



Price elasticities in the German Statutory Health Insurance market before and after the health care reform of 2009



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ABSTRACT

This paper investigates the change in price elasticity of health insurance choice in Germany after a reform of health insurance contributions. Using a comprehensive data set of all sickness funds between 2004 and 2013, price elasticities are calculated both before and after the reform for the entire market. The general price elasticity is found to be increased more than 4-fold from -0.81 prior to the reform to -3.53 after the reform. By introducing a new kind of health insurance contribution the reform seemingly increased the price elasticity of insured individuals to a more appropriate level under the given market parameters. However, further unintended consequences of the new contribution scheme were massive losses of market share for the more expensive sickness funds and therefore an undivided focus on pricing as the primary competitive element to the detriment of quality.

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1. Introduction

A decade after the introduction of managed competition to the German Statutory Health Insurance a new law on strengthening competition (GKV-Wettbewerbsstärkungsgesetz) came into effect in 2009. Its aim was to foster competition between sickness funds, not only based on price, but also focusing on the improvement of quality and service [1]. One major change was the move away from price differences expressed by income-dependent contributions, deducted via payroll, towards price differences expressed by income-independent add-on premiums paid directly by the insured individual.

Surveys conducted before the introduction of these add-on premiums, suggested extraordinary high switch-

ing rates. According to one survey 35% of all respondents were prepared to leave the sickness fund in case of an add-on premium being charged [2]. Between 2009 and 2013 only a few sickness funds had to actually charge add-on premium. However, those that did suffered extraordinary losses in members. Table 3 gives an overview of all sickness funds with add-on premiums between 2009 and 2013 as well as their respective loss of members in the first year of add-on premium being charged. This development had a major impact on the deployed strategies of the sickness funds. They focused heavily on avoiding to charge add-on premiums, thereby dropping most measures on improving quality and the organization of care [3,4], especially when long-term investments would be necessary [5].

This study investigates the resulting research question on how much the price elasticity of sickness fund choice increased in the wake of the reform. The study also looks at whether this reform resulted in undesirably high price elasticity within the context of the German managed competition setting as well as in an international comparison. The significance of the price elasticity has to be balanced in the “value-for-money” competition of both price and

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Table 1
Overview of price elasticity estimations for Germany found in previous studies.

Author	Data source	Year(s)	Mean price elasticities
Schut et al. [18]	Data on sickness fund type level	1996–2001	–2.48
Schut et al. [18]	Data on sickness fund type level	1999–2001	–4.31
Schwarze and Andersen [24]	Survey for the German Socio-Economic Panel	1999–2000	–4.17 ^a
Tamm et al. [25]	Data on sickness fund level	2001–2004	–1.06
Schmitz and Ziebarth [26]	Data on sickness fund level	2002–2009	–0.6
Schmitz and Ziebarth [26]	Data on sickness fund level	2009–2010	–1.8 ^b /–0.9 ^c
Schmitz and Ziebarth [26]	Data on sickness fund level	2009–2010	–0.9

^a Calculation is an arc price elasticity based on the Schwarze and Andersen [24] finding, that 1% price increase will lead to a 4.17% change in membership.

^b Mean price elasticity calculated for add-on premiums only.

^c Mean price elasticity calculated for premium rebate only.

quality that represents the managed competition concept of Enthoven [6].

In the past decades price elasticity of health insurance choice has been subject to a variety of studies in different countries and substantial literature exists for international comparison. Price elasticities can either reflect the insurer's perspective or the individual's perspective. The perspective depends on whether the elasticity is calculated using the total premium charged by the insurance (total price elasticity) or using only the part paid by the individual (out-of-pocket price elasticity). Thus, total price elasticities are manifold higher than out-of-pocket price elasticities, depending on the proportion of the employer's share of the premium. The following price elasticities are all out-of-pocket price elasticities if not stated otherwise.

Most studies were conducted in the United States health insurance system. Scanlon et al. [7] and Buchmueller [8] give comprehensive reviews. In particular the later research during the past 20 years finds price elasticities ranging between –0.1 and –1.0 [9–14]. Besides the US, only few countries have similar systems with competition in the primary health insurance market [15,16]. Within this group of countries, research found higher price elasticities in the Netherlands (–0.5 to –7.0) [17–20], Switzerland (–1 to –2) [21–23] and Germany.

In Germany an early study by Schut et al. [18] found increasing price elasticities between –2.45 and –4.31 in the first five years after the introduction of freedom of choice. These comparably higher elasticity values are in line with another analysis for approximately the same period by Schwarze and Andersen [24], finding a 4.17 percentage point decrease in market share when increasing the contribution rate by 1 percentage point. A different study found a lower short-term price elasticity of –1.06 for the years 2001–2004 [25]. A recent study by Schmitz and Ziebarth [26] using data on sickness funds estimated a considerably lower price elasticity of –0.6.

In 2009 the way sickness funds charged for their coverage changed to a nominal value (for a more detailed explanation see Section 2). Since then, only the above mentioned study of Schmidt and Ziebarth investigated price elasticity. Using data on the sickness fund level of just five sickness funds (representing about one third of the market) until 2010, they calculated a price elasticity of –1.8 for the add-on premium and –0.9 for a premium rebate [26]. In particular the add-on premium price elasticity increased enormously, namely threefold. These findings are

supported by another study initiated by the German Federal Social Insurance Office [27]. Table 1 gives an overview of the German studies.

Further international studies investigated supplementary health insurance [28–30] and duplicated private insurance in single payer systems [31,32].

This study aims to assess the expected increase in price elasticity after the reform by using recent data on the sickness fund level. This new data thus complements the research on price elasticity prior to the reform and tests the hypothesis whether the introduction of nominal add-on premiums increased the price elasticity massively. The use of this new data provides detailed figures for all sickness funds in Germany. This is the first study to investigate price elasticity after the 2009 health care reform based on complete data of the statutory health insurance market and not only a fraction of the market or survey based data. Furthermore, this study utilizes the newest relevant data up until 2013, thereby covering the entire period of add-on premiums. It therefore expands and complements knowledge on price elasticity after the reform that was covered by a previous study [26].

Changing to a nominal add-on premium, the German Statutory Health Insurance system became similar to other health insurance settings with managed competition. As a consequence the German price elasticity is now better comparable to US, Dutch and Swiss price elasticities, which enables the discussion in a different manner.

The remainder of this paper is structured as follows: Section 2 explains important aspects of the German health insurance system and the 2009 reform to facilitate an understanding of the particular setting of this study. Section 3 describes the methods used, while the Section 4 characterizes the data the research is based upon and gives the results of the research. Finally, Section 5 concludes with a discussion of the findings and conclusions for policy makers.

2. Institutional background of the Statutory Health Insurance in Germany

Health insurance is mandatory for all individuals in Germany. Almost 90% of Germans are covered by Statutory Health Insurance (SHI). Only few individuals who are self-employed or above a certain income threshold can opt out and get enrolled with private insurance companies. Private insurance covers about 11% of the population [33].

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