Some Aspects of Long-Term Care in Germany

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1. Introduction

Over the past decade there have been growing calls for reform of social care funding, both in developed and developing countries. There are strong arguments in favor of a social insurance approach, and much can be learned from Germany's experience about building a financially and politically sustainable funding. A growing population of elderly has intensified the demand for long-term care (LTC) services.

In response to the mounting need, Germany put into effect a LTC Insurance Act in 1995 that introduced mandatory public or private LTC insurance for the entire population of 82 million. The program was based on the organizational principles that define the German social insurance system. Germany is one of only four countries worldwide with a long-term care insurance system. The others are Japan, the Netherlands and the Republic of Korea. Other long-term care systems are funded by tax revenues to varying degrees, and in many countries the financial burden falls on the individuals in need and their families.

The German LTC Social Insurance reflects a widespread acknowledgement that long-term care needs are neither individual nor negligible residual risks, but a significant risk requiring social protection. The pooling of risk via a mandatory scheme has eased financial burdens on regional and local governments. Central government provides the legal framework and policy direction, thereby giving political and public assurance of the long-term sustainability of the scheme.

LTC Social Insurance is a universal scheme with employees and employers contributing. Eligibility rests on care needs alone and has replaced the former dependence on stigmatising means-tested social assistance. Universality enhances the popularity of the scheme – disabled children, working age adults, and affluent older people are all potential beneficiaries.

The program is widely accepted among citizens and has achieved many of its original goals: ensuring access to quality LTC services and reducing reliance on the locally funded safety-net social assistance program.

2. History and (ethical) principles

> *"Already in February of this year We voiced our conviction that the healing of the social damage cannot only be sought through the repression of social riots, but equally on the positive promotion of the welfare of the workers. We consider it our Imperial obligation to again recommend warmly this task to the Reichstag, and we would look back with much greater satisfaction to all the success with which God has obviously blessed Our government, if we were to raise awareness on this issue and bring the fatherland new and permanent guarantees of its internal peace and to help those in need with greater security and efficiency of the assistance to which they are entitled. ...*
>
> *For such assistance it is a difficult task to find the right ways and means, but also one of the highest responsibilities of any community, based on the moral foundations of the Christianity. The close connection to real life forces of this nation and the merging of the latter in the form of corporate co-operatives under state protection and state support will, as we hope, make the solution of tasks possible that the state alone to the same extent could not provide. »*

This message of Kaiser Wilhelm I. to the Reichstag in November 1881 was the start of a comprehensive social security system based on contributions and covering the working population. It was a response to growing needs and rising influence of socialist movements.

There are two main principles upon which the idea rests:

- Solidarity: Western / Christian concept of the stronger ones supporting the weaker ones (e.g. young – old; rich – poor; without children – with children; healthy - sick)
- Subsidiarity: the most local and smallest of all available institutions, if possible, take care of a problem (family – community – regional state – federal state)

Over time five pillars of social security developed: Health insurance (1883), work accident insurance (1884), old age pension insurance (1889), unemployment insurance (1927) and, lastly, LTC insurance (1994). There are special systems for farmers, for miners / seamen, for state servants ("Beamte"), for soldiers, and for pensioners (SHI).

The system remained remarkably stable during very turbulent decades including two world wars, hyperinflation and a period of two ideologically separated countries. After the Second World War, the concept of the "social market economy" was postulated. One of its proponents, Alfred Müller Armack, defined it as

> *"a system which allowed business and finance to operate under the conditions of free market trading yet which worked within the legislative framework of industrial democracy at plant, company and industry level and within a statutory social security scheme seemed to enjoy the best of both worlds."*

LTC was the last of the five pillars to be developed. Up until 1994 the local councils were responsible for financing LTC. Serious financial difficulties were envisaged for the future and a long discussion emerges about whether to have another column of "pay-as-you-go" or a "capital-based financing".

Today, the German welfare state with five compulsory insurances protects all employees, the unemployed, pensioners and their family members against the life risks of illness, long-term care, unemployment, poverty in old age and accidents.

Social care insurance was created in 1995 in order to better protect the growing number of older people due to improved living and working conditions as well as medical progress against the costly care risk, especially in old age. A major driver of reform in Germany was the reliance on stigmatising means-tested social assistance by older people who had exhausted their assets on LTC. There was also disquiet amongst local councils about the pressures on their budgets, while policymakers wanted to insulate health insurance funds from long-term care costs, discourage unnecessary institutional provision, encourage new LTC providers and support family care (as a reflection of the idea of subsidiarity).

Major welfare state reforms in consensus-oriented Germany require broad political support from all major parties. This need to achieve consensus led to a LTC insurance scheme featuring universal social rights within a strong cost-containment framework. The Federal government has substantial regulatory and cost-controlling powers with the overall budget, contribution rates, ceilings, benefit levels and eligibility criteria all fixed by Federal law.

The mandatory insurance also strengthened the LTC provider infrastructure and expanded access to home care. Recent reforms have addressed the benefit's value, the eligibility and benefit structure that largely excluded cognitive impairment, and the program's longer-term financial sustainability. The reforms constitute a significant strengthening of the program, remarkable in an era of retrenchment. Overall, the program provides evidence for the financial viability of a social insurance model.

3. An overview of the LTC system and social LTC insurance

The long-term care insurance is a compulsory insurance like the health insurance. The assignment of the insured persons and their choices result from the decisions that they made with regard to their health insurance ("long-term care insurance follows health insurance"). Thus all mandatory members of the statutory health insurance (GKV) are automatically insured in the statutory long-term care insurance ("social long-term care insurance"). The privately insured are obliged to take out a private long-term care insurance.

In accordance with the principles applicable to statutory health insurance, non-working spouses and children up to the age of 18 (in education and vocational training up to the age of 25) are also covered by the non-contributory insurance.

The long-term care insurance was set up under the umbrella of health insurance. From an organizational point of view, this means that each health insurance company forms a long-term care fund. Such a connection was already obvious because it concerns related problems in the case of illness and long-term care. Most nursing care funds, like most health insurance funds, are independent public bodies and are organized according to the principle of self-administration.

The legislator has also assigned to the nursing care funds the securing order for needs-based care in the care sector. In fulfilling this mandate, they conclude supply contracts and compensation agreements with the providers of outpatient and inpatient care facilities. In their decisions, the long-term care funds are subject to state supervision, which is exercised by the respective authorities responsible for the health insurance companies. Like the health insurance companies, the care funds are usually not allowed to operate their own facilities or services.

Benefits can be claimed by people of all ages. Eligibility depends on being ill or disabled and thresholds were developed to fit the funds available, but there is no means testing and no account is taken of individual financial circumstances. Until 2008, eligibility depended on the level of physical ‘care dependency’ but has recently been extended to include care needs arising from cognitive impairments. Although people of all ages are eligible for LTC Social Insurance, most beneficiaries are over 65. Core is the definition “in need of care”, which significantly changed in 2017.

There are two ways in which benefits are distributed: cash payments to the person needing care who then pays a family member, volunteer or paid carer, and in-kind professional services. Cash payments are more popular and significantly cheaper than services. Levels of benefit are based on dependency and range from around Euro 150 a month (the lowest cash benefit) to around Euro 2,000 a month (the highest in-kind payment). Most beneficiaries receive home-based care. Benefits do often not cover all costs, with shortfalls being made up by private funds, private insurance, or social assistance.

Apart from out-patient care, day or night care and in-patient care, the long-term care insurance also provides grants for consumables intended for consumption, nursing aids such as storage mattresses, subsidies for home emergency calls, the establishment of an supervised residential group or shared apartment as well as age-appropriate accommodation.

Application for Nursing Benefits: Nursing benefits of his Nursing Fund are granted to those who have a recognized level of care. Therefore, insured persons must first apply for assessment of their nursing degree so that they are entitled to benefits from the insurance. Most beneficiaries of Germany's long-term care insurance stay at home and thus they can opt for a monthly cash payment to cover their care needs or can receive in-kind benefits in the form of professional care services. People can also give the money to a caregiver friend or relative.

A number of sensible legal changes have been made in the past years:

- 2009 PSG I Erstes Pflegestärkungsgesetz: Improved services, better focus on dementia care, ambulatory flat-sharing
- 2015 PSG II Zweites Pflegestärkungsgesetz: New definition of "need for care"; move from 3 levels of care to 5 grades of care; external evaluation of residential home care ("Pflege TÜV")
- 2016 PSG III Drittes Pflegestärkungsgesetz: Improved local coordination; fighting fraud and corruption

In addition there was the

- 2002 Pflegeleistungs-Ergänzungsgesetz: improved care allowance; testing innovative models
- 2012 Pflege-Neuausrichtungs-Gesetz: better services for dementia patient; private co-insurance for LTC

Private care insurance

High-earning employees with an annual income above the compulsory insurance limit (2019: 60,750 euros), self-employed, freelancers and civil servants can join a private health insurance scheme. If they do so, they have to also take out a private long-term care insurance. While employees and beneficiaries, such as civil servants, share the insured's contributions with their employers, the self-employed and freelancers must bear the contributions on their own.

In principle, privately insured persons pay the same contributions for their long-term care insurance as legally insured persons. In contrast, private health insured persons pay higher monthly contributions than those who are covered by statutory health insurance if, in the opinion of their private health insurance, they expect higher costs than healthy insured persons due to their state of health, their age or their gender.

In contrast to social nursing care insurance, income in private nursing care insurance does not play a role in the assessment of contributions. The amount of the monthly premiums (premiums) is calculated in the same way as in the private health insurance (PKV) according to the capital coverage procedure: Each insured person collects the necessary capital for his long-term care individually on a statistical average.

The benefits of statutory and private long-term care insurance are in principle the same under the Nursing Insurance Act (SGB XI). The most important care benefits, which are entitled to insured persons with a recognized nursing degree (until December 31, 2016: nursing levels), are listed below.

Private supplementary care insurance

Those who want to have their care costs in old age covered can voluntarily take out a private supplementary care insurance. There are also other types of private supplementary care insurance to protect against the high costs of old-age care: Carers' pension insurance and nursing cost insurance.

4. Financing and demography

In general, contributions to statutory health, long-term care, pension and unemployment insurance are each financed in equal amounts by half of employees and employers, contributions to statutory accident insurance alone pay the companies for their employees according to their occupational accident risk.

The long-term care insurance ("Pflegeversicherung"), which is directly linked to and automatically taken out together with the health insurance cover, is part of the statutory social security contributions. The pertinent legislation can be found in Book XI of the German Social Code ("Sozialgesetzbuch"). Contributions are deducted at source from the employee's gross salary. Pursuant to § 55 para. 1 of SGB XI, they amount to 3.05% of the employee's income (as of January 2019). As a rule, the employer pays half the contributions for the long-term care insurance (currently 1,525%), the employee the other half. Childless employees from the age of 23 pay a surcharge of 0.25% of their gross salary on top of this. (§ 55 para. 3 SGB XI). The employer registers the employee with the respective health insurance provider who then automatically forwards the registration to all the other social security providers.

According to the latest figures, of Germany's 82 million people, roughly 79 million have some form of long-term care insurance. Of those, roughly 88% are public and 12% private. LTC Social Insurance is managed by the SHI schemes and the grade of care is formally assessed by the independent Medical Review Board of the Statutory Health Insurance Funds (MDK). Provisions are made for uniform eligibility criteria, benefits based on level of care needs, cost containment, and quality assurance. Co-payment for in-patient LTC is on average about EUR 580 / month (individually set by the institution).

The Federal government manages contribution levels, eligibility criteria, and benefits payable ensuring tight cost containment. Benefits were increased for the first time in 2008 and are now reviewed every three years. After 25 years of operation, despite population ageing, an extension of the scope of LTCI, and increases in benefit levels, contributions have only increased by 0.8% of salaries. Some control and corruption issues (organized crime in ambulatory and in-kind care)

The financing of the social long-term care insurance is based in important characteristics on the procedure known from the health insurance:

- Expenditure on social care insurance is covered by members' contributions. In contrast to pension and unemployment insurance, the state does not pay subsidies to maintain the performance of social insurance. All members of the social long-term care insurance pay the contribution for the currently entitled persons in need of care (pay-as-you-go system).
- The amount of the contribution depends on the contributory gross income of the member. Employees and employers pay the contributions in equal parts. The contribution assessment and a compulsory insurance ceiling are set annually, which are identical to the one in the social health insurance.

However, there are also notable differences with the rules on financing and service provided in the SHI:

- The Nursing Insurance Act provides for the financial compensation for the employer's contribution to the cancellation of a holiday, so that the workers actually finance the employer's contribution through unpaid overtime. This is the result of the conflicts of interest that have arisen in the process of passing the law.
- In social care insurance, unlike in statutory health insurance, the requirement principle does not apply. The benefits thus only cover part of the costs incurred in the care case.
- The contribution rate is uniformly determined by law for all long-term care funds and can only be uniformly adapted to all long-term care funds by changing the law.

As in health care, the state also plays a certain role in long-term care insurance for the financing of outpatient and inpatient investment costs. The Nursing Insurance Act makes the Länder "responsible for the provision of an efficient, numerically sufficient and cost-effective care structure". This implies an obligation for countries to bear the investment needed to ensure a needs-based care infrastructure. However, the countries have fulfilled this obligation to varying degrees and mostly not adequately.

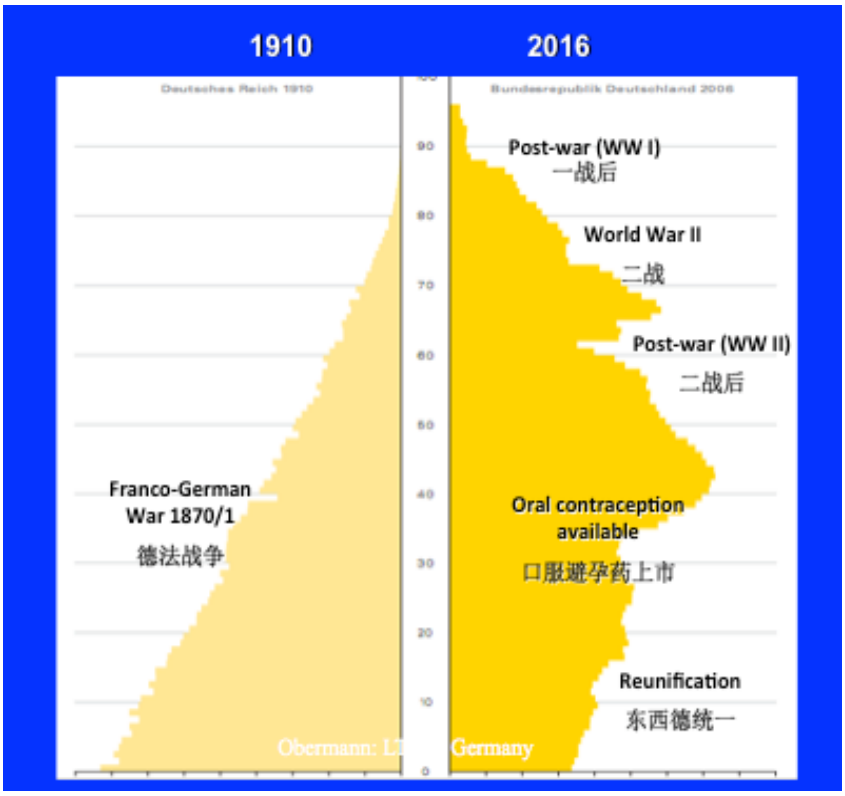
The challenge of demography

In Germany and many other countries, life expectancy is going up. More and more people live longer and enter an age when they may need care. At the same time birth rates have not been high enough to replace the population since the early 1970s and continue to be low. The result is less money for an increasing number of people in need of care. Between 1955 and 1965 there was a baby boom in Germany and these generations will start to retire in about 5 years from now.

But while Germany’s long-term care insurance system has received international recognition, its future sustainability is in doubt. At present, approximately 20% of the German population is over 65 years old. These figures will double in 2050, when Germany is forecast to have the second oldest population in an OECD country after Japan.

Moreover, Germany’s long-term care insurance is funded on a pay-as-you-go basis – whereby contributions are distributed immediately to fund care – which means that premiums have to be raised as the ratio of recipients to non-recipients increases. Some argue for a switch to a prepayment model that would allow a putative long-term care insurance fund to grow with its liabilities. But any reform that would involve an increase in contributions or require more government funding is difficult.

Figure 1: Population age distribution in Germany 1910 and 2016


1910
2016
Deutsches Reich 1910
Bundesrepublik Deutschland 2006
Post-war (WW I)
一战后
World War II
二战
Post-war (WW II)
二战后
Franco-German
War 1870/1
德法战争
Oral contraception
available
口服避孕药上市
Reunification
东西德统一
Germany

5. Challenges

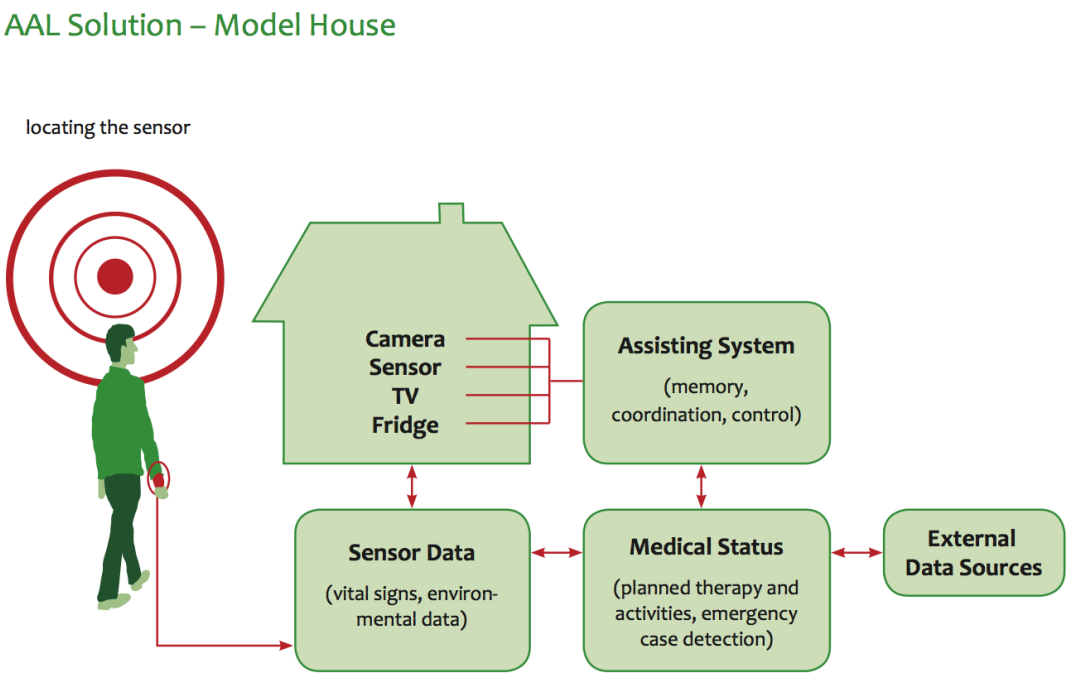
LTCI benefits depend on current need rather than past income and LTCI shares the lower contribution ceiling of German health insurance. This reduces the redistributive impact of the scheme and means the main beneficiaries are those who do not qualify for means-tested benefits. The probability of 'catastrophic' care costs for people with average and above average incomes is reduced significantly by risk pooling under LTCI, thus making it popular amongst this group.

At inception, the design of LTCI (fixed contribution rate, low contribution ceiling, and fixed price benefits) delivered multiple policymaker goals. These include medium-term contribution rate stability, universal benefits, support for family care, a lower funding burden on regional government and less reliance on stigmatising social assistance. After a decade of institutional existence, established policy networks and commentators became increasingly articulate about the short-comings of LTCI. The stability of the scheme provided a platform on which a second decade of funding growth, eligibility expansion and structural improvement has been built.

At a technical level, the LTC Insurance scheme faces a number of yet uncolved issues:

- The use of IT is grossly inadequate, paper-based work still dominates, but the issue of data protection is pertinent in Germany and has so far prevented more comprehensive approaches.
- Prevention is underdeveloped and well-established approaches to fall prevention or delaying dementia are not included in the benefit catalogue of the LTC Social Insurance
- Management of finances and servies might be confusing for patients and their relatives and there is no "single window" approach established.
- Given the high cost of institutional care, there is a strong move (and willingness from older people) to stay at their homes as long as possible. One viable solution might be ambient assisted living (AAL). Paying for AAL, however, remains difficult in the German system, as there is no understanding between health insurer, LTC insurer and old age pension insurer (which is responsible for rehabilitation) as to which institution is going to pay for the necessary refurbishment of the house. For an overview of AAL option plese see the picture below.
- Finally, finding and retaining qualified staff becomes increasingly difficult, not least due to changing demography, attitudes and interest in the nursing profession. There are currently numerous initiatives to attract qualified staff from outside the EU to come and work in Germany.

Figure 2: Elements of ambient assisted living (AAL)



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In general, there is comparatively little to be found in the Internet on the details of the German LTC Social Insurance, neither the Federal Ministry of Health nor the Federal Association of Health Insurers have any detailed data / papers available in English. The OECD provides a good site on LTC in its members states: https://www.oecd.org/els/health-systems/long-term-care.htm