What can England learn from the German approach to long-term care funding?

*There's much England could learn from German long-term care funding, argue **Caroline Glendinning** and **Mathew Wills**. They explain how, over the past two decades, Germany has rolled out a universal and equitable funding model, supported by both main political parties.*

Over the past decade there have been growing calls for reform of social care funding. Following numerous Commissions, Inquiries, and election promises, yet another Green Paper is promised for summer 2018. There are strong arguments in favour of a social insurance approach, and much to be learned from Germany's experience about building a financially and politically sustainable funding model.

Mandatory long-term care insurance (LTCI) was introduced in Germany in 1994. Launched at a time of welfare state retrenchment, it was configured to deliver financial sustainability. After a decade of stable funding that built institutional and popular legitimacy, there have been modest increases in contribution rates and the value of benefits has increased. A series of reforms since 2008 has also extended the scheme to provide coverage for people with cognitive impairments such as dementia.

English social care funding today resembles the fragmented, residual, local government-based, means-tested situation in Germany before the introduction of LTCI. While acknowledging the different institutional frameworks of the two welfare states, there are nevertheless important lessons that England can learn about sustainable funding and achieving consensus on reform.

Universal social rights and cost-containment

A major driver of reform in Germany was the reliance on stigmatising means-tested social assistance by older people who had 'spent down' their assets. There was also disquiet amongst regional (Länder) governments about the pressures on their budgets, while policymakers wanted to insulate health insurance funds from long-term care costs, discourage unnecessary institutional provision, encourage new providers and support family care.

Major welfare state reforms in Germany require broad political support. This need to achieve consensus delivered an LTCI scheme featuring universal social rights within a strong cost-containment framework. The Federal government has substantial regulatory and cost-controlling powers with the overall budget, contribution rates, ceilings, benefit levels and eligibility criteria all fixed by Federal law.

Pay-as-you-go LTCI funds are managed by (legally distinct) health insurance schemes. The individual contribution rate is currently 2.5% of wages payable up to a contribution ceiling with childless adults paying a little more. For those in work, employers pay half the premium while the retired pay full contributions, thus helping to address inter-generational equity concerns. LTCI membership is compulsory and non-employed people are covered by employed householder insurance contributions.

Benefits can be claimed by people of all ages. Eligibility thresholds were developed to fit the funds available, but there is no means testing and no account is taken of individual circumstances. Until 2008, eligibility depended on the level of physical 'care dependency' but has now been extended to include care needs arising from cognitive impairments. Although all are eligible for LTCI, most beneficiaries are over 65.

There are two ways in which benefits are distributed: cash payments to the person needing care who then pays a family member, volunteer or paid carer; and in-kind professional services. Cash payments are more popular and significantly cheaper than services. Levels of benefit are based on dependency and range from £283 a month (the lowest cash benefit) to £1,784 a month (the highest in-kind payment). Most beneficiaries receive home-based care. Benefits don't cover all costs, with shortfalls being made up by private funds or social assistance.

LTCI's original design aimed to demonstrate that a defined contribution approach could work in social insurance. It was agreed through broad political consensus and delivered a decade of stable funding, albeit at the cost of consistently falling real-terms benefits (down by over 20% between 1994 and 2008). A series of recent reforms have expanded and strengthened LTCI, improving access, benefit levels, and care quality. The original eligibility criteria were criticised for their bias towards physical disability, so LTCI was extended to cover people with dementia and other cognitive impairments while core benefits were also enhanced.

What lessons can England learn?

German LTCI embodies a societal acknowledgement that long-term care needs are neither individual nor negligible residual risks. Long-term care is a social risk requiring social protection. This is not a partisan position; the need for reform, the introduction of LTCI and subsequent scheme expansion were all agreed by both main political parties.

The Federal government manages contribution levels, eligibility criteria, and benefits payable ensuring tight cost containment. Benefits were increased for the first time in 2008 and are now reviewed every three years. After 25 years of operation, despite population ageing, an extension of the scope of LTCI, and increases in benefit levels, contributions have only increased by 0.8% of salaries.

The society-level pooling of risk, the creation of a single fund and the key Federal government role have eased financial burdens on regional governments. Central government provides the legal framework, policy direction, and much of the funding for policy implementation, thereby giving political and public assurance of the long-term sustainability of LTCI.

LTCI is a universal scheme with employees, employers, and retired people all contributing. Eligibility rests on care needs alone and the previous dependence on stigmatised means-tested social assistance has been significantly reduced. Universality enhances the popularity of LTCI – disabled children, working age adults, and affluent older people are all potential beneficiaries. Over time, LTCI has become increasingly equitable.

LTCI was designed to support family care; recent reforms have increased social protection measures for family carers. The hypothecation of LTCI funding also makes an explicit link between contributions made and benefits receivable that English care does not. All of these arrangements help to enhance the popularity of LTCI.

Conclusions

While LTCI is congruent with the German social insurance model, it was still a radical departure from past policy. LTCI added the first new social insurance pillar in decades; moved the focus of public care funding from regional to Federal level; and expanded public welfare effort at a time of welfare state retrenchment. The need to achieve political consensus and the welfare austerity agenda of the 1990s shaped the predominantly public, defined contribution design of the programme. Using the established health insurance funds and associated infrastructure allowed rapid implementation and avoided the need for major institutional reforms.

LTCI benefits depend on current need rather than past income and LTCI shares the lower contribution ceiling of German health insurance. This reduces the redistributive impact of the scheme and means the main beneficiaries are those who don't qualify for means-tested benefits. The probability of 'catastrophic' care costs for people with average and above average incomes is reduced significantly by risk pooling under LTCI, thus making it popular amongst this group.

At inception, the design of LTCI (fixed contribution rate, low contribution ceiling, and fixed price benefits) delivered multiple policymaker goals. These include medium-term contribution rate stability, universal benefits, support for family care, a lower funding burden on regional government and less reliance on stigmatising social assistance. After a decade of institutional existence, established policy networks and commentators became increasingly articulate about the short-comings of LTCI. The stability of the scheme provided a platform on which a second decade of funding growth, eligibility expansion and structural improvement has been built.

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