Reform options for the funding system in Germany's long-term care insurance

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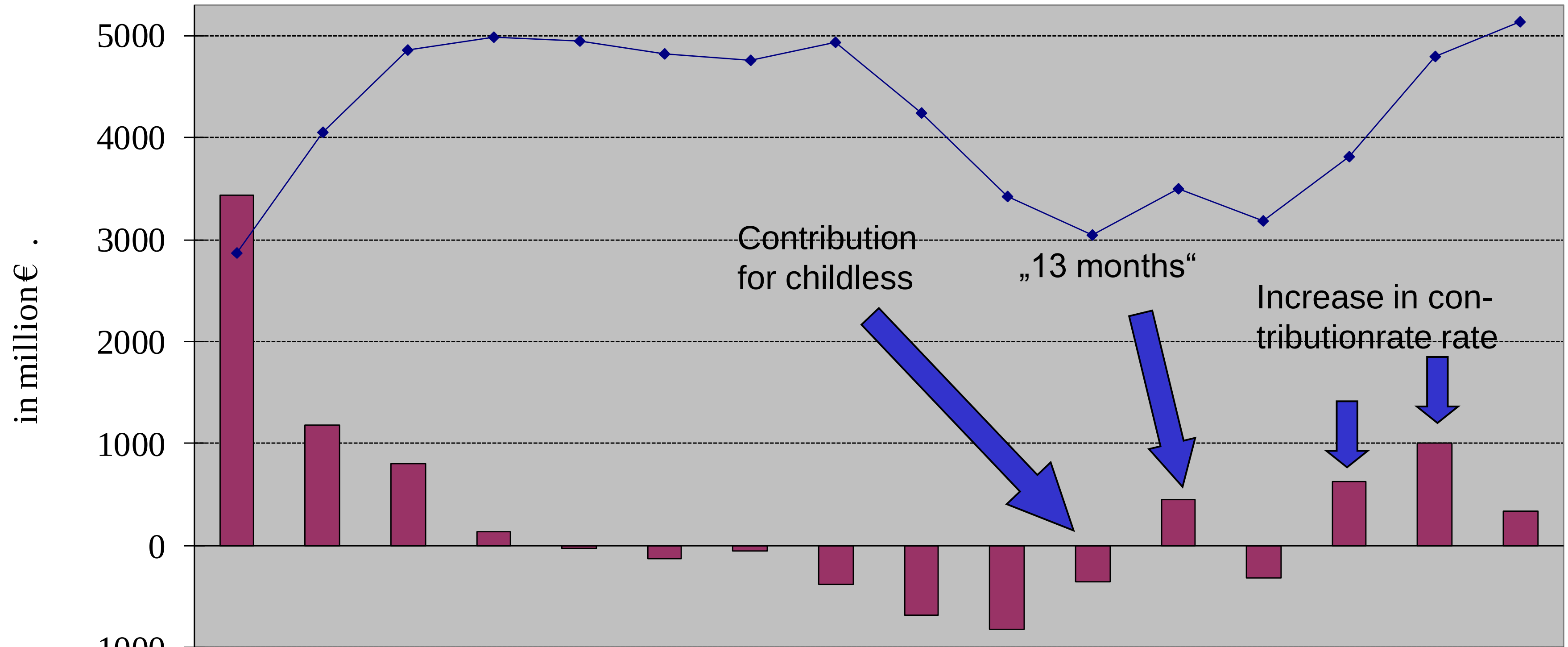
Contents

I. Financing system

- Coverage:
  - 90% of the population: social LTCI
  - 10% of the population: private mandatory LTCI
  - 2% additional supplementary voluntary private 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 childless since 2004.
  - FUNDING in private mandatory LTCI, but with strong elements of PAYGO as benefits were also for those already in need of care and premiums are capped (for the elderly)
- Capped Benefits:
  - Caps below need, high co-payments
  - no provision for automatic adjustment of nominally fixed benefits

I. Financing system

Balance sheet of public LTCI



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Balance	3440	1180	800	130	-30	-130	-60	-380	-690	-823	-360	450	-320	630	1000	340
Liquidity	2870	4050	4860	4990	4950	4820	4760	4930	4240	3417	3050	3500	3180	3810	4800	5130

Source: own depiction based on data published by the Federal Ministry of Health

II. Future challenges

Growing expenditures

Growing numbers of dependent people: 1 - 1,5%

+

Shift from informal care to formal care: 0 – 0,5%

+

Adjustment of benefits to maintain purchasing power: 2%

Total: 3 – 4%

Growing revenues

Number of insurees * contributory income

1997-2004: Average annual growth rate 0.8 %

Expected expenditure growth cannot be financed with constant contribution rate

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* contributory income

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II. Future challenges

- In the past: Contribution rate was kept constant by means of not adjusting LTCI benefits

  → in the 2008 reform the principle of adjustment was accepted

  → permanent lack of adjustment is no longer an option

- If Social LTCI benefits are not adjusted at all, purchasing power will declined dramatically – but co-payments are high even today.

- If Social LTCI benefits are adjusted according to gross wages, contribution rate is going to increase

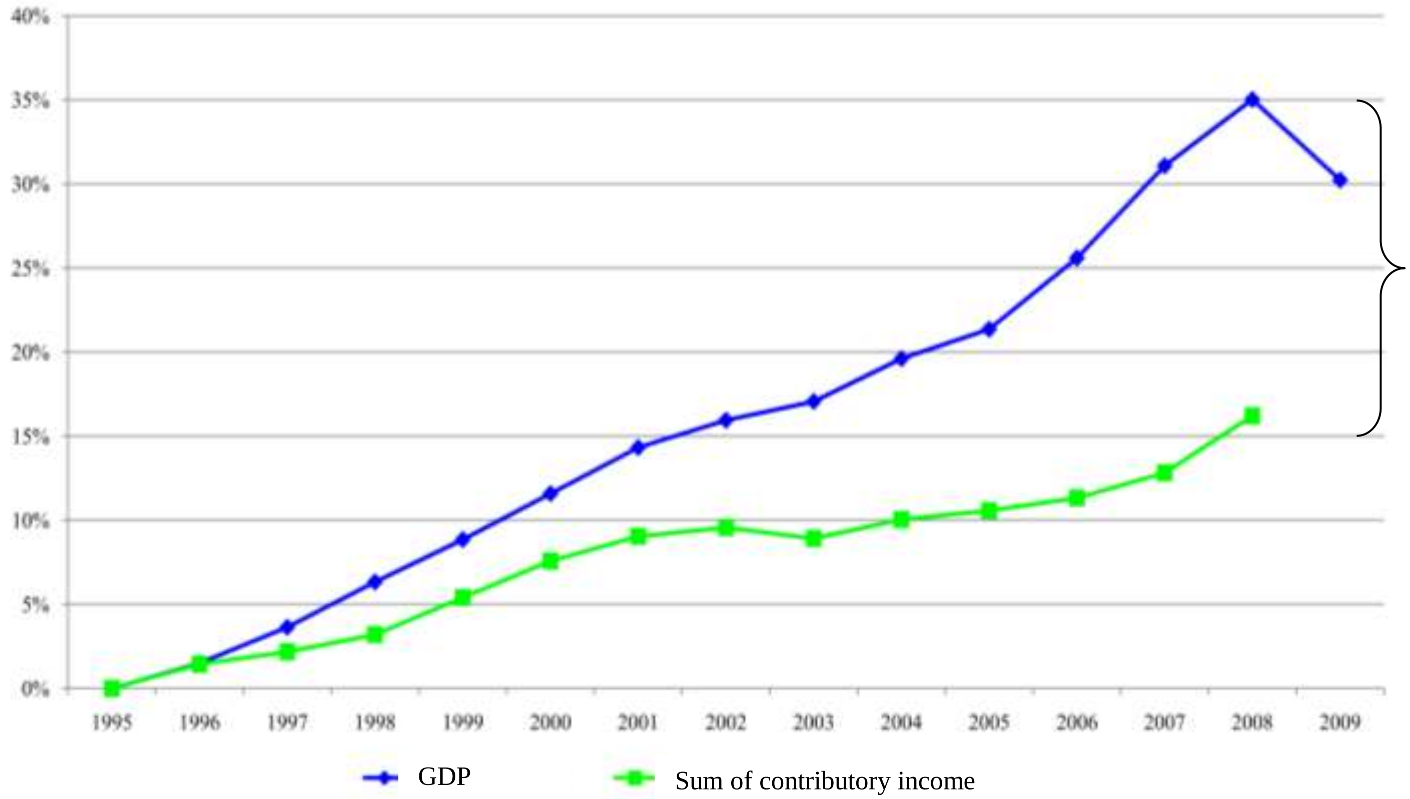
⇒ Basic dilemma

II. Future challenges

Growing expenditures	Growing revenues
Growing numbers of dependent persons: 1 - 1,5%	Number of insurees * contributory income
+ Shift from informal care to formal care: 0 – 0,5%	
+ Adjustment of benefits to maintain purchasing power: 2%	
Total: 3 – 4%	1997-2004: Average annual growth rate 0.8 %

Expected expenditure growth cannot be financed with constant contribution rate

Growth of sum of contributory income and GDP



Structural revenue weakness

Source: Wille 2010, Datenquelle: Statistisches Bundesamt (2010), Bundesministerium für Gesundheit (2010)

II. Demands on any financing reform

- Sustainability
  → Sum of contributory income should grow in line with GDP
  - Inclusion of the whole population into Social LTCI
  - Contributions should be levied on all kinds of income

- Notable fiscal effect

- Increasing fairness in financing
  - Horizontal justice: equal contribution for equal income
  - Vertical justice: higher contributions for higher income

III. Financing reform 2012/13 (“Pflege-Bahr”): Basic idea

- Tax-financed subsidy of 5 Euro / month for voluntary supplementary LTCI, if
  - Premium is at least 10 Euro / month
  - Benefits are at least 600 Euro / month in care level III
  - Insurance is without medical underwriting, premium may only differ according to age and sex
  - 5 years of waiting time after insurance is contracted

- Reform was passed in July 2012 and will take force in January 2013

- Details have still to be decided, insurance products have still to be developed

III. Financing reform 2012/13 (“Pflege-Bahr”): Evaluation (1/2)

- How many people will buy such insurance?
  - Currently: < 2 Mio. with private LTCI insurance (without tax-subsidy)
  - Currently: 11-12 Mio with private pension insurance (with tax-subsidy)
  - Treasury: 100 Mio. € in the budget → 1,67 Mio. insurees

  → Only a small number of contracts to be expected

- Who will benefit?
  - middle class people
  - No benefits for those in need of LTC or close to it due to waiting time

- Will it work?
  - Voluntary insurance with asymmetric information and no medical underwriting → classical case for adverse selection

  → High premiums = unattractive product or unsustainable calculations.

  → Remember what happened to the CLASS Act: “unworkable’”

III. Financing reform 2012/13 (“Pflege-Bahr”): Evaluation (2/2)

- Is this meant as a compensation for insufficient adjustments in Social LTCI?
  - Employers: reform act should have stated that
  - 2001 Pension reform: did state it, but

  No

  - no mention of adjustment in 2012 reform
  - Justification for tax-subsidies for private insurance: Social LTCI is no longer able to provide sufficient benefits

  Yes

  → Implicit logic of compensation

- Compensation implies
  - As far as it does not work: Cut in benefits for those without private insurance (poorer households).
  - As far as it works: Redistribution from the bottom to the top
    - Shift from income-related contributions to lump-sum premiums
    - Those (poorer households) without insurance finance tax-subsidies for better off with insurance

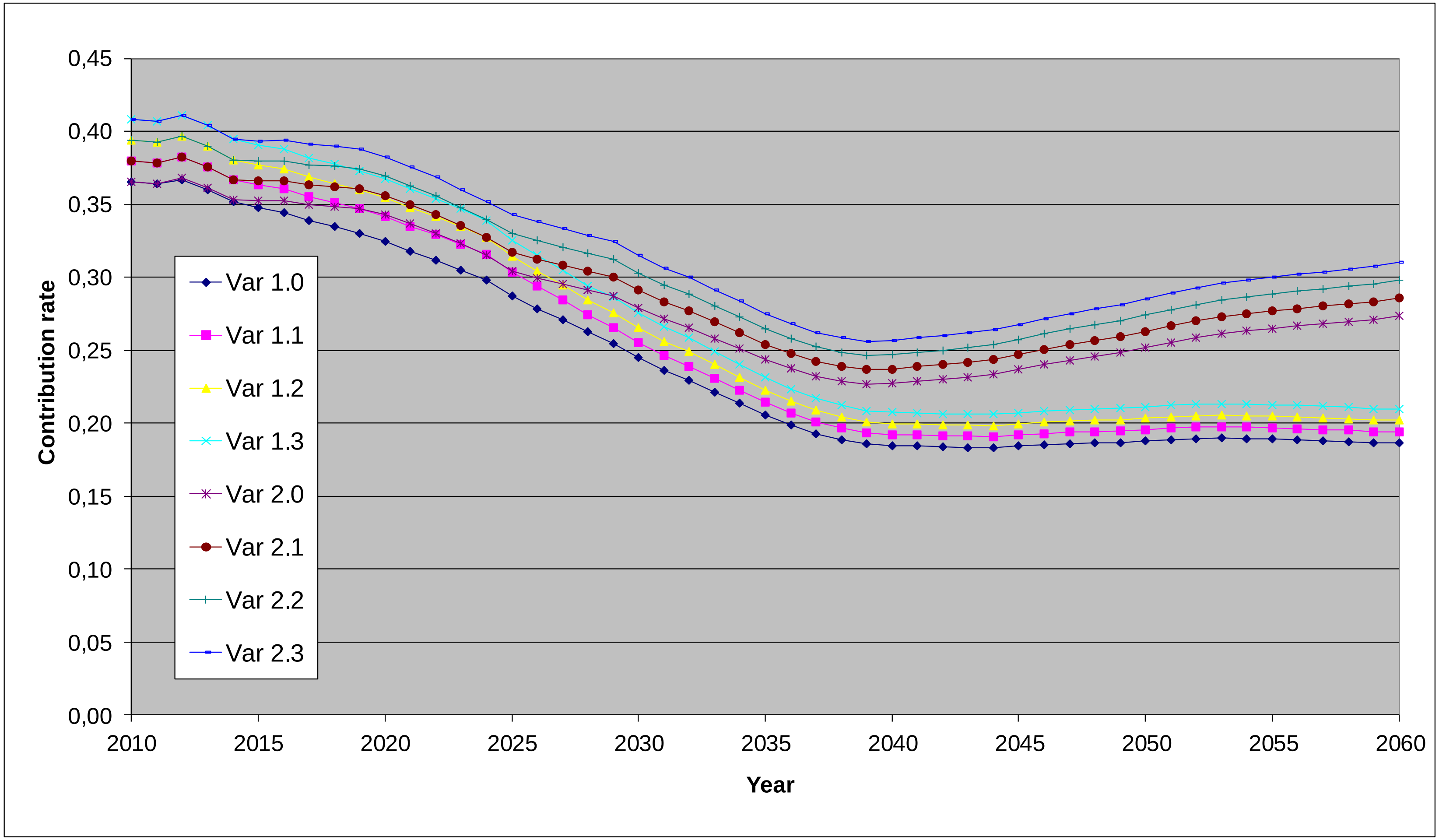
IV. Citizens' Insurance as an Alternative

- Basic principles of citizens' insurance
  - Integrated system for the whole population
  - Contributions levied on all kinds of income
  - Increase of the income cap for contributions (e.g. 3.825 € → 5.550 €)

- Expected effect
  - More revenue as privately insured are wealthier and healthier
  - Breaking of the structural revenue weakness
    → revenue rises in line with GDP
  - More fairness in financing as
    - All incomes are treated equal → horizontal justice
    - More vertical redistribution due to higher income cap and closure of exit option

IV. Citizens‘ Insurance: Reduction in contribution rate

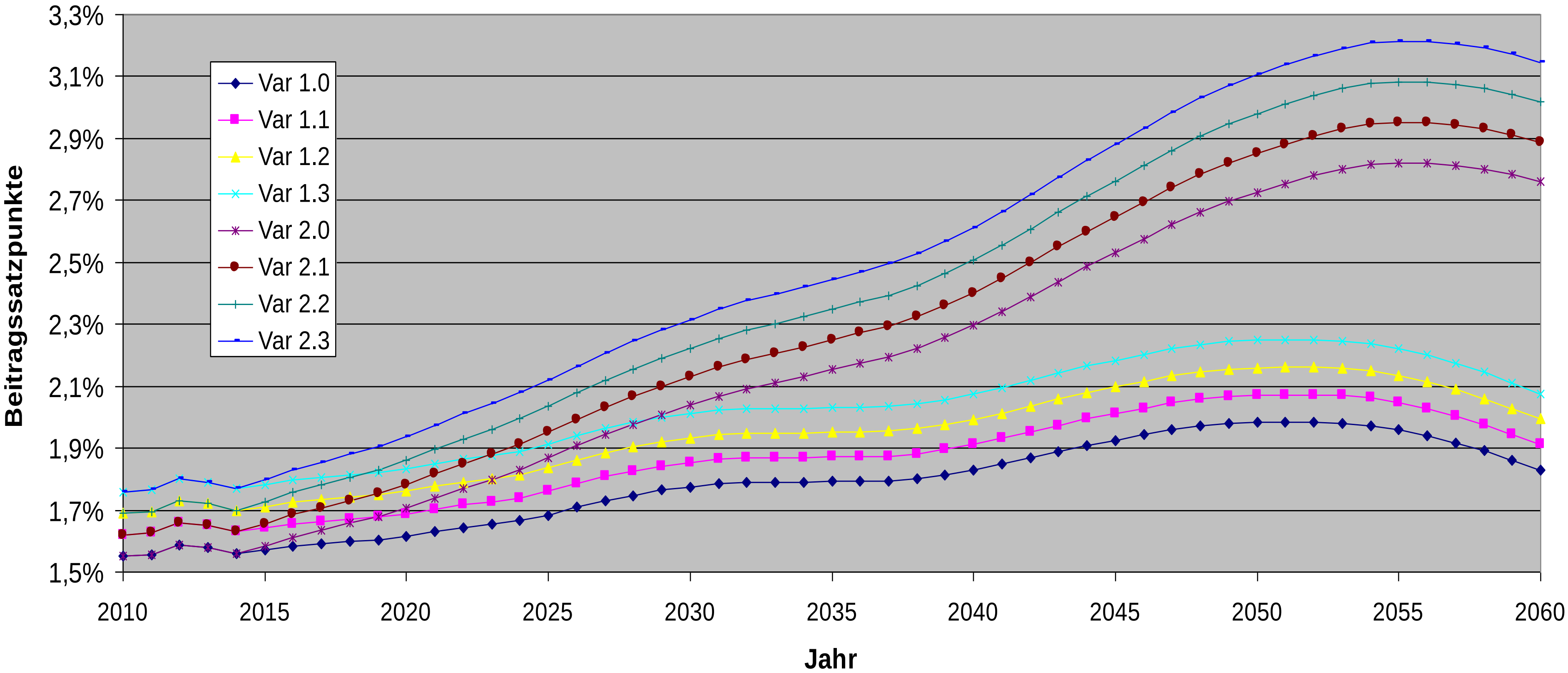
Reduction in contribution rate necessary for a balanced budget *



*** based on work together with Robert Arnold, Sebastian Sauer and Katharina Wendlandt**

IV. Citizens’ Insurance: Long-term fiscal development

Contribution rate necessary for a balanced budget of a citizens‘ insurance



Even with proper adjustment of benefits and a more generous entitlement (particularly for those with dementia) the contribution rate remains below 3.3 percentage points

V. Conclusion (1/2)

- Ageing population leads to increasing LTC expenditures.
- When financed in a PAYGO system, this leads to an increasing contribution rate.
- Capped benefits with insufficient adjustments are no sustainable strategy.
- The recent reform (“Pflege-Bahr”) does not solve the problem
  - No solution for the majority of people
  - Distributive effects are unfair
  - Unworkable

V. Conclusion (2/2)

- A Citizens' Insurance can moderate the increase in contribution rate but cannot stop it.

- Even with a more generous entitlement and sufficient adjustment the contribution rate in an Citizens' Insurance will not exceed 3.3 percentage points, which is about 1.5 times as high as today.

- If we accept that we can bear this, the PAYGO is still the best available option.

The end

Thank you for your attention!

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See also:

Arnold, Robert / Rothgang, Heinz (2012): Pflegefinanzierung: Ein Modell für alle, in: G+G Gesundheit und Gesellschaft, 15. Jg., Heft 1: 16-17.

Rothgang, Heinz (2012): Der “Pflege-Bahr”: Umverteilung von unten nach oben, in: Soziale Sicherheit, Heft 6: 204.

Rothgang, Heinz / Jacobs, Klaus (2011): Substanziell und solidarisch – Zur Zukunft der Pflegeversicherung, in: G+S - Gesundheits- und Sozialpolitik, Heft 4: 9-19.

VIII. Long-term projection of contribution rate

Demographic projection: income, prices and benefits are kept constant