Why Germany Outperforms the United States in Health Insurance Coverage

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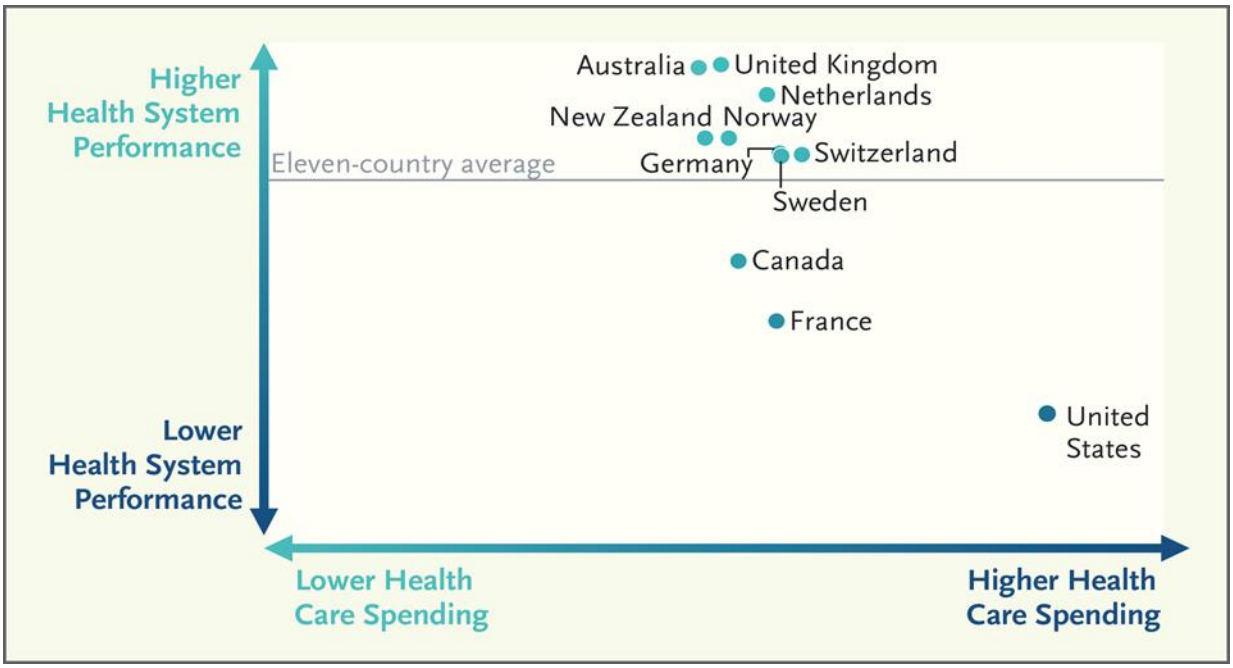
"On my honor as a student I have neither given nor received unauthorized aid on this assignment."

The United States and Germany, two major world powers, boast prominent differences in the number of people covered and the number of conditions covered by their health insurance systems. The purpose of this paper is to investigate and determine what causes the differences between these two dimensions. This paper stipulates that there are three factors that create these drastic differences. These factors are public vs. private systems, employment-based vs. universal coverage, and U.S. vs. German culture.

To underline how these three factors shape the number of people covered and the number of conditions covered, the paper will first investigate each factor's effects in the United States. Then, the paper will investigate how these three factors play out in Germany.



Source: Schneider and Squires.

It is crucial to understand that higher health system performance is complex. While health system performance is not determined by health insurance systems alone, health insurance coverage impacts performance. As shown in the graph above, the United States has significantly lower healthcare performance than Germany. This is likely due in part to the three factors introduced above.

The United States: Public vs. Private Systems

The first factor that causes the United States to cover fewer people and fewer conditions is its public vs. private structure. The U.S. health insurance system has two main actors: private insurance firms and public insurance firms, i.e. the government. The motive of health insurance firms overall is to insure individuals against life risks. The United States uses health insurance to insure against these risks, which include but are not limited to accidents, injuries, illnesses, and long-lasting conditions. Private insurance firms in the United States, however, typically have another motive that the government does not: they want to make money. Private insurance

companies make money in two ways: investing their profit and avoiding payment of claims. There are two problems, in particular, with the private health insurance institutions in the United States. Both issues are examples of information asymmetries, meaning that both insurers and insurees each may know something that the other does not. Additionally, both problems are caused by two main actors: insurers and insurees. One problem is referred to as "adverse selection," which takes place before the insurance contract. For insurees, primarily the sick sign up for plans, creating a huge risk pool for the insurer. For insurers, firms primarily want to insure healthy individuals, causing a lack of coverage for those who are sick. This discrepancy leads to lack of coverage based on condition-type. If a patient has a tendency to smoke, a disability, or a rare disease that is expensive to treat, private insurance firms have little financial incentive to cover them, as these patients pose far greater risks than the average person does. For example, in 2018, only 44.7 percent of people with disabilities received coverage under private insurance, while 74.9 percent of people without disabilities received coverage under private insurance (U.S. Census Bureau). The second problem is referred to as "moral hazard," which takes place after an insurance contract. The insuree, after obtaining health insurance, now feels comfortable, often causing them to act in ways that raise the risk of a claim. At the same time, the insurer can now rescind policies for illegitimate reasons when the insuree makes a claim. In turn, this situation leads to key issues of entitlement. If insurance companies primarily want to cover the healthy, but mostly the sick want to get health insurance, then there are inherent limits for Americans to get health insurance. This limit, as expressed through adverse selection and moral hazard, is that U.S. insurance firms often choose to not cover people who have certain health conditions, such as those that are difficult and costly to treat, because of their profit-driven motives.

The U.S. public health insurance system also struggles to cover certain people and conditions. Two integral parts of the U.S. public health insurance system are Medicare and Medicaid. Medicare refers to health insurance for people over age 65, while Medicaid is health insurance for poor and disabled people. Medicare is available to both wealthy and poor elderly people. The program is funded largely through federal general revenues and a payroll tax […] but its high and regressive cost-sharing requirements discourage many low-income beneficiaries from seeking care (Dickman et al. 1436). Thus, although public, some people are not financially stable enough to bear some of these costs. The Affordable Care Act (ACA) has helped propel public insurance since its implementation: "Millions of people have gained affordable insurance coverage and access to care under the ACA, and more could gain coverage through further Medicaid expansion and stabilization of individual insurance markets" (Schneider and Squires 2017). Medicaid covers roughly 58 million Americans who have low income (Dickman et al. 1433). "Medicaid is available for those with incomes below 133% of the national poverty level who do not qualify for Medicare, for children whose families earn more than a salary eligible for Medicaid and who cannot afford to buy private insurance, for those who have served in the military, and for American Indians" (Krasnoff 4). Medicaid has positive aspects to it and could serve as a future basis for a national health insurance plan. Rates of financial issues, clinical depression, and mortality fall when people gain Medicaid (Dickman et al. 1433). Medicaid, like private insurance, is not perfect. "Although Medicaid improves access to care, specialist care is often unobtainable because the programme pays low fees to physicians, who are free to turn away Medicaid patients; […] 76% of orthopedists' offices in a nationwide audit study refused to

offer an appointment to a Medicaid-insured child with a fracture, whereas only 18% refused a child with private insurance" (Dickman et al. 1433). Evidently, low compensation to physicians and physicians' ability to turn away patients are crucial flaws in the Medicaid system. Although Medicare and Medicaid are promising, they illuminate inherent limitations and problems with the U.S. public health insurance system. Combined with the U.S. private insurance system's flaws, it is clear that the public and private systems are lacking in that they do not adequately provide coverage on either dimension: the number of people or the number of conditions.

Coverage type	2017	2018
Any private plan	67.7%	67.3%
Employment-based	55.4%	55.1%
Direct-purchase	11%	10.8%
Any government plan	34.8%	34.4%
Medicare	17.4%	17.8%
Medicaid	18.5%	17.9%
Military health care**	3.5%	3.6%
Uninsured	7.9%	8.5%

Source: U.S. Census Bureau. Data show percentage of people covered under each American health insurance type.

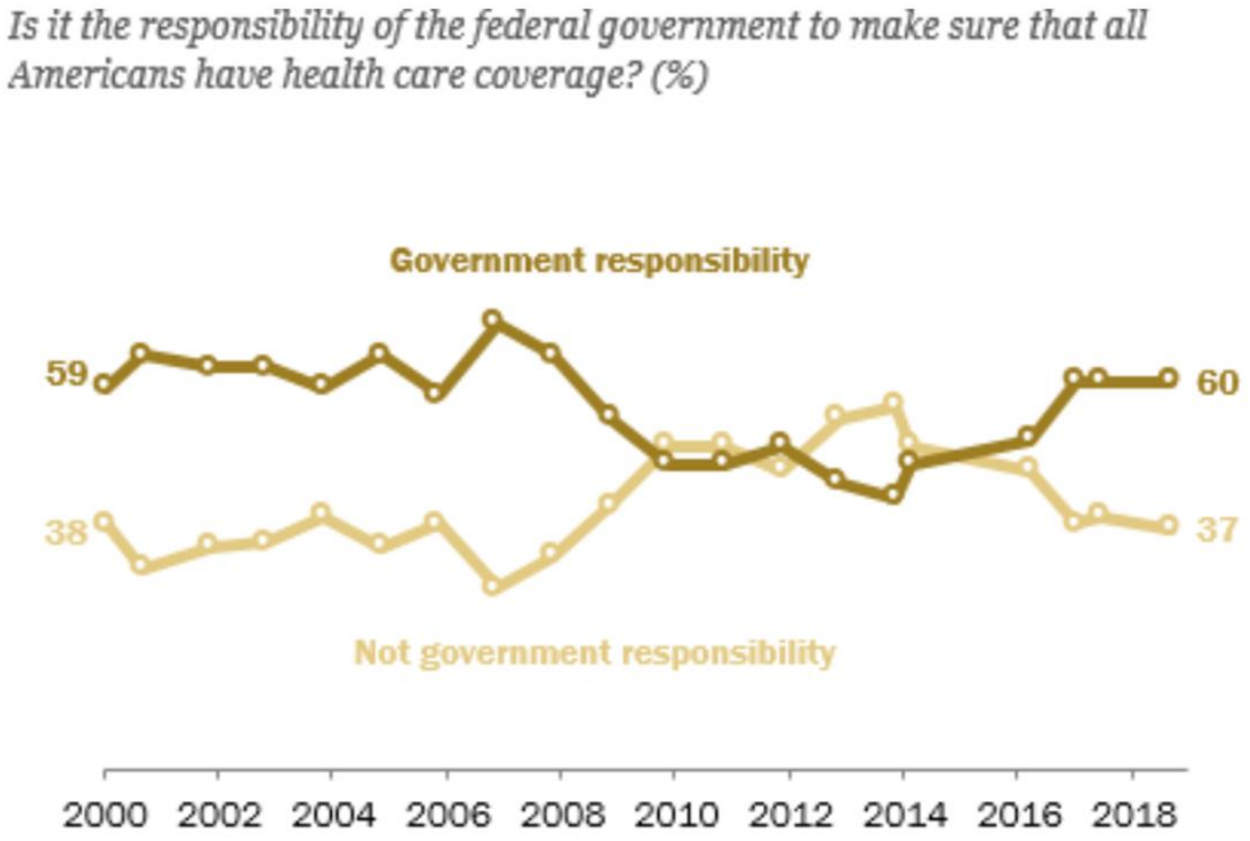
The United States: Employment-Based vs. Universal Coverage

Most Americans get health insurance from their employers; this system leaves the unemployed without coverage, while also creating imbalances between coverage quality. According to Krasnoff, private health insurance that is provided primarily through employer-sponsored insurance covers 56 percent of the non-elderly population in the United States (2). This statistic is significant because it illuminates how those who are not retired and may receive pensions rely heavily on private health insurance through their employer. "In consultation with employers, many of whom are self-insured, the insurance companies design benefit and premium schedules, negotiate reimbursement rates with hospitals and physicians, and approve or disapprove medical center, physician, and patient claims" (Fuchs). Thus, employers have a tremendous amount of leverage in determining what type of insurance they will afford their employees. Eighty-three percent of employees who are offered employment-based insurance are in households with a family income level that is greater than 400 percent above the federal poverty level (Fuchs). Furthermore, in households with a family income level between 100 percent and 250 percent of the federal poverty level, only 38 percent are offered employment-based insurance" (Fuchs). These statistics show that there are fundamental inequalities in employment-based insurance coverage between different wealth levels, to the benefit of the relatively wealthy. More importantly, people who are unemployed have a more difficult time

finding affordable insurance, and their insurance may cover a significantly smaller number of illnesses and accidents than an employer's private insurance would. Without a program through their employer, these people may have trouble affording a health insurance plan that provides sufficient coverage. The free market essentially makes private insurance a competition between private insurance firms and between employers who want to compete for employees by offering better health benefits. While this competition can drive down insurance prices, people with lower education levels and lower-paying jobs, generally speaking, get worse insurance because they have to compete with those with better jobs and education levels who may seem less risky. Thus, the private insurance firms do little to assist the less-educated and less-wealthy demographic. These limits are evident in that there are 45 million people in the United States without any health insurance coverage (Gladwell 7).

The United States: Culture

U.S. culture, specifically negative feelings towards government intervention, also contributes to fewer people and conditions being covered under public health insurance.



Source: Pew Research Center (data from Gallup).

Although the majority of Americans believe that the government should be responsible for ensuring that all Americans have health coverage, a significant portion of the population does not share this view. With 37 percent of people believing that the government should not take responsibility for this issue, there is clearly some widespread disagreement about who should

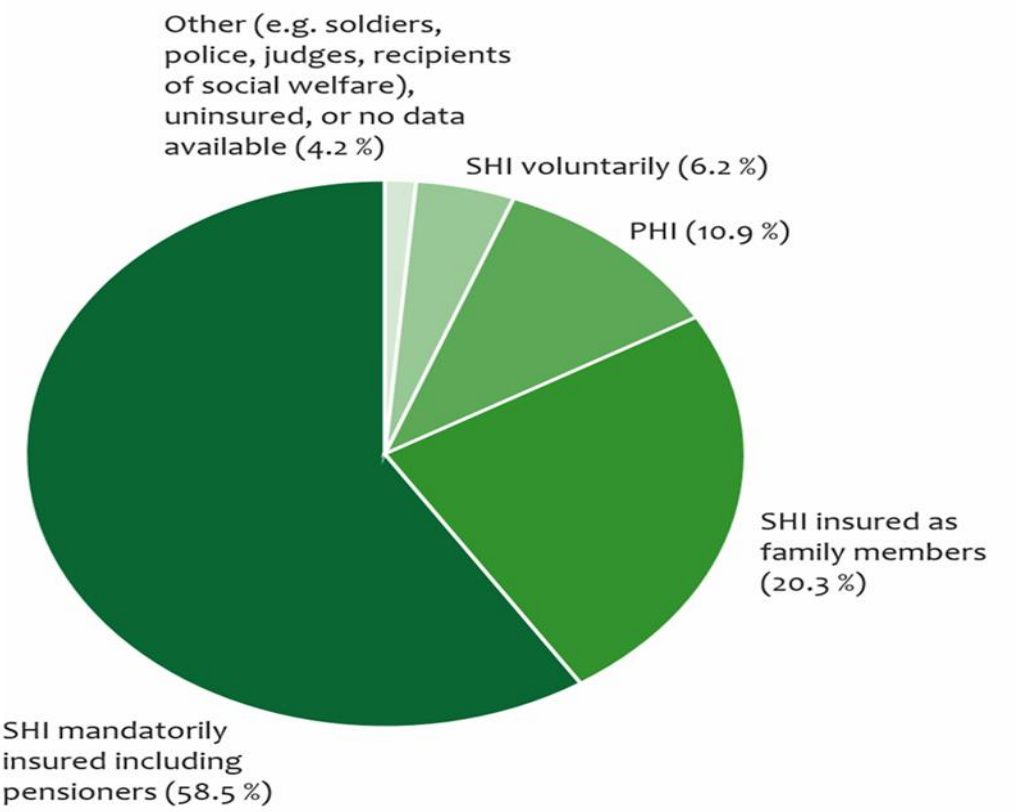
provide health insurance (Kiley). This mixed sentiment is further evident in that the majority viewpoint has changed in the past decade: from 2009-2011 and 2012-2014, the survey found that more American people believed that it was not the government's role to provide health care coverage (Kiley). There is significant disagreement within the U.S. government as well, which inhibits the likelihood that structural change will occur in the near future. Among elected politicians, more than eight-in-ten Democrats and Democratic-leaning independents (85 percent) say this responsibility falls to the federal government, while about two-thirds of Republicans and Republican leaners (68 percent) say it does not (Kiley). Thus, any sort of legislation towards health insurance reform, even if the public unanimously supported it, may be met with political gridlock. President Trump recently tweeted "Under my Administration, Medicare Advantage premiums next year will be their lowest in the last 13 years. We are providing GREAT healthcare to our Seniors. We cannot let the radical socialists take that away through Medicare for All!" (Trump). Here, the President is equating universal coverage with socialism, a term that carries a widely negative connotation in the United States culturally as well as politically because it directly opposes the free market principles that the nation was founded on. Americans also share a norm of individualism as opposed to collectivism (Theiss-Morse 14). Individualism is central to U.S. culture. This individualism involves putting personal responsibility on individuals to better themselves and society, whereas collectivism involves working together as a community. While it is not true that everyone firmly believes in individualism, it is true that individualism lies at the core of American culture and in opposition to the collective nature behind universal coverage.

Ethnocentrism, while diminishing, has been present in America since its founding (Theiss-Morse 15). It may also be contributing to a U.S. culture that is skeptical about universal health care. It is no secret that the United States has a long history of civil rights violations; the genocide of the Native Americans, slavery, and anti-Asian immigration laws come to mind. Thus, it is quite possible that a dwindling percentage of the population still believe that not everyone is deserving of equal or adequate health coverage on racial, ethnic, or other grounds. For example, the poverty rate is 20.8 percent for blacks, 17.6 percent for Hispanics, and 10.1 percent for whites ("Poverty Status"). Minorities generally are economically worse off than whites and less able to afford many of the private health insurance programs that whites can. It is possible that lingering racism among the U.S. population cause many people to want this statistic to remain this way.

Germany: Public vs. Private Systems

Germany boasts a universal health insurance system that covers more people and more conditions than the U.S. system. Practically synonymous with a public health insurance system, all German citizens are required by law to be covered by health insurance ("Health Care"). Additionally, these citizens' non-earning dependents are insured for free (Busse et al. 893). Thus, unlike in the U.S. system, all German citizens are insured. Because of this, in comparison to the United States, Germany performs substantially better in the first dimension, which is the number of people covered. "About 87% of the population receive their primary coverage through

statutory health insurance, and 11% of the population are insured through substitutive private health insurance" (Busse et al. 893).



Source: Obermann et al., page 165 (data from Verband der privaten Krankenversicherung e.V.).

Everyone who has statutory health insurance in Germany is entitled to the same health care if they get ill regardless of how much they pay in premiums, which are determined solely by income level ("Health Care"). Thus, people with greater health concerns than others, such as the elderly, disabled, and those with rare conditions, are covered automatically. The public system, or statutory system, makes the wealthy sector of the population (defined by an income threshold) pay the maximum premium ("Health Care"). In turn, these funds help subsidize more care for the sicker people. This funding has become increasingly important, as medical expenses across the world have increased. Thus, poorer people are better covered in Germany than in the United States. Because Germany has an expansive and well-funded public health insurance system, the risk from insuring people is spread throughout the population, which is the largest possible pool of people. The universal system eliminates the possibility for adverse selection and moral hazard as seen in U.S. private insurance firms, and therefore increases the number of people covered and conditions covered, as insurance firms do not have the power to turn insurees down. In turn, German people do not need to rely on their employers for adequate healthcare.

Although Germany is a universal health insurance state, there are private health insurance options as well. Employees with an income above a certain threshold and the self-employed can opt out of the statutory system and privately insure themselves (Obermann et al. 20). In 2018, the

threshold was 59,400 euros (about $70,000) per year, but the threshold is regularly adjusted ("Health Care"). Unlike in public insurance, private insurance is not income-based; it uses a risk-rated premium (i.e. the old, sick, and chronically ill pay higher premiums), and each family member is separately insured (Obermann et al. 164). While many private costs may come out of pocket initially, these German insurees are reimbursed in part by their insurance (Obermann et al. 23). This option is better for wealthier people who desire extensive and specific health services. Simultaneously, it encourages competition between insurance companies (public or private) to provide the best possible coverage they can. While the private option exists, it is solely an extra option for those above a certain income level. Its existence does not create vast inequalities like those in the U.S. between those with private insurance and those with public insurance on the grounds that public insurance is guaranteed, whereas U.S. public insurance is not always guaranteed and can be costly.

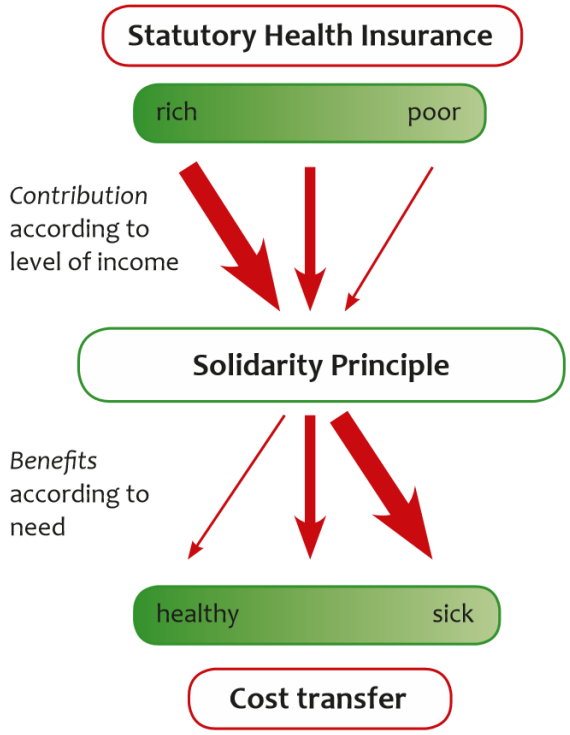
Germany: Employment-based vs. Universal Coverage

Germany's universal coverage covers far more people and conditions than the U.S. employment-based coverage. "Statutory health insurance is mainly financed through a contribution of 14.6% of wage-related income, which is divided equally between the employee and the employer" (Busse et al. 893). Employers are only important in German health insurance in that they help finance public insurance; unlike in the United States, they do not directly influence the price of, level of, or benefits of their employees' health insurance. In turn, unemployed people and those who have lower-paying jobs are not prone to having poorer health care. In fact, this demographic's health insurance is heavily funded by the wealthier demographic in order to make sure that those who are less well-off receive adequate healthcare. Germans' contributions towards universal coverage are based on their incomes to ensure that the cost of health care is shouldered primarily by the better-off, and everybody is able to access services (Obermann et al. 20). As a result, German universal health insurance has the legal requirements and funding to cover more people and more conditions than U.S. employment-based health insurance.

Germany: Culture

German health insurance is based on the culture of solidarity, which contributes to its coverage of more people and conditions. Because solidarity involves unity and support within a group, Germany has had a more collectivist culture in health insurance than the individualist culture in the United States. "Solidarity manifests itself both on the income side and the provision side of statutory health insurance: all insured persons, irrespective of health risk, contribute a percentage of their income, and these contributions entitle the individuals to benefits according to health needs—irrespective of their socioeconomic situation, ability to pay, or geographical location" (Busse et al. 882). Thus, no one, not the unemployed, disabled, or terminally ill, are lacking in coverage. This has been the foundation of German health culture since its inception in 1883 under Bismarck's Health Insurance Act (Busse et al. 882). This culture drives Germany's decision to continue to value and utilize universal health insurance. Unlike the United States, where people disagree on how much responsibility the government should have in ensuring that citizens have health care coverage, Germany has been unified on

this front since its health system's inception. Throughout Germany's complex history, this principle of solidarity has been unwavering. "During the period of National Socialism (1933–45), the fundamental structures of the social insurance system, including those related to health financing and delivery, remained unchanged (Busse et al. 882)." While many Americans may think that universal coverage is too "socialist," Germans generally do not share this negative impression of socialism because the ideals of solidarity and collectivism have been engrained in their society.



Source: Obermann et al., page 23.

The diagram above depicts the solidarity principle in public health insurance. Because the rich contribute according to income, statutory health insurance is more like a fund than insurance (Obermann et al. 22). Thus, in Germany, the long-standing tradition of collectivism through the solidarity principle lies at the foundation of its health insurance system. This cultural foundation has supported the universal coverage system and consequently has kept it thriving in Germany based on number of people and conditions covered.

Conclusion

Germany's health insurance system performs better than the U.S. system because it covers more people and conditions. The German system is able achieve this performance because of its universal insurance system and culture that supports it. On the other hand, the U.S. system underperforms because of limitations emanating from its public vs. private structure, employment-based system, and American culture.

There are macro-level and micro-level reasons why many Americans advocate for a national public health insurance system and subsequent smaller private system, similar to the German model. On the macro-level, first and most obvious, it is far more likely for a private health insurance firm to go out of business than the U.S. government. Second, in principle, politicians are more accountable to the broader population because they were voted into power. Essentially, the government may be more motivated to create a more stable and successful insurance plan than corporations because citizens have a direct vote on officials who run the U.S. government but not on officials who operate corporations.

On a micro scale, a national health insurance system would also eliminate discrepancies between different insurance policies between U.S. states. The U.S. environmental conditions are difficult because certain states have different population demographics and cultures. In turn, "health lifestyle behaviors, genetic predispositions, and access to health coverage based on state implementation" vary (Krasnoff 6). There is more obvious heterogeneity as well; there are roughly 40 million immigrants in the United States, and the working class is highly fragmented. Naturally, this leads to health insurance inequalities between states as well as social classes, which in turn have a drastic effect on the aggregate U.S. health system's effectiveness.

Thus, the U.S. insurance system is inherently more complicated than in Germany, which does not need to fear for different state laws or have as heterogeneous of a population; however, these complications should not preclude the United States from moving to adopt similar policies to fully insure the population and improve U.S. health performance as a whole. The U.S. population "is sicker and has higher mortality than those of other high-income countries" according to Schneider and Squires, and Germany's universal health insurance system has proven to be highly effective in covering people and conditions.

Word Count: 3,226

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