

Financial reform of German long-term care insurance

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The shortage of skilled workers and the high financial burden on those in need of care are among the most pressing problems of long-term care in Germany. Against this background, the previous German federal Parliament passed a financial reform of the long-term care insurance system which has come into force in January 2022. This reform appears insufficient to substantially relieve the burden on those in need of care. It is likely to lead to an increase in wages in the long-term care sector. However, further increases are required in order to tackle the shortage of nurses.

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Description

Shortly before the latest federal elections in September 2021, the previous German federal Parliament passed a partial reform of long-term care insurance (LTCI) financing, with the aim of addressing the shortage of skilled workers and the high financial burden on those in need of care.

The shortage of skilled workers is primarily the result of poor working conditions and low wages (Schmucker 2020). The high costs for those in need of care is due to the fact that LTCI only covers part of the costs of care. The private share in total long-term care (LTC) expenditure has risen sharply in recent years, especially in inpatient care. In the first quarter of 2021, the average financial burden per nursing home resident was €2,135 per month, of which €894 were for care costs, €785 for accommodation and meals and €456 for investment costs (Rothgang and Kalwitzki 2021: 7). In contrast, the average old-age pension in the statutory pension insurance system (after all social insurance contributions have been deducted) was €988 in mid-2020 (BMAS 2021: 17).

In recent years, the federal government has passed a number of regulations to improve conditions in the LTC sector; it has funded additional LTC jobs and raised minimum wages for LTC employees. Thus LTC costs will continue to rise. The newly elected federal government is therefore faced with a dilemma: on the one hand, the measures required to overcome the shortage of skilled workers will entail considerable additional costs; on the other hand, it will hardly be possible to impose these costs on those in need of care, since in view of their already high burden, a

reduction of their private co-payments would be a more socially desirable option. Furthermore, an increase in the LTCI contribution rate is regarded as politically unwelcome, as it could jeopardise the goal of limiting social security contributions to 40%, which is supported by all government parties of the new government (and was also supported by the previous government).

Against this background, in June 2021, the previous government passed the "Act on the Further Development of Health Care" (*Gesetz zur Verbesserung der Gesundheitsversorgung und Pflege*), which amended the financing of LTC with effect from 2022.

- In the first year of a stay in a residential home, the private LTC costs are to be reduced by 5% compared to today, in the second by 25%, in the third by 45% and from the fourth by 70% (there are no reductions foreseen for the fifth and subsequent years).
- The benefits for recipients of care benefits in kind, which are paid as a certain share of costs for professional LTC provided at home, will be increased by 5% from 2022.
- In addition, from September 2022, the LTCI funds will only be allowed to conclude new care contracts with facilities that pay their employees according to collective agreements, or at least at a comparable level. (Today, only just under half of the nursing staff are paid according to a collective agreement.)

This reform will be funded from various sources:

- First, the federal government will waive the original increases in benefits for all those in need of LTC. These were planned in order to compensate for the loss

of purchasing power associated with the price increase.

- Secondly, the reform will introduce a tax-financed federal subsidy for LTCI amounting to one billion euros annually, i.e. just around 2% of total LTCI expenditure in 2020 (which amounted to 49.1 billion euros). This subsidy is only paid for social LTCI. LTCI is divided into a social LTCI for around 88 % of the population and a private LTCI for around 12 % of the population (see below).

The general contribution rate to LTCI will remain unchanged at 3.05% of gross earned income, but the additional contribution for childless persons over the age of 23 is to increase by 0.1 percentage point (from 0.25% to 0.35%) of gross earned income from 2022 onwards.

Outlook and commentary

The legislative changes that have been adopted are far from being sufficient to substantially relieve the burden on those in need of care. They are likely to be effective only in the short term. Not only is the amount of the private LTC costs, especially in the first two years of a stay in a residential home, open to criticism as it is very low and the relief will soon be offset by rising costs, but also the fact that a percentage cost sharing is being maintained (Rothgang 2021).

In addition, care-related expenditure will continue to rise in the coming years. This is due to already planned improvements in payment and staffing. Those in need of care will still be affected by the resulting increase in total costs. Beneficiaries will still pay about 61% of the additional costs, while LTCI only covers 39% (Rothgang 2021).

Furthermore, a considerable part of the additional costs is financed by the aforementioned decision not to increase benefits, which would have benefited all those in need of care. Although the benefits for recipients of care benefits in kind will be increased by 5% from 2022, the benefits for recipients of the care allowance, i.e. those who are cared for at home by their relatives, will not. In this respect, the increases in benefits in full inpatient care will de facto be paid by a redistribution among those in need of care. In addition, the umbrella organisation of the statutory health insurance funds (*GKV-Spitzenverband*) pointed out that the planned counter-financing is insufficient and that there is already a financing gap of about 2 billion euros.

In order to solve the problems in the LTC sector, some experts advocate a comprehensive reform addressing both the law on benefits and the financing of LTCI, as until now, LTCI, like health insurance, has been split between social (statutory) and private insurance. Both branches are compulsory insurance systems, but only civil servants, the self-employed and higher-earning employees can opt for private insurance. A priority here would be the introduction of a uniform LTCI scheme that combines the hitherto separate systems of statutory and private compulsory LTCI. As the incomes of privately insured persons are significantly higher than those of statutorily insured persons, a merger of the two systems would lead to a reduction in insurance premiums in LTCI which would then cover all citizens, and thus the contribution rates would fall. Moreover, the switch to full financing of LTC costs would relieve the beneficiaries of their high private share.

Further reading

BMAS – Bundesministerium für Arbeit und Soziales (2021). Die Rentenbestände in der gesetzlichen Rentenversicherung in der Bundesrepublik Deutschland, Stand: 1. Juli 2020 [*The pension portfolios in the statutory pension insurance in the Federal Republic of Germany, as of 1 July 2020*], Bonn: BMAS.

Rothgang, H. (2021). Stellungnahme anlässlich der öffentlichen Anhörung des Ausschusses für Gesundheit des Deutschen Bundestages am 7.6.2021 [*Statement on the occasion of the public hearing of the Committee on Health of the German Bundestag on 7 June 2021*], Ausschussdrucksache 19(14)347(20).

Rothgang, H. and Kalwitzki, T. (2021). Pflegeversicherungreform 2021 – Was muss geschehen und was geht noch? [*LTCI reform – what must happen and what is still possible?*], Gesundheits- und Sozialpolitik 2: 6-15.

Schmucker, R. (2020). Arbeitsbedingungen in Pflegeberufen. Ergebnisse einer Sonderauswertung der Beschäftigtenbefragung zum DGB-Index Gute Arbeit [*Working conditions in caring professions. Results of a special evaluation of the employee survey for the DGB Good Work Index*], in: K. Jacobs et al. (Eds.), Pflege-Report 2019: Mehr Personal in der Langzeitpflege – aber woher? [*LTC Report 2019: more staff in long-term care – but where from?*], Berlin, pp. 49-60.

Statistisches Bundesamt, Empfängerinnen und Empfänger von Hilfe zur Pflege am Jahresende [*Recipients of assistance for long-term care at the end of the year*]. <https://www.destatis.de>

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