated nationwide statutory health plans (Porter 56). About two decades later, the private health care plans started to emerge. The system then underwent some developments and stopped growing during the Second World War. After the War in 1945, due to the economic booming in Germany (known as “Wirtschaftswunder”), the system experienced an enormous expansion: the number of the health plan providers rose substantially; the specialization of care increased significantly. In 1955, a fee-for-service reimbursement system was introduced and it incentivized individual physicians to offer more services (Porter 57).

Along with the expansion of the system, its costs rose dramatically. Thus, the Health Insurance Cost Containment Law of 1977 and the Hospital Cost Containment Law

of 1981 were enacted to reduce costs. These two laws also led to a series of later cost reforms. From year 1977 to year 2011, there were 15 reform bills in total (Porter 60). Among these reforms, the most influential is the Reform Act of Statutory Health Insurance 2000. As it is indicated in the journal *Integrated primary care in Germany: the road ahead*, it “for the first time broke with the strict system of collectively negotiated contracts and budgets, introducing the possibility for physicians to selectively sign contracts with health insurance funds for integrated care schemes, gatekeeper models and disease management program” (Schlette). Hence, this reform built the legal foundation for health insurance fund and providers to enter selective integrated care contracts (Schlette).

German Health Care Industry—Regulators and Regulations

Law and the Ministry of health establish the legal framework for the German health care. In Germany, Federal Joint Committee (G-BA) is the highest decision-making body of the joint self-government of physicians, dentists, hospitals and health insurance funds. It acts as the “Decision Platform” for defining the services delivered as public health care. It consists of Federal Physicians’ organization, Federal Sickness Fund Association and Federal Hospital organization (Hess).

The Directives of G-BA are responsible for maintaining adequate, expedient and cost-effective cares, defining requirements for the qualifications of providers the structure of delivery of services and the quality of services. They must be presented to the Federal Ministry for review (Hess).

The decision-making procedures are as follows:

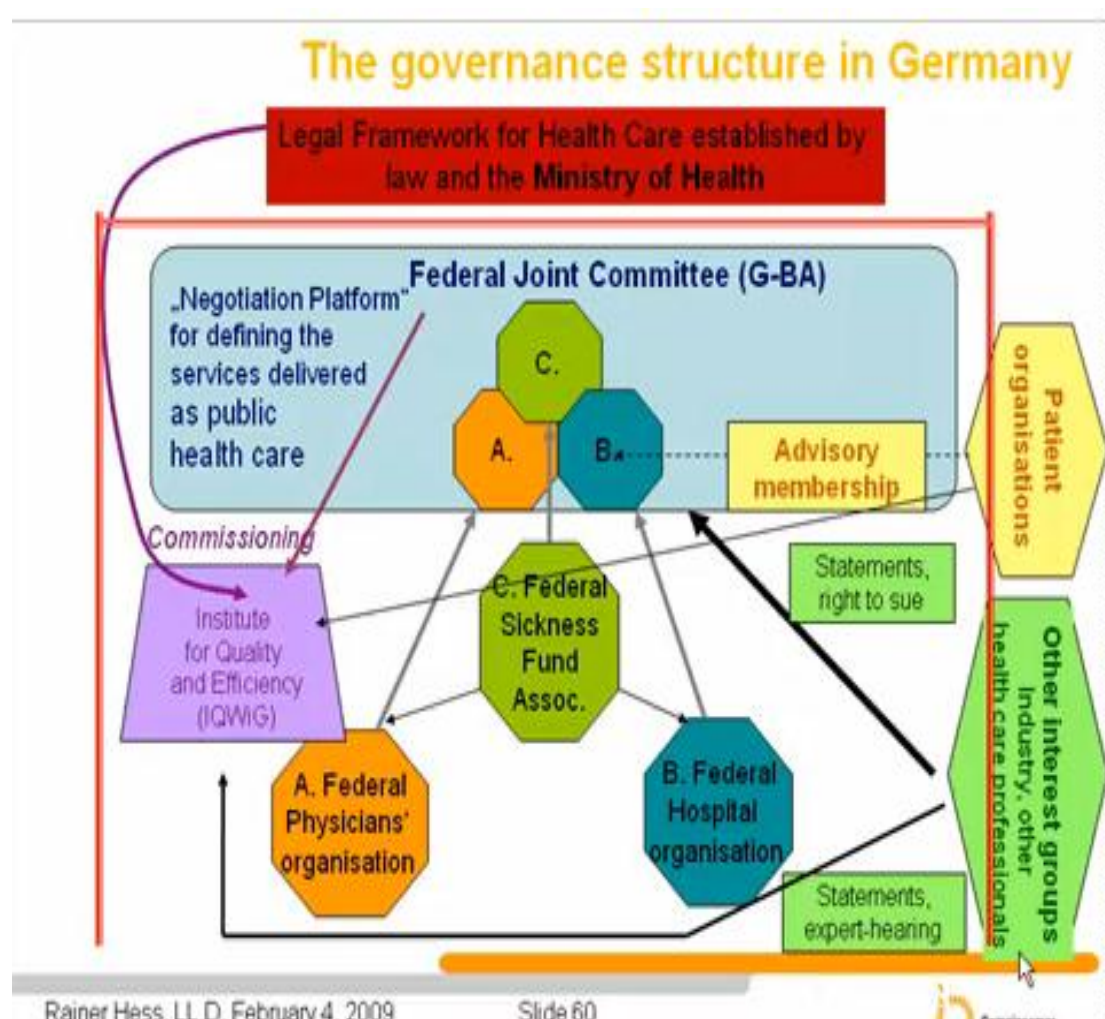
1. Application for Discussion
2. Evaluation
3. Hearing
4. External Scientific expertise
5. Adoption of a decision

6. Control of Legality

The Code of Procedure of the Federal Joint Committee mainly regulates the methodological requirements for the scientific evaluation of the benefit, the necessity and the cost-effectiveness of measures serving as the basis for resolutions.

Reference prices establish the maximum amount to be paid by the statutory health insurers for a pharmaceutical of a certain group of active ingredients.

Here is a detailed illustration of the German health care governance structure (Hess):



German Health Care Industry—Actuarial Organizations

There are three major actuarial organizations in Germany:

1. German Actuarial Association (DAV) is the organization that governs actuaries in Germany. It has around 3,600 well-qualified members and 1,800 candidates who are in the process of becoming actuaries (Wir).
2. The German Society for Insurance and Financial Mathematics (DGVM) is an association pursuing charitable goals such as the promotion of actuarial research or supporting young actuarial researchers (Einführung).
3. German Academy of Actuaries (DAA) aims at using a catalog of tests to examine the competence of candidates of DAV (Zentrale).

German Health Care Industry—Premiums

There are three important facts about the health insurance premiums in Germany:

1. The individual's premium in statutory health insurance is not a per-capita levy, as it is in the United States. It is purely income-based (Porter 10).
2. An employee's non-working spouse is automatically covered by the employee's premium (Porter 79).
3. The government covers premiums for children, because children are viewed as national treasures and their health care should be the entire nation's fiscal responsibility (Porter 79).

German Health Care Industry—Reinsurance

The first independent German reinsurance company-- the Cologne Reinsurance Company, was founded in 1846 (Kopf 30). From then on, the reinsurance business in Germany developed drastically. Recently, German reinsurance companies—Munich Re

and Hanover Re, ranked among the biggest reinsurers all over the world, due to their sound reputations and high gross premiums income.

German Health Care Industry—Current Perceived Problems

There are three major problems associated with the current German health care system.

1. High and rising costs

This is the most significant problem for the system. In 2007, Germany spent 3,588 USD per year per capita on health care (Porter 5). In addition, German health care expenditures have grown faster than GDP and are likely to maintain the similar increasing pattern consistently. An aging population contributed to this problem.

2. Overcapacity and low reimbursement levels

Although Germany has already spent more than 10% of its GDP on health care, the money is still not enough (Porter 11). Both health care providers and hospitals complain about low reimbursement levels. For example, outpatient physicians are paid only 34 euros per patient per quarter; hospitals are subsidized on average 3000 euros per patient per stay (Porter 11).

3. Inconsistent Quality

In spite of its increasing costs, the quality of care fails to be satisfactory: there have been many unsuccessful treatments and avoidable errors. For instance, a 2005 Commonwealth Fund study found that 13% of all German patients experienced a medical mistake in their treatment, and 10% reported a medication error (Porter 20).

German Health Care Industry—Trend

Germany is likely to experience a slower economic growth due to an increasingly challenging global economic environment and the debt crisis that affects the European society. In addition, declining external demand will limit the net export and lead to a drop in the growth of GDP and an increase in unemployment rate. Consequently, the government will make a bigger contribution to statutory health plans.

Knowing that statutory health care system is financed by payroll taxes and employers contribute to the premiums as well, the government will have to take a tremendous reform to focus on this system.

German Health Care Industry—Summary

Overall, Germany has a very well-developed health care industry with a rich history, huge markets, large figures of providers, goal-oriented regulation guidelines and sound actuarial foundations. However, on the other hand, Germany is facing conundrums such as an aging population, rising costs, and declining health care quality. Though a humongous number of reforms have been executed, the problems seem to persist. Hence, Germany needs to find efficient and innovative ways to solve them.

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