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Insights into the German health care market

Long term care insurance, nursing homes and outpatient care

Gothenburg, February 27th, 2019
Oulu, February 28th, 2019
Stavanger, March 4th, 2019
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<th>Nursing homes</th>
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| Topic 4 | Recent market incentives |
Long term care insurance

Fundamentals

- **Youngest branch of the German social insurance system**, introduced in 1995 (to ease financial burden on the general welfare system)

- **Contribution payment** (for compulsory insured people, i.e. ~ 90% of the German population) based on earned income, **in total 3.05 % of earned income**, has to be paid by employees and employers

- Benefits do usually not cover the full expenditures for care, i.e. people in Germany are usually **not fully insured** to cover expenditures for care and have to make **co-payments**

- The long term care insurance was object of **several reforms** in the past five years to increase the financial basis and the group of benefit recipients, especially to better cover need for help of people that suffer from dementia
Long term care insurance

*Fundamentals*

- To receive benefits, people have to be assessed considering their degree of need for help based on a **grading system** with five grades (grade 1 = lowest need for help, grade 5 = highest need for help) based on six categories reflecting impairment of life-related skills

- **Additional insurance coverage** in the German (compulsory) health insurance: “Technical nursing”, e. g. wound treatment, medication, mechanical ventilation
Long term care insurance

Benefit recipients/people in need of care in 2017 by services

~ 3,400,000 people are in need of care

~ 2,590,000 (76 %) receive services at home

~ 1,760,000 by relatives et al.

~ 14,000 organizations with ~ 390,300 employees providing outpatient care

~ 830,000 by professionals

~ 818,000 (24 %) receive services at a nursing home

~ 830,000

~ 14,500 nursing homes with ~ 764,600 employees providing inpatient care

Source: Destatis (2018), Pflegestatistik 2017
Long term care insurance

*Benefit recipients/people in need of care in 2017 by age*

~ 3,400,000 people are in need of care

<table>
<thead>
<tr>
<th>Age</th>
<th>People in need of care</th>
<th>Increase since 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 15</td>
<td>113,854</td>
<td>41.4 %</td>
</tr>
<tr>
<td>15 – 60</td>
<td>392,969</td>
<td>28.7 %</td>
</tr>
<tr>
<td>60 – 65</td>
<td>130,707</td>
<td>27.4 %</td>
</tr>
<tr>
<td>65 – 70</td>
<td>179,253</td>
<td>30.9 %</td>
</tr>
<tr>
<td>70 – 75</td>
<td>231,292</td>
<td>7.9 %</td>
</tr>
<tr>
<td>75 – 80</td>
<td>485,239</td>
<td>15.0 %</td>
</tr>
<tr>
<td>80 – 85</td>
<td>672,001</td>
<td>25.9 %</td>
</tr>
<tr>
<td>85 – 90</td>
<td>664,772</td>
<td>12.7 %</td>
</tr>
<tr>
<td>90 and above</td>
<td>544,291</td>
<td>14.6 %</td>
</tr>
</tbody>
</table>

Source: Destatis (2018), Pflegestatistik 2017
Long term care insurance

*Benefit recipients/people in need of care in 2017 by need for help*

~ 3,400,000 people are in need of care

<table>
<thead>
<tr>
<th>Need for help</th>
<th>People in need of care</th>
<th>Receive services at home</th>
<th>Receive services at a nursing home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 1</td>
<td>46,126</td>
<td>37,414</td>
<td>8,712</td>
</tr>
<tr>
<td>Grade 2</td>
<td>1,566,689</td>
<td>1,392,583</td>
<td>174,106</td>
</tr>
<tr>
<td>Grade 3</td>
<td>1,022,450</td>
<td>764,705</td>
<td>257,745</td>
</tr>
<tr>
<td>Grade 4</td>
<td>549,375</td>
<td>308,763</td>
<td>240,612</td>
</tr>
<tr>
<td>Grade 5</td>
<td>224,176</td>
<td>91,397</td>
<td>132,779</td>
</tr>
</tbody>
</table>

Source: Destatis (2018), Pflegestatistik 2017
## Long term care insurance

*Benefits (in €) by need for help per month*

### Benefits depending on the degree of need for help:

<table>
<thead>
<tr>
<th>Need for help</th>
<th>Services at home provided by relatives et al.</th>
<th>Services at home provided by professionals</th>
<th>Additional services at home</th>
<th>Services received at a nursing home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 1</td>
<td>-</td>
<td>-</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>Grade 2</td>
<td>316</td>
<td>689</td>
<td>125</td>
<td>770</td>
</tr>
<tr>
<td>Grade 3</td>
<td>545</td>
<td>1,298</td>
<td>125</td>
<td>1,262</td>
</tr>
<tr>
<td>Grade 4</td>
<td>728</td>
<td>1,612</td>
<td>125</td>
<td>1,775</td>
</tr>
<tr>
<td>Grade 5</td>
<td>901</td>
<td>1,995</td>
<td>125</td>
<td>2,005</td>
</tr>
</tbody>
</table>

**Combining benefits** for services at home by relatives and professionals is possible

Several **further benefits** (e.g. short term care, respite care, technical devices, € 4,000 per person in need for care to improve the situation at home)

Source: Bundesgesundheitsministerium (2019)
Nursing homes

14,480 nursing homes with 764,648 employees provide inpatient care, each organization served on average 64 people in need for care.

- 6,167 (43 %) owned by private served on average 58 people in need for care
- 7,631 (53 %) owned by charity served on average 67 people in need for care
- 682 (4 %) owned by public served on average 80 people in need for care

~ 62 % of the people in nursing homes live in single rooms

~ 29 % of the 764,648 employees are full-time employed

Source: Destatis (2018), Pflegestatistik 2017
## Nursing homes

*Fragmented market with increasing mergers and acquisitions*

### Top eight nursing-home groups by number of beds:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th># of nursing homes</th>
<th># of beds</th>
<th>Type of owner</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Korian Gruppe</td>
<td>220</td>
<td>25,263</td>
<td>Private</td>
<td>Korian, France</td>
</tr>
<tr>
<td>2</td>
<td>Alloheim Gruppe</td>
<td>165</td>
<td>14,310</td>
<td>Private</td>
<td>Carlyle, USA</td>
</tr>
<tr>
<td>3</td>
<td>Pro Seniore</td>
<td>103</td>
<td>12,540</td>
<td>Private</td>
<td>Ostermann, Germany</td>
</tr>
<tr>
<td>4</td>
<td>Orpea Gruppe</td>
<td>124</td>
<td>11,089</td>
<td>Private</td>
<td>Orpea, France</td>
</tr>
<tr>
<td>5</td>
<td>Kursana Residenzen</td>
<td>97</td>
<td>10,171</td>
<td>Private</td>
<td>Dussmann, Germany</td>
</tr>
<tr>
<td>6</td>
<td>Vitanas</td>
<td>51</td>
<td>7,778</td>
<td>Private</td>
<td>Oaktree Capital, USA</td>
</tr>
<tr>
<td>7</td>
<td>Johanniter Seniorenhäuser</td>
<td>91</td>
<td>7,730</td>
<td>Charity</td>
<td>Johanniter, Germany</td>
</tr>
<tr>
<td>8</td>
<td>AWO Bezirksverband</td>
<td>58</td>
<td>7,186</td>
<td>Charity</td>
<td>AWO, Germany</td>
</tr>
</tbody>
</table>

Source: pflegemarkt.com (2017)
Nursing homes

Fundamentals: System

Long term care insurance
Health insurance
Social welfare office

Paying authorities

Common standards

Umbrella organizations

Private
Charity
Public

Benefits

Claim for benefits

People in need for care

Contract

Payment

Services

Payment

Source: Simon (2017)
Nursing homes
Fundamentals: Regulation

• **Skilled employees** (3-year vocational training or higher) have to constitute at least 50% of total staffing
• Federalism: Several **regulations at the level of the federal state** e. g. concerning
  • Staff to patient ratios
  • Architecture
  • Financing
  • Participation
• **Framework agreements** as well as **individual contracts** e. g. concerning
  • Services
  • Prices
• Institutions and standardized instruments for **quality control**
Nursing homes
Fundamentals: Funding of services

• Fee per day differentiated by type of service:
  • Care
  • Accommodation
  • Meals and drinks
  • Investment costs (if not financed by a third party)
  • Additional services, e. g. for accommodation in a single room

• No free market: Fees are negotiated between nursing homes and sponsors, i. e. long term care insurance and social welfare offices, based on framework agreements for the single federal states
**Nursing homes**

Funding of services

Example: Klaus-Bahlsen-Haus Hannover, Lower Saxony, € per month

<table>
<thead>
<tr>
<th>Need for help</th>
<th>Care</th>
<th>Accommodation</th>
<th>Meals and drinks</th>
<th>Investment costs</th>
<th>Total per month</th>
<th>Payment by long term care insurance</th>
<th>Co-payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 1</td>
<td>1,354.30</td>
<td>501.93</td>
<td>156.66</td>
<td>612.35</td>
<td>2,625.24</td>
<td>125.00</td>
<td>2,500.24</td>
</tr>
<tr>
<td>Grade 2</td>
<td>1,736.37</td>
<td>501.93</td>
<td>156.66</td>
<td>612.35</td>
<td>3,007.31</td>
<td>770.00</td>
<td>2,237.31</td>
</tr>
<tr>
<td>Grade 3</td>
<td>2,228.27</td>
<td>501.93</td>
<td>156.66</td>
<td>612.35</td>
<td>3,499.21</td>
<td>1,262.00</td>
<td>2,237.21</td>
</tr>
<tr>
<td>Grade 4</td>
<td>2,741.45</td>
<td>501.93</td>
<td>156.66</td>
<td>612.35</td>
<td>4,012.39</td>
<td>1,775.00</td>
<td>2,237.39</td>
</tr>
<tr>
<td>Grade 5</td>
<td>2,971.43</td>
<td>501.93</td>
<td>156.66</td>
<td>612.35</td>
<td>4,242.37</td>
<td>2,005.00</td>
<td>2,237.37</td>
</tr>
</tbody>
</table>

Source: hannover.de (2019)
Nursing homes

Implications

- Observance of the negotiated staff to patient ratios is important (licence, profitability, quality), need for short term adaption of staffing levels
- **Documentation** is central, for example for the adjustment of the degree of need for help (and as a consequence for the financing of staff)
- Continuous negotiations are recommendable
- Degree of capacity utilization is a central parameter
- Several regulations play a prominent role
### Outpatient care

**Outpatient care organizations in 2017 by type of owner**

14,050 organizations with 390,322 employees provide outpatient care, each organization served on average 59 people in need for care.

- **9,243 (66%)** owned by private
  - served on average 46 people in need for care

- **4,615 (33%)** owned by charity
  - served on average 84 people in need for care

- **192 (1%)** owned by public
  - served on average 75 people in need for care

~ 28% of the 390,322 employees are full-time employed

**Source:** Destatis (2018), Pflegestatistik 2017
Outpatient care

*Fundamentals: Two different sectors/systems*

- **SGB V** (financed by health insurance):
  - Support of outpatient medical treatment
  - Avoidance of hospital stays (e.g. intensive care at home)
  - **Requirement:** Prescription of a doctor

- **SGB XI** (financed by long term care insurance):
  - Outpatient care for people with an attested need for care, benefits depend on the degree of need for help
  - **Requirement:** Attested need for care by the long term care insurance

- **Different regulations for both sectors**
Outpatient care
Fundamentals: Regulation

• Federalism: Several regulations at the level of the federal state e. g. concerning
  • Staffing
  • Financing of investment costs
• Framework agreements as well as individual contracts e. g. concerning
  • Services and necessary qualifications
  • Prices
• Institutions and standardized instruments for quality control
Outpatient care

*Funding of services*

- **Different catalogues of services**
- **Fee-for-service system**
- Additional fees for travelling
- Usually people receive a combination of SGB V and SGB XI services
- **No free market: Prices are negotiated**, usually between umbrella organizations of outpatient care companies and sponsors, i.e. health care insurance (SGB V) and long term care insurance (SGB XI), based on framework agreements
- Only for **SGB XI**: Whether people in need for care have to make a **co-payment** or not depends on the amount of services and the benefits received from the long term care insurance
- **Investment costs** are (partly) financed by the federal states based on lump sums
Outpatient care

Implications

- No consideration of individual service times for most services
- Documentation is important, especially for billing
- Route scheduling is important for profitability
- Continuous negotiations are recommendable
Recent regulative incentives

_Pflegepersonalstärkungsgesetz_

- **Additional nurses** for nursing homes are financed by the health care insurance.
- **Innovations in information technology** are co-financed to foster digitalization, for example in documentation, billing, route scheduling, interdisciplinary cooperation, quality management and education.
  - Co-financing: 40 %, up to € 12,000, are sponsored, 60 % have to be financed by the organization itself.
  - Offered for the years 2019 to 2021.
Concluding remarks

• Long term care is an **increasing market**

• The market is characterized by **small organizations** (especially for outpatient care) and a high degree of **fragmentation**

• Several **regulations** play a pronounced role

• **Co-payment** by people in need for care, their relatives and/or welfare is important

• **Opportunities** due to recent legislative initiatives

• Increasing **threads** due to nursing staff shortage and demographic ageing of the German society