TPG International Health Academy
Germany Executive Trade/Study Mission
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Executive Summary

Introduction

In early October 2017, TPG International Health Academy and its delegation of 31 senior, US-based healthcare executives visited Berlin, Germany. Through their four days of study the delegation had some misconceptions dispelled i.e., the German system is not government run, and as is often the case, saw the Germans are confronting many of the same issues as other developed countries—escalating costs, productivity and outcome concerns, and an aging population with a higher incidence of chronic illness. The delegates met with an array of professionals representing the insurance industry, health care delivery, government, and the pharmaceutical industry.

This mission marked the 10-year anniversary of the Academy's last visit to Berlin. Many of the changes that were newly implemented then have matured and remain in place today. Back in 2007, Germany had approximately 400,000 uninsured citizens, but today the number has declined to under 100,000. International health authorities still rate the German system as one of the best based on most benchmarks. While health care costs are growing, it remains under 11% in Germany, while the cost in the US has grown from 13% in 2007 to nearly 18% today.

One of the more striking aspects of the trade/study mission is the longevity of the employment-based health insurance system—Sickness Funds. Von Bismark's government established the first Sickness Fund in 1883 and they are still operating in some capacity today. The concept and approach, although evolved over the years, remains at the heart of the German health care system. While there is Federal Government involvement through *legislation*, nearly all *care* in Germany is paid for by employers through the Sickness Funds. Approximately 10% of the population receives care paid for by private insurance funds. There are subtle differences between the two insurance schemes (Sickness Funds and private insurance funds) but the main differentiator is primarily a patient's speed of access to care, along with some minor coverage differences.

The German Health Care System is built on four pillars:

- Solidarity: All citizens receive the same level of care
- Benefit in Kind: Everyone receives medically necessary care
- Supplementary: Government plays an oversight role, not a direct actor
- Free Choice: Everyone can see any provider they choose

Generally, the citizens of Germany have a positive view of their health system and the system does stack up well with other first-world countries in reported health outcomes.

Overview

The German health care system is generally decentralized, boasts universal coverage, and is financed largely through employer and employee payment (government payment accounts for approximately 7% of total cost). Ambulatory physicians typically practice in solo or small groups. Hospitals are largely not-for-profit, although there are for-profit hospitals. Some hospitals could be considered regional systems as they have more than one campus.

Costs for care are negotiated on a universal basis by a consortium of health plans (Sickness Funds) with some governmental support. Generally, all patients have no co-pays for covered services regardless of whether they have public or private insurance. There are no "networks" as one sees in the United States. The minimum covered benefits are determined by the Federal Government and are applicable to both statutory and private insurers.

As noted above, nearly all Germans (less than 1% uninsured) have employer-based health insurance through their enrollment in a Sickness Fund. The individual is free to choose any Fund that is offered in their area. There are approximately 113 Sickness Funds and 44 private insurers.

While the system is decentralized, the framework for the health system is codified in German Law. In addition, as in most countries, the Federal Government "licenses" pharmaceuticals, devices, and other treatment modalities. The role of the Federal Government has expanded in recent years. Laws have been promulgated to increase transparency and provide the beginnings of comparative effectiveness evaluations. While still in their infancy, the initiatives are aimed at moving both the payer and patient to a greater understanding of the results of treatments, whether surgical intervention, drug efficacy, or device efficacy.

For example, a central body, the AMNOG (Pharmaceuticals Market Reorganization Act), must approve any new drug for it to be licensed in Germany. This body is made up of representatives from the government, patients, and the health care industry. Its goal is to ensure that any treatment licensed in Germany is efficacious and cost-effective. As one might expect, there are divergent opinions as to its results. Industry representatives believe the system stifles innovation and creates barriers to new treatments, the government representatives believe it separates the wheat from the chaff. Overall, there seems to be a flattening of the cost curve, but the repercussions are still unknown. The impact of the subsequent reduction of newly introduced innovative treatments is not yet clear on health outcomes or costs.

Key Statistics

	Germany	United States
• Hospital Beds per 1,000	8.9	3.3
• Life expectancy—Men	78	76
• Life expectancy—Women	83.2	81.1
• Obesity	12.9%	30.6%
○ OECD Ranking	14th	1st
• Physicians per 1,000	3.4	2.3
• Quality of Health Care System Cost	67.5	45.8
○ OECD Ranking	22nd	41st
• Cost of Health Care System Quality	75.6	69.0
○ OECD Ranking	10th	23rd
• Health Care Cost as a % of GDP	10.4	16.0
○ OECD Ranking	3rd	1st

Health Care Funding

The German health care system is largely funded through a premium that is charged to all working individuals, premium support from their employers, and limited Federal monies. The latter represents approximately 7% of total funding and is focused on two things: supplementing the cost for low-wage earners and supporting certain innovation and oversight. Premiums paid by citizens enrolled in Sickness Funds are very controlled and consistent. Patients across all the funds will pay within +/- 2% of each other. Thus, while not a "government system" per se, the governmental influence creates a consistency in benefits and total cost that is remarkably similar to a traditional government system.

The statutory "contribution" varies slightly by year but was 14.6% of total wages in 2016. It is shared equally between the employee and employer. There is also a 2.3% assessment for long-term care insurance again shared by both. Each Fund then charges a "supplement" charge that ranges from 0.3—1.8% that is paid by the employee.

Sickness Funds

All Germans, by law, are obligated to join a Sickness Fund. Employees have free choice of any plan offered in their region. Some plans cover the entire country while others are regionally based. The number of Funds has dropped dramatically in the last 20 years moving from over 300 mandatory Funds to 113 mandatory Funds (public) and 44 voluntary (private).

The Sickness Funds started in 1884 and initially were often organized around certain trades—the Weavers' Fund for example. While some retain that specialization, individuals are free to choose any Fund that operates in their area.

Sickness Funds historically have been principally responsible for paying claims. They have always had some oversight on care quality, but are currently increasingly evaluating ways to improve the quality of care provided to their members. While not a focus, the delegation learned that in the late 1890's the Sickness Funds in the Berlin area refused to pay the Charitie hospital unless quality of care in the hospital improved.

Access to Care

The German system is predicated on an approach in which mandated services are available to all persons with generally no out-of-pocket expense at time of service. In principal, all citizens have equal access to all providers. In practice, access is very good compared to most other OECD countries, but German citizens with "private" insurance are likely to have shorter wait times both for appointments and in the office for ambulatory services.

As in many counties, the frequency of certain procedures varies based on geography. For example, knee replacement occurs at three times the rate in Bavaria as in Berlin. The outcomes data and an assessment of need does not support the discrepancy.

Role of the Government

The Federal Government plays a key role in the German health care system but since it is not the "payer" it represents more of an oversight and codification responsibility. By law, everyone must purchase insurance, and everyone has the right to access the health care sector. The laws also establish the minimum level of "premium," to be paid by the insured. The government established a committee that plays a significant role in setting health policy. The Joint Committee consists of representatives from the Ministry of Health, Parliament, industry, Sickness Funds, patients, and providers. Several of the speakers during the mission expressed concern about the amount of power vested in the group since it is not an elected body, and both patients and providers are felt to be underrepresented. This committee has significant power in determining how care will be delivered in the country.

In recent years, the government has begun initiatives to improve quality and transparency. The primary responsibility rests with the IQTIG (Institute for Quality and Transparency). The institute is tackling issues like Cancer Screening and Registry. The institute hasn't been in place long enough to show results but the organizers believe it will be a catalyst for positive change.

The government is also very concerned with the cost and efficacy of pharmaceuticals and devices. Any new treatment in Germany must be approved by the AMNOG. This group is charged with identifying new treatments and modalities and then determining if they meet certain criteria concerning price and efficacy before they are licensed and are a covered benefit in the statutory system. The Academy delegation heard two very disparate views on AMNOG: one from the prior Minister of Health, who posited that the committee had helped bend the cost curve and that "good" drugs have been approved and are available, and the other from a pharmaceutical industry representative who suggested that many new drugs are bypassing Germany to avoid having to jump through the hoops established by the AMNOG. In particular, the ability to appropriately price new therapies was felt to be extremely difficult and complicated.

General Impressions

> The German system delivers a relatively high quality of care with excellent access across all spectrums of society. The principle of solidarity and the country's long history of health insurance is the primary factor supporting the overall results. Because of its long history, change will be a challenge for the country. For example, even with the implementation of a DRG payment system for in-patient care; length of stay is still 6.7 days. This is, in part, driven by the tradition in Germany that one "gets well" in the hospital.

Some of the issues existing or arising for Germany:

- The population is aging
- Obesity is rising
- Drug costs are becoming a greater percentage of total costs
- Administrative cost is growing more rapidly than other aspects of the system
- The system is relatively inefficient—hospital length of stay is "down" to 6.7 days versus approximately 3 days in the United States
- There is limited access to home care and other alternative sites of care
- There are very few systematic quality improvement initiatives
- Transparency regarding quality measures and results is very limited and has only recently become an issue for the government and the populace
- While below the US, only Switzerland spends more on health care as a percentage of GDP and per capita than Germany

The unemployed population and illegal immigrants are handled very differently in Germany than in the US. The unemployed have the same coverage as any other German citizen, which reflects the German principle of solidarity. Care for illegal immigrants is a bit murkier. Like in the US, emergency services are provided to anyone who presents at the ER, including non-citizens. Follow-on care appears to

be very situational though, as some institutions provide follow-on treatment while others do not.

Observations from Two Visits: 2007 and 2017

When the Academy visited 10 years ago the fundamentals of the system were in place and are still the pillars of today's system. The principals that guide the system remain as well—solidarity, limited co-pays, and freedom of choice.

The changes we noted were evolutionary. For example, bed days were not an issue raised by our hosts in 2007; they are today. The concerns about the growing cost of pharmaceuticals was noted but not viewed as a major issue in 2007; obviously they are now a major concern.

It seems clear that the efforts to reform the system from 2005 to 2007 concerning guaranteeing access to all and creating greater transparency have been generally successful. The major area of concern is the growing ratio of administrators to practitioners—this trend is apparent in most OECD countries and reflects the growing role of data and, in some instances, the creation of greater administrative oversight.

Although the people we met in both visits were generally satisfied with their system, the degree of concern about the future and the dramatic growth in the cost of health care in relation to GDP has become a topic that is increasingly urgent, especially at the governmental level.

While only in the background, the impact of increased immigration and its potential disruption to the economy and the health system is an emerging concern. The Germans realize that to sustain their economic growth, immigration is necessary but at what cost socially and to the health system specifically is still an unknown.

Summary

The German system is a unique combination of private and public partnership built on a foundation of three principals:

- Solidarity—access for all, paid for by all in proportion to ability to pay
- Benefit in Kind—everyone pays the same for all services
- Free Choice—everyone has access to all providers who are compensated equally

The government is mandated to sustain the health care system and continue to adhere to these principals. The people generally are supportive of their health care system and take pride in its relatively strong standing in the OECD.