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Private Health Insurance in Germany

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Overview

- 1. Premium Calculation in Health Insurance**
2. Markets for Private Health Insurance in Germany
3. Consequences of a Dual System
4. Conclusions



Calculation of Health Insurance Premiums 1/2

- Health care expenditures are distributed unevenly across risk groups. Calculation of health insurance premiums has to deal with this uneven distribution.
- Social health insurance calculates either income dependent premiums, community-rated premiums or a mix of both. This entails risk solidarity.
- Private health insurance calculates risk-rated premiums. This entails no risk solidarity.



Calculation of Health Insurance Premiums 2/2

	Risk Solidarity	Income Solidarity
Income-Related	YES	YES
	SHI Germany	
Community-Rated	YES	NO
Risk-Rated	NO	NO
	PHI Germany	



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Functions for Private Health Insurance

- *Alternative or Substitutive* Private Health Insurance
 - Part of the population is not covered by the public system
 - Part of the population may choose between systems
- *Complementary* Private Health Insurance
 - Services not or only partly covered in the public system
 - Co-payments in the public system
- *Supplementary/Double-Cover* Private Health Insurance
 - Services covered in the public system
 - Faster access, higher level of comfort, greater provider choice



Private Health Insurance Markets in Germany

- Significant market for substitutive PHI
- Increasing public regulation to improve access
- Complementary PHI fills gaps left by delisting of services in the public system
- European regulation prohibits government measures to improve access
- Market for supplementary PHI restricted to improved amenities for hospital care
- No market for double-cover private health insurance



Substitutive PHI: Government Regulation

- Individual mandate for entire population
- Self-employed and high-income employees are required to take out substitutive private health insurance
- Government measures to improve access
 - Standard contracts entail maximum premium
 - Health insurers are required to accept all applicants
 - Health insurers are unable to terminate contracts (includes defaulting customers)



Substitutive PHI: Opting-Out Provisions

	Germany	NL (pre-2006)
Employees	Income above threshold	Income above threshold
Self-Employed	All	Income above threshold
Character of Opting-Out	Voluntary	Mandatory
Market Share	10%	33% (2005)



Substitutive PHI: Premiums

	SHI Germany	PHI Germany
Risk	Income-dependent Community-rated	Risk-rated
Children	Free co-insurance	Risk-rated (Community-rated at birth)
Non-working spouses	Free co-insurance	Risk-rated



Substitutive PHI: Provider Payment

	Social Health Insurance	Private Health Insurance
Outpatient care	Case-rates plus fee-for-service Volume restrictions Negotiated Prices Low Price Level	Fee-for-service No volume restrictions Prices determined by government High Price Level
Inpatient care	DRGs Volume restrictions Negotiated Prices	DRGs Volume restrictions Negotiated Prices



Supplementary/Complementary PHI in Germany

- Services covered by supplementary/complementary PHI are of marginal importance
 - Dental services (partly)
 - Hospital amenities (one- or two-bed rooms)
 - Coverage abroad
- No market for coverage of co-payments
- Only private health insurers offer supplementary/complementary PHI
- National regulation to improve access impossible due to European Union regulation



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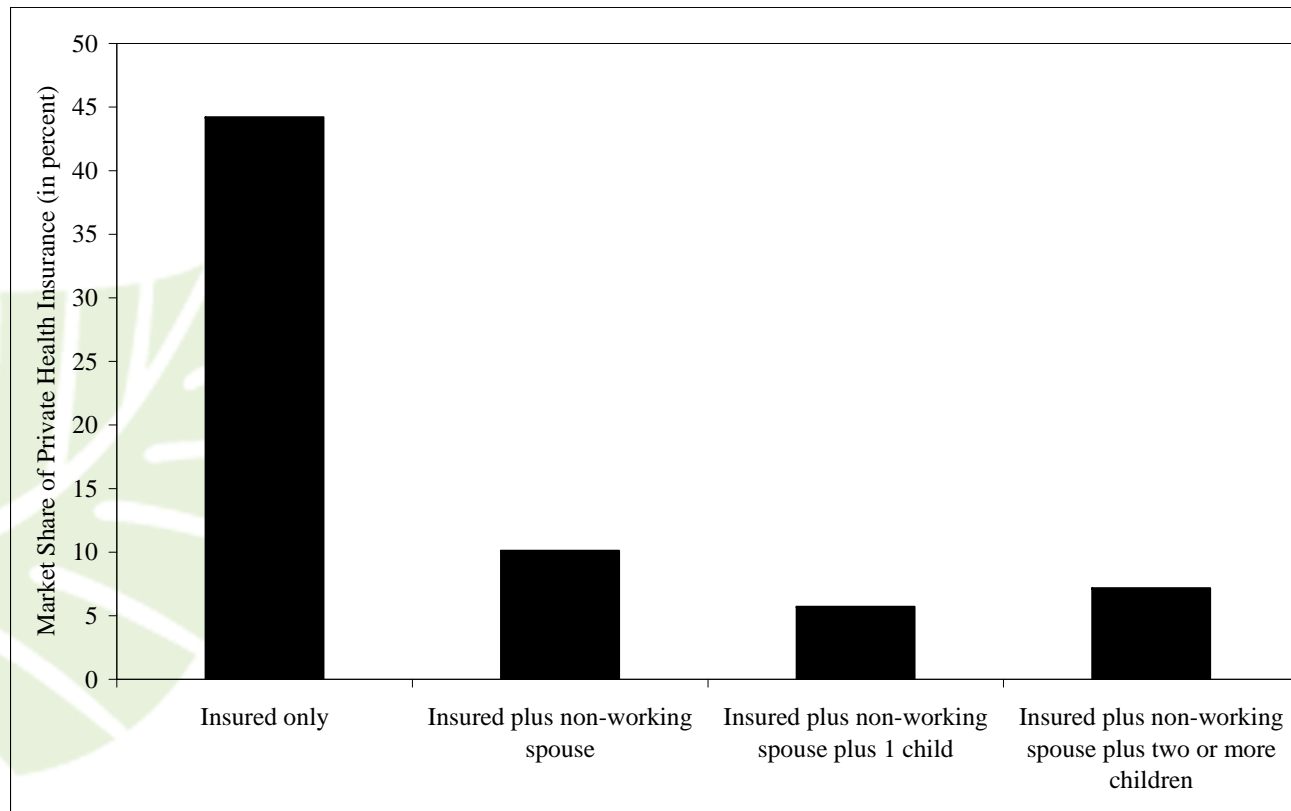
Market Outcome: Adverse Selection 1/2

Characteristics	SHI	PHI
Female (%)	52.7	34.7
Household income € per month	1,950	2,930
Graduation grammar school (%)	20.3	42.0
Number of acute and chronic conditions (average)	3.52	2.89
Bad self-assessed status of health (%)	17.9	9.1

Source: Kriwy/Mielck 2006



Market Outcome: Adverse Selection 2/2



Source: Socio-Economic Panel Survey 2004



Consequences of Adverse Selection

- Those who opt out have higher than average income...
 - Income ceiling
 - Few dependents
- ...and incur lower than average health care expenses
 - Good health status
- Social health insurers need to raise premiums
- New round of opting-out
- Strong pressure on sustainability of financing in the public system



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PHI and Solidarity

- A growing private health insurance sector implies coverage problems and redistribution away from the sick and the poor.
- As a consequence, sick people and poor people are less likely to be covered by private health insurance.
- If they are covered, the sick and the poor will pay more than the healthy and the rich.
- This might be socially unacceptable.



Sustainability of the Public System

- Dual systems of substitutive private health insurance and social health insurance decrease financial sustainability of the public system.
- Regulation may mandate compensation payments by private health insurance
 - NL (pre-2006)
 - Reform proposals in Germany
- Regulation of private health insurance to increase access and compensate for adverse selection against the public system is possible. However, it is costly.



Financial Incentives for Providers

- Preferential treatment of patients with private health insurance coverage depends very much on provider remuneration.
- Preferential treatment for patients with private health insurance is highly probable if...
 - ... there are two parallel (insurance) systems
 - ... providers treat patients from both systems and
 - ... gain more from treating private patients than from treating public patients.



Finally...

- There are several instruments to increase risk solidarity and access in private health insurance.
- If private health insurance is regulated extensively to increase risk solidarity it might look very similar to a public programme.
- It is probably more efficient from a public policy point of view to introduce or maintain a public programme ...
- ... instead of taking a long time to get rid of private health insurance (Netherlands) or failing to do so (Germany).



Thank you very much for your attention.

Further Reading:

Greß, S. (2007). "Private Health Insurance in Germany: Consequences of a Dual System."
Healthcare Policy 3(2): 29-37.