Improvement of Risk Adjustment in German Social Health Insurance – What are the Implications for Interregional Transfers?

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Outline

1. Region and Risk Adjustment: Conceptual Framework
2. Risk Adjustment in Germany: Before and after the Health Care Reform
3. Implications for Regional Transfers
## Region and Risk Adjustment: Concept

<table>
<thead>
<tr>
<th>Regional Premium Calculation</th>
<th>Regional Risk Adjustment</th>
<th>Switzerland</th>
<th>Germany (HIs operating on a regional level)</th>
<th>Netherlands</th>
<th>Germany (HIs operating on a national level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Switzerlnd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td></td>
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</tbody>
</table>
Competitive advantages in expensive regions for health insurers operating nationally compared to HIs operating regionally

As a consequence: Transfers from less expensive regions to more expensive regions

Incentives for regional risk selection if HIs operate nationally

Regional risk adjustment: Incentives for efficiency, no interregional risk-solidarity
Region and RA from an economist’s perspective

Regulation needs to consider trade-off between efficiency (level playing field for HIs, neutralization of incentives for regional risk selection) and equity (interregional transfer of resources due to differences in income, morbidity and supply)

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Equity Efficiency
Status Quo RA: Internal Subsidy System

Solidarity Fund

Income-related premium

Solidarity contribution and premium subsidy

Consumer

Health Insurer

Source: Based on van de Ven et al. 2003
RA 2009: External Subsidy System

Solidarity Fund

Income-related premium

Community-rated premium or income-related premium

Premium subsidy

Consumer

Health Insurer

Source: Based on van de Ven et al. 2003
### Comparison Status Quo/2009

<table>
<thead>
<tr>
<th></th>
<th>Status Quo</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income-dependent premium</td>
<td>100%</td>
<td>95%</td>
</tr>
<tr>
<td>Community-rated premium or income dependent premium</td>
<td>-</td>
<td>5%</td>
</tr>
<tr>
<td>Adjustment of income differences</td>
<td>93%</td>
<td>95%-100%</td>
</tr>
<tr>
<td>Adjustment of differences in morbidity</td>
<td>Mostly demographic</td>
<td>Health-Based</td>
</tr>
<tr>
<td>Subsidy System</td>
<td>Internal</td>
<td>External</td>
</tr>
</tbody>
</table>
Implications for Regional Transfers

- Adjustment of income differences will be improved and incentives for risk selection based on income will decrease

- Interregional transfers from high-income regions to low-income regions will increase moderately

- Adjustment of differences in morbidity will be improved and incentives for risk selection based on morbidity will decrease

- Interregional transfers from region with low morbidity toward regions with high morbidity

- Note: differences in morbidity between regions are much lower than differences in morbidity between health insurers
Region and RA from an politician‘s perspective

- Interregional transfers are a major issue in the political economy of risk adjustment
- Major topic in the debate about the health care reform 2006/2007
- How much hard-earned money are the citizens (and maybe more importantly, health care providers) of my state losing due to increasing interregional transfers?
- Provision in the law: Maximum additional transfer per year: 100 million € per year
### Differences in Interregional Transfers in Mill. €

<table>
<thead>
<tr>
<th>State</th>
<th>Income per capita</th>
<th>BVA 2006</th>
<th>Wasem et al. 2007</th>
<th>Rürup/Wille 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bremen</td>
<td>Medium</td>
<td>+5</td>
<td>+2</td>
<td>+5</td>
</tr>
<tr>
<td>Hamburg</td>
<td>High</td>
<td>-45</td>
<td>-22</td>
<td>-32</td>
</tr>
<tr>
<td>Bavaria</td>
<td>High</td>
<td>-37</td>
<td>-55</td>
<td>-81</td>
</tr>
<tr>
<td>Saxony</td>
<td>Low</td>
<td>+74</td>
<td>+70</td>
<td>+90</td>
</tr>
</tbody>
</table>
Conclusions

- Modest increase of interregional transfers due to improved adjustment of income differences
- Impact of the introduction of health-based risk adjustment is unclear since decision about the model has not been made yet (probably even less pronounced)
- Several problems of regional dimension and risk adjustment remain unsolved
  - Regional vs. national operating region of health insurers
  - Competitive advantages/disadvantages
  - Interregional transfers form less expensive regions to more expensive regions