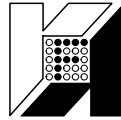


VERBAND FORSCHENDER ARZNEIMITTLERHERSTELLER E.V.

**Self-determination, Solidarity, Competition -
How to make the health care system future-proof**



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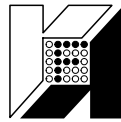
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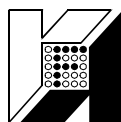
Summary

The German health care system must undergo a fundamental reform. The existing structures and control instruments are no longer effective or efficient. Quality deficits in health care services are increasingly becoming the norm in day-to-day therapy. While patients and insured individuals have no true selection and design options, the contributions of statutory health insurance are continuing their upward spiraling development.

A new balance with solidarity on the one hand and self-determination and self-responsibility of insured patients on the other hand represents the prerequisite for a successful reform of the health care system. To strengthen the solidarity principle, the social redistribution tasks must be focused on the government and the tax system. As a result, statutory health insurance must be relieved from providing any services that are not insurance-related. These tasks must be transferred to a separate social compensation system financed from tax revenues.

Apart from the solidarity principle, the insured patients' self-determination and self-responsibility must also be strengthened. Insured individuals must be able to individually design their insurance coverage. Each citizen must be granted the opportunity to make a choice between various services and forms of health insurance. Selection opportunities for those insured will also require a more intense competition between health insurers and service providers. Only a functioning competition between health insurance funds and service providers will ensure high-quality health care services for all patients.

Furthermore, a reform of the existing financing system will be necessary. The wage-related assessment of contributions for statutory health insurance is no longer up to date. Especially in view of the fact that insured patients are supposed to be granted more freedom of choice, a turn toward more appropriate insurance contributions is indispensable. Initial steps in support of a competitive system and to reform the solidarity-based insurance system will have to be taken as early as during the next legislative period.



I. The current situation

The German health care system is not sustainable in the future. The limits of its capabilities have been reached. Its financeability can not be ensured in the long term, as is being ever more emphatically pointed out by experts.

Noticeable quality deficits – decreasing efficiency

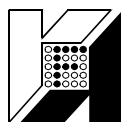
The German health care system suffers from significant quality problems. During the past 10 years, the central parameters of the quality of medical services – such as the population's life expectancy or the mortality figures for important chronic diseases – have worsened in Germany more than in most other European countries. There are considerable care deficits in many therapeutic indications, e.g. pain therapy or care for Alzheimer's patients.

In a comparison of systems, the proportion of expenses and revenues and the use of resources and medical results are particularly unsatisfactory. With regard to health care spending in relation to the gross domestic product, Germany ranks second behind the United States. However, in a comparison of life expectancy indices or lost years of life, the values for Germany are merely OECD average.

Patronized patients – rigid structures

In addition, health care services are insufficiently geared toward the wishes and needs of the population. The average earner, who – together with his employer – pays about EUR 100,000 over the course of his working life into statutory health insurance (SHI) does not want to be faced with rationing through cost abatement measures once he or she develops a serious disease.

The population's satisfaction with the health care system is decreasing. Only 37 percent of those suffering from serious diseases still judge the existing system positively, and 70 percent of the population demand fundamental changes to the health care system. Both patients and insured individuals rightly complain about their passive role in the health care sector. Currently, they barely have an opportunity to voice their preferences and become active in the design of their own health care services.



The prevention of any competitive structures has also eliminated the competition for best quality. Instead, regimentation created false incentives that promoted and maintained inefficient care structures.

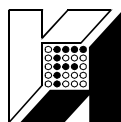
Increasing contributions – insecure financing

Furthermore, demographic changes as well as medical and technological progress create a pressing need for action. While the increasing life expectancy of the population is certainly positive, it will also lead to increases in health care spending, since older people need significantly more medical services than younger ones. New diagnostic and therapeutic opportunities will aid in curing previously incurable diseases and improve the patients' quality of life. On balance, medical and technological progress will cause an additional increase in health care spending. Even if all efficiency reserves are exhausted, the revenues of statutory health insurance will not be enough to finance the costs of medical progress.

In view of this development, increasing contribution rates in statutory health insurance are foreseeable. During the past few years, contributors have already experienced an ever increasing burden. From 1970 to today, the average contribution rate in statutory health insurance increased from eight to 14 percent with no end in sight. Au contraire: Scientists are forecasting contribution rates of over 20 to more than 30 percent by 2040, if the current system is not fundamentally changed.

The reform of the health care system is overdue

If a fundamental reform of the health care system is further delayed, the problems patients are facing in day-to-day therapy will be aggravated. Therefore, prompt action is required. A health care system organized according to the principles of a free market and with strong patient orientation represents a convincing answer to the above-mentioned problems.



II. The VFA concept

The reform of the health care system must ensure a new balance of solidarity on the one hand and self-determination and self-responsibility on the part of the insured patients on the other hand. A socially supported introduction and strengthening of free market structures will lead to increased efficiency of the health care system and raise the quality of health care services for patients.

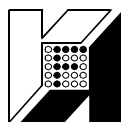
The VFA concept includes:

- **General compulsory health insurance for the population;**
- **Redesign of social equalization outside of health insurance as part of a tax revenue transfer system;**
- **Greater co-determination and responsibility of patients and insured persons;**
- **Comprehensive selection opportunities for insured patients regarding their insurance coverage and desired medical services;**
- **Effective competition between health insurance funds and service providers;**
- **Detachment of the SHI contribution from employment; and**
- **Reorganization of the financial relationships between social security institutions.**

Strengthening solidarity

The strength of the German health care system is the insurance coverage for broad segments of the population. This advantage must be both maintained and expanded. Each individual must be able to rely on the fact that he or she is comprehensively insured in case of serious or life-threatening diseases. As a result, the VFA demands compulsory health insurance for the general public.

Both the social equalization between high- and low-income recipients and family support represent another element of the existing health care system. However, this equalization is currently organized in a very opaque and inefficient manner. On the one hand, statutory health insurance gives preferential treatment to individuals that actually do not require solidarity-based support through the health insurance community. On the other hand, only persons insured in SHI currently participate in solidarity-based financing.



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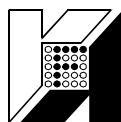
This social equalization must be redesigned and given a foundation that is sustainable in the future. It can be performed in a more goal-oriented fashion if it is organized outside of the health insurance system. The solidarity principle will be strengthened, if not just SHI contributors but all taxpayers finance the redistribution tasks that are necessary from a sociopolitical standpoint. Therefore, the VFA demands a clear-cut separation between insurance and redistribution. The redistribution, which goes beyond the insurance function, must be eliminated from the health insurance system step by step and transferred to a separate social equalization system to be financed from tax revenues.

Facilitating self-determination and self-responsibility

Beyond the general compulsory health insurance, there is no reason why the insured patients should not be able to make their own decisions regarding the nature and extent of their health insurance coverage. Today, some people already prefer to insure “luxury services” (e.g. single or double hospital rooms) while others do not. The situation is similar e.g. for services provided by family doctors, alternative treatment methods, slight health disorders, copayment rates or special programs for the chronically ill. In the future, medical services are supposed to be actually tailored to the needs of patients and insured individuals based on a meaningful differentiation of the service offerings. Instead of mediocre, uniform health care services, health insurance funds will have to offer high-quality care alternatives that meet the different needs and requests of the population.

Therefore, the VFA advocates that the insured individuals be given the opportunity to largely determine their own insurance coverage and use alternative health care offerings. Just as in other areas of life, each person has the right to make a choice between different offers and determine his or her own individual health insurance coverage.

At the same time, this involves a greater degree of shared responsibility for the individual. He or she must obtain information about existing health insurance and service offerings and play a more active part in the health care system – both as an insurance customer and a patient. To do so, people must be provided with the necessary opportunities to obtain information and consultation. The individual must have the opportunity to obtain information on all issues regarding his or her own health care, e.g. care offerings, therapeutic methods or scientific findings. Informed patients have more opportunities to become proactive for their own health – both in terms of prevention or if they are suffering from a disease.



Promoting quality-oriented competition

A functioning competition in the health care system will eliminate inefficient service structures. At the same time, it serves as a motor for innovation. Competition contributes to a situation in which health insurance funds and service providers keep making an effort to bring about quality improvements and offer their insurance customers innovative products and services.

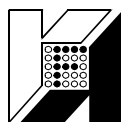
Therefore, it is important that the competition among health insurance funds and service providers, i.e. in the insurance and provider markets, becomes more intense. The desired quality and efficiency improvements can not be realized through new regulations and regimentations. Only a functioning competition on the part of the health insurance funds and service providers will ensure high-quality health care services for all patients.

As a result, the VFA demands the elimination of all monopolistic structures, which have been proven to hamper both quality and innovation. As in other sectors, cartels must not exist in the health care system either. Health insurers must be allowed to conclude agreements with individual service providers. Furthermore, health insurance funds must no longer conclude joint and uniform agreements with service providers. This will initiate a competition for the best quality in health care for the benefit of the patients.

Redesigning the financing system

The wage-related assessment of contributions on a par is no longer up to date. Even with many compulsory insurance members in statutory health insurance, wages are no longer the only source of revenue. At the core, the 50 percent financing of the health insurance contribution through the employer is a historic relic. In fact, the employer's contribution is part of the wages today. For those insured in the statutory health insurance system, their individual contribution does not at all pertain to the design of their insurance coverage.

Especially if the insured individuals are to have more freedom of choice in the future, a fundamental reform of the financing system is indispensable. The SHI contribution must be detached from employment and must assume the character of an insurance premium. Models such as that of individual, risk-appropriate premiums are available and show that such a system conversion is feasible. The VFA demands that these health economics suggestions be incorporated in the political debate and implemented in the medium term.



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Furthermore, the cross-subsidization of other social security systems through statutory health insurance must be eliminated. In 2001 alone, statutory health insurance and its contributors were burdened with about EUR 5.2 billion due to political shifting maneuvers. These financial losses will increase to about EUR 6.3 billion this year. Just like the health insurance system, pension and unemployment insurance must also finance themselves. Therefore, a reorganization of the financial relationships between the branches of social security is recommended to once and for all put an end to political shifting maneuvers.

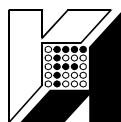
Making use of the opportunities afforded by competition

All parties involved – patients, health insurance funds, service providers – will benefit from a free market framework. In a competitive system, health insurers will have a great degree of design opportunities. They are no longer the mere administrators of insurance contributions and legal requirements but instead service providers for the insured patients and will offer them innovative products and individualized consulting services. This deregulated, open system is suitable on a Europe-wide scale and compatible with the EU-wide market liberalization for insured patients.

Service providers relying on quality and innovation will also make use of the functioning competition in the health care system. High-quality services and products have significantly better chances in the market than under conditions involving fee budgets, rigid reimbursement schemes and a uniform catalog of services.

However, patients and insured persons will predominantly benefit from the reforms:

- High-quality, progressive health care services will be safeguarded.
- Citizens can largely make their own decisions regarding their health insurance coverage.
- Adequate health insurance coverage for everybody will be financed according to the solidarity principle.
- Health care services will remain affordable in the future.



III. The first steps of a reform

The 2003 health care reform must set a course toward such a free market-based health care system. The first decisive steps in support of competition and for a reform of solidarity-based insurance must be realized as early as during the next legislative period. The VFA proposes the following measures:

➤ **Strengthening the role of patients**

A modern health care policy relies on emancipated citizens. As a result, more information and codetermination for patients will be required. Only informed patients can voice their interests to physicians and insurers and play an active part in the health care process.

➤ **Differentiating the catalog of services**

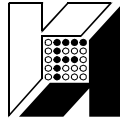
The scope of services of statutory health insurance must be designed more flexibly. Especially for serious diseases, insured patients desire a modern and efficient health care system. However, nobody would be overburdened by paying for health care services for slight health disorders or non-prescription pharmaceuticals him- or herself or possibly covering these cases through supplementary insurance.

➤ **Increasing the cost transparency**

All persons insured in statutory health insurance should at least be able to choose between non-cash benefit or cost reimbursement. Today, many patients request greater transparency with regard to the kind, extent and costs of health care services. Even if they only know the costs of the health care offerings, they could assume greater self-responsibility and make use of their right to choose.

➤ **Expanding contractual freedom**

Apart from the freedom to choose for the insured patients, the flexibilization of contract law is an important milestone on the way toward a competitively organized health care system. The current, rigid system of self-administration has become an innovation obstacle in the health care sector. The monopolies must be broken up. Firm, uniform assessments and government or self-administration regulations should be replaced by decentralized negotiation solutions and remuneration and reimbursement schemes of the individual health insurance funds.



➤ **Converting the employer's contribution into wages**

A reform of the financing system must not be delayed any further either. Paying out the employer's contribution to the insured individuals is an important step toward a health care system controlled by competition. To increase the transparency of financing in the system, the employer's contribution should be converted into wages and contributions should be billed entirely to the insured individuals.

➤ **Put an end to shifting maneuvers**

Finally, all services not related to insurance should be systematically separated from the statutory health insurance system. The political shifting maneuvers must come to an end. All non-insurance services must be appropriately financed through the federal budget based on separate social security legislation or the respective social security institutions in the form of regular contribution payments to the health insurance funds.

Implementing these reform proposals will lay the cornerstone for a liberal, solidarity-based health care system that is sustainable in the future. Only through a new synthesis of competition and solidarity-based insurance system can the future problems of the health care system be solved. The chances offered by the health care market for growth and employment in Germany would be used. Medical progress would become financeable.

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