BASYS AKTUELL

Augsburg, 03.04.2024

Tracking Financial Flows in the German Health System

Verfolgung der Finanzflüsse im deutschen Gesundheitssystem

The German Health System depends heavily on social contributions. Driven by increasing need, the combined contribution rate to Statutory Health and Long-term care Insurance climbed by 4.3 percentage points, from 15.3% in 2000 to 19.6% in 2023. Socio-demographic changes as well as therapeutic and diagnostic innovations triggered the reorientation of health provision towards care for mental and neurological diseases and cancer. The funding mix followed these new needs.

Das deutsche Gesundheitssystem hängt stark von Sozialbeiträgen ab. Mit steigendem Bedarf kletterte der gemeinsame Beitragssatz in der Gesetzlichen Kranken- und der Sozialen Pflegeversicherung im Zeitraum 2020 bis 2023 um 4,3 Prozentpunkte von 15,3 auf 19,6%. Soziodemografische Veränderungen, therapeutische und diagnostische Innovationen richteten die Versorgung im Hinblick auf psychische und neurologische Erkrankungen sowie Krebs neu aus. Der Finanzierungsmix folgte diesen neuen Anforderungen.

Bismarckian Tradition

Germany's health system is the prototype of the so-called Bismarck system. It is still the case today that social insurance contributions channel the main financial flows into the system. Created in 1883, sickness funds were given responsibility for steering the statutory contributions for benefits in the case of illness. Social contributions are paid – with some exemptions - equally by employees and employers. [1].

All Germans are legally required to have health insurance. Of the approximately 84 million inhabitants, about 74 million are covered by sickness funds. Over 58 million were paying contributions and 16 million were insured free of charge as family members. Germans can choose their sickness fund. A morbidity-based risk-adjustment scheme provides the base for fair competition between the different funds. As a consequence, the number of sickness funds fell sharply as a result of mergers. While there were 1815 sickness funds in 1970, there were only 95 in January 2024.

Provision of medical care

On the supply side, a network of public, non-profit, and private hospitals, and medical and dental practices, guarantee the provision of comprehensive medical care almost free of charge.

Figure 1: Sources and destinations of financial flows in Germany, 2020

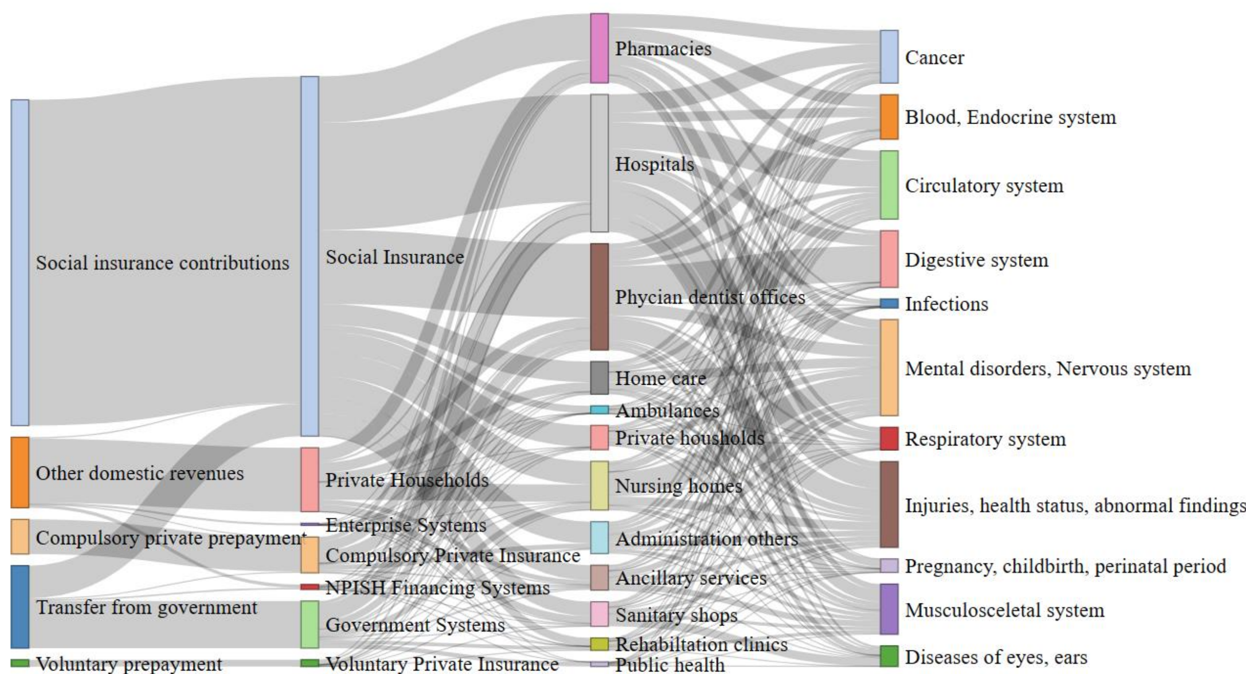

Figure 1 highlights the broad structure of payment flows to providers. It shows that for almost all types of services, sickness funds are the dominant payers, and set conditions and control efficiency and quality. Long-term care insurance is also under the management of sickness funds (in Figure 1 included in Social Insurance).

Private insurance skims off selected groups

Sickness funds and substitutive private health insurance together provide universal health coverage for the whole population. But only a small part of the population can de facto choose between sickness funds and private health insurance. In contrast to social contributions, private insurance collects premiums which are not dependent on income, but rather on age of entry and of health risk. Consequently, the profiles of expenditures between the two insured populations differ. However, the unequal payment does not seem to be disadvantageous. A recent country assessment of the OECD concludes "Germany has one of the lowest rates of unmet medical needs with virtually no differences between income groups" [2].

Self-government

Self-government is one of the key principles of sickness funds and of the governance of the German health system. Contracts rule the provision and payment of health care between sickness funds and providers. Fees for services are regularly updated and new innovations are assessed by the National Association of Sickness Funds (GKV-Spitzenverband) [3]. Contract management by the sickness funds with the umbrella organisation of providers tries to balance revenues and expenditures.

Low expenditure share for hospitals

For example, the share of health expenditures devoted to hospital services is rather low. 26.4% of health expenditures are devoted to hospitals (28% incl. rehabilitation clinics), thereof the most for mental and neurological diseases, circulatory diseases, cancer, and treatments of injuries and factors influencing the health status (Fig. 1).

In international comparisons the expenditure share devoted to hospitals is relatively low. Within the EU27, Germany is the only country which spent less than 30% for hospitals [4]. On the other side, Germany has a high density of hospital beds, "the second highest rate in the EU, after Bulgaria, and significantly higher than the EU average (4.8 beds per 1 000) [2: p.09]. This is associated with a high hospital admission rate.

Hence the present government aims to reduce hospital beds and hospital admissions by changing the DRG-based payment system [5].

Low government financing.

Providing and maintaining the infrastructure of hospitals is the responsibility of the 16 German States (Länder). In addition to infrastructure, general government transfers are used mainly for financing the public health system at community level. During the COVID-19 pandemic, government transfers also stabilized the health system and ensured timely vaccination of the population. As Figure 1 highlights, less than one fifth of the health care system is financed by transfers from the government.

Outlook

Tracking financial flows provides revealing insights into the financing structure of health systems. Changes in disease patterns and hence needs for services challenges the health system demanding continuous adaptation of the financing and provision of services. By tracking financial flows, we can monitor them to gain a comprehensive understanding of the allocation of financial resources for health.

Authors:
Markus Schneider, Marian Craig, Thomas Krauss

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[3] https://www.gkv-spitzenverband.de/english/english.jsp.

[4] Eurostat (2024): File: Healthcare expenditure on major providers, 2020 (% of current healthcare expenditure) Health2022.png https://ec.europa.eu/eurostat/, retrieved 17.04.2024.