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What can England learn from the long-term care system in Germany?

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About this report

The current social care system in England is widely regarded as unfair, complex, confusing and failing to meet growing care needs in the population. But despite a series of reviews, commissions, reports and inquiries, and increasingly urgent calls for reform, change to this system remains elusive.

Germany introduced its current social (or 'long-term') care system in 1995 in response to the challenges of ageing and rising costs of care. The system was developed at a time of significant economic and political upheaval in the wake of reunification. This report seeks to assess the German long-term care system through the lens of the policy challenges that face us in England.

Using a literature review and a series of interviews with experts on the German system both within and outside Germany, we have sought to draw out elements of the German system that could either be incorporated into our thinking or that offer us cautionary tales. While the context may vary, we face common demographic and social challenges. As such, this report is intended not as a critique of the German system, nor as a comparative piece, but as a contribution to the discussions that we hope will ensue in the coming months.

This is a summary of the research. The full report can be accessed at: www.nuffieldtrust.org.uk/research/what-can-england-learn-from-the-long-term-care-system-in-germany

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The analysis can be accessed at: www.nuffieldtrust.org.uk/research

Introduction

Over the last 30 years, a number of countries have set about reforming their long-term care systems in response to changing demographics and growing care needs. But despite a series of reviews, commissions, reports and inquiries, and increasingly urgent calls for reform, change to England's care system remains elusive. At the time of writing, the Green Paper on the issue long promised by Theresa May's government has been delayed five times and the recently appointed prime minister, Boris Johnson, is rumoured to be preparing a new White Paper. Johnson called for a cross-party solution in his inaugural speech but there is no process established nor a clear timetable for action. Cross-party cooperation on the issue has proved elusive in the past and low public awareness of the problem has posed a challenge.

The current system is widely regarded as unfair, complex, confusing and failing to meet growing care needs in the population. A decade of austerity has seen government funding for local authorities halve in real terms between 2010–11 and 2017–18 (National Audit Office, 2018). The impact of these cuts has been felt widely: fewer people are accessing publicly funded care; there is an increasing reliance on informal carers to support people; the provider market is plagued with insecurity; and a workforce crisis is emerging. Increases in the number of people with a combination of health and care needs has exposed the fault line between universal, free-at-point-of-use health care and publicly funded social care that is tightly rationed to those with the highest needs and lowest means.

This report seeks to assess the German long-term care system through the lens of the policy challenges that face us in England. Using a literature review and a series of interviews with experts on the German system both within and outside Germany, we have sought to draw out elements of the German system that could either be incorporated into our thinking or that offer us cautionary tales. While the context may vary, we face common demographic and social challenges. As such, this report is intended not as a critique of the German system, nor as a comparative piece, but as a contribution to the discussions that we hope will ensue in the coming months. This report builds on our earlier work examining the long-term care system in Japan (Curry and others, 2018).

Germany's long-term care insurance (LTCI) system

Germany introduced its current social (or 'long-term') care system in 1995 in response to the challenges of ageing and rising costs of care. The system was developed at a time of significant economic and political upheaval in the wake of reunification. The following principles are at the core of its design.

Risk-pooling: a collective mandatory national funding mechanism in the form of social insurance spreads the risk across society to protect individuals from catastrophic (but not all) costs.

Transparency: contributions into the system are levied on income, strictly ring-fenced and cannot be diverted elsewhere, nor can the fund be topped up by other means.

Consistency of eligibility: a national framework assesses eligibility according to need regardless of age, means or diagnosis.

Clarity of benefit: a fixed schedule of benefits according to need is intended to guarantee a minimum level of care to all and is paid on a *monthly* basis. Individuals are expected to contribute to costs.

Stability for providers: a system of funding that seeks to offer stability and certainty to providers alongside local flexibility has created a buoyant and competitive market.

Fairness: everyone pays in a fixed proportion of their income and everyone continues to pay in beyond retirement. Everyone is entitled to the same benefits on becoming eligible, regardless of age, postcode, means, diagnosis or personal circumstances.

The German system has much to be admired: it is an example of fundamental reform, implemented with high levels of public and political support, that has provided the foundations for a system that has been able to adapt and respond to changing circumstances. However, it is not without its challenges and limitations. It is these challenges, as well as the successes, that provide rich learning for England.

The German system is heavily reliant on informal carers for its sustainability, and the decision to include cash payments in the system – while offering autonomy to individuals – has helped to fuel an informal care ‘grey’ market. Raising revenue through a strict ring-fenced approach has helped contain costs but has also created challenges. Because the system only covers partial costs, and benefits have not risen in line with actual costs of care, individuals have found themselves facing rising costs. Attempts to address this issue through private supplementary insurance have been unsuccessful.

By far the most pressing problem in the German system at present is its workforce shortage. Despite initially boosting workforce numbers after the new system was implemented, the government has reportedly been slow to react to growing vacancies. Germany, like England, is now struggling with the scale of the problem and is looking at strategies for filling the widening shortage.

Learning from Germany

1. There will be no progress without strong political leadership and cross-party cooperation

Germany's process of reform took many years and was beset by many of the same challenges that England has faced. Despite the economic and political challenges posed by reunification, strong and consistent political leadership that effectively reached across political divides (alongside a groundswell of pressure from local authorities and the public) made change possible. Proposals for reforming the care system became a positive vote-winner.

Recommendations for England

- Cross-party support for change is crucial. Social care transcends party politics and debate needs to be taken out of the political sphere. Identifying a leader who could reach across the political divide could help. With a unified approach, social care reform could be seen as a positive narrative rather than politically divisive.
- Local government is a potentially powerful advocate for change. In the absence of action at national government level, local government needs to continue to press for change and speak with one voice on this issue.

2. Secure public support by designing the system for transparency, clarity and fairness

A clear set of design principles – transparency, consistency, fairness and familiarity – enabled politicians in Germany to demonstrate to the public that the proposals directly addressed their concerns. Structuring the system around monthly contributions tied to income and fixed monthly benefits

offered a level of clarity about what people were paying in and what they were getting back. Basing the funding system on a well-understood and familiar mechanism also helped to gain public and political support. Creating a risk pool where individuals are protected from catastrophic costs was seen to be fair. Subsequent increases in contributions have been directly linked with increased generosity in the system, offering a high degree of transparency. Consequently, levels of public support for the system remain high.

Recommendations for England

- Achieving high levels of public awareness of the shortcomings of the existing social care system should be one of the first steps in moving the debate forward. Creating a positive vision of the kind of system that could be built would be a good start in building public support for change.
- Designing a funding system that is fair, understandable and familiar to the public is likely to help garner support for contributions.
- Creating a system of benefits and eligibility that is clear and consistent could help build public trust.

3. Carefully balance cost containment with individual responsibility

Germany's system offers a minimum level of benefits and does not cover the full costs of care. Individual service users must pay the remaining costs plus any costs of bed and board in residential care (social assistance pays in the case of people with very low means). This has allowed the government to successfully contain costs but has seen individuals faced with rising costs, and more falling back on social assistance, as the actual costs of care have outpaced changes in benefits. German policy-makers have been able to adapt the system to respond to this issue by increasing contributions, which has enabled them to raise benefits, but projections of growing need mean it is likely to arise again. Attempts to encourage uptake of private supplementary insurance to cover private costs have been unsuccessful and discussions around introducing a cap on individual care costs are ongoing.

Recommendations for England

- There needs to be clarity over what costs are covered by any state offer – for example proposals calling for ‘free personal care’ do not necessarily include bed and board costs and that needs to be clear.
- Offering partial coverage of care costs is helpful in containing costs but it is important to model the future implications of that for both state and individual expenditure. Higher levels of coverage require higher levels of funding.
- Relying on private insurance to form a substantial mechanism for funding care is highly unlikely to be viable. Those who are advocating for private insurance to play a significant part in financing should heed the difficulties faced by their German counterparts.

4. Support long-term financial stability by balancing strict ring-fencing of revenue with flexibility

Germany’s strictly ring-fenced social insurance funding, with revenue based solely on contributions from income, was intended to be self-funding and transparent. Strict ring-fencing of revenue has enabled the government to effectively contain costs and keep the system sustainable, but it is relatively inflexible: with no means to top up the fund other than through increased contributions, policy-makers must adjust the nationally fixed benefits and eligibility criteria to enable the system to adapt to changing need. Germany has recently diverted from a strict pay-as-you-go approach to establish a reserve fund in anticipation of growing needs and a shrinking working-age population.

Recommendations for England

- Social care funding options cannot be considered in isolation. A strictly ring-fenced revenue source linked solely to incomes is transparent, but relatively inflexible and vulnerable to changes in the health of the wider economy, particularly the rise in insecure forms of employment (e.g. zero-hours contracts). In England, where property wealth is such a significant

issue in this debate – and where we have no precedent of social insurance – a combination of different funding streams (perhaps levied on income and wealth) may offer greater flexibility and fairness across generations.

- Any system of care will need to respond to changing demographics and will need to remain sustainable in the long term. It is important that mechanisms are built into the system from the outset to allow policy-makers to adjust and evolve the system accordingly.

5. Create a strong provider market by balancing stability with local flexibility

Germany has successfully created a competitive and buoyant provider market, where providers are adequately funded for their services. A system that combines nationally set benefits and state-level legal frameworks with local price negotiations balances certainty for providers with local flexibility. The system ensures that individual providers cannot charge differential rates to people receiving the same service. However, the system leaves local authorities with few powers to shape the market and there is no strong incentive within the system to drive efficiency. This is leading to concerns about high profits for private providers.

Recommendations for England

- Offering a partial fee schedule that is set nationally alongside a locally negotiated component balances certainty with local flexibility. Any shift towards a national framework needs to ensure the approach strengthens, not further weakens, local authorities' ability to shape the market.
- Creating a funding system where providers are unable to charge differential rates for the same service would reduce the sense of inequity in the system. It is important that the costs of care are adequately covered in any system.

6. Plan long-term and across government to address workforce pressures

Workforce pressures are by far the most significant challenge for the German LTCI system. The German care workforce is very highly qualified by international standards, yet care workers' status and pay remain low. Concerted efforts are being made by cross-departmental working groups to address staff shortages by improving wages, the status of care work and the working conditions of staff. But there is a feeling that this is too little, too late. Boosting international recruitment is a major part of the strategy and new immigration policies and the creation of a welcoming culture for immigrant staff are being developed.

Recommendations for England

- Building in a robust workforce strategy to the design of the system at the outset is crucial. While more money in the system will help to ease the workforce challenges, it will not automatically fix them. Careful planning, with strategies for attracting staff, needs to be undertaken.
- Professionalisation may help to attract new staff and retain existing staff, but is unlikely to be a silver bullet. Instead, a whole suite of different strategies is likely to be required.
- With international recruitment, policy-makers need to be mindful that England will be competing with other countries for the same staff. Proposed changes to UK immigration policy making it more difficult for workers to enter the country risk exacerbating workforce challenges within the social care sector.

7. Cash benefits can promote autonomy but may have unintended consequences

The German system allows people to receive care benefit in cash, in kind, or as a mix of the two. The decision to offer cash was grounded in strong cultural values of autonomy and control and intended to enable family and friends to provide informal care. It was also hoped that offering cash benefits instead

of only in-kind care would be cheaper. Although there is high uptake of cash despite it being comparatively lower value, there is conflicting evidence as to whether it delivers a cheaper system. It enables people to choose to be looked after by family and friends but that has meant that there has been reduced participation in the labour market by those carers (usually women). Availability of largely unregulated cash benefits has given rise to a 'grey' market of workers, who mostly come from Eastern Europe and work outside any regulations.

Recommendations for England

- Autonomy and control over care choices is a laudable ambition that will gain public support, but policy-makers need to think carefully about how it is achieved. Offering benefits in cash is one option, but this raises the issue of how to ensure sufficient regulation without being burdensome to service users.
- It should not be assumed that cash payments will be a cheaper way to deliver care. Robust estimates of unmet and under-met needs should be established in order to model potential demand for such benefits should they become a widespread option in England.
- Policy-makers need to carefully consider the design of cash-for-care schemes and their regulation so as not to exacerbate existing inequalities in informal care provision (e.g. in terms of gender).

8. Join up policy to care for carers

Partly because of the availability of cash benefits, and partly because of a strong cultural preference for family-provided care, the German system is heavily reliant on informal carers. There is an explicit and upfront narrative that families have a responsibility to care. Current high levels of informal care provision need to be maintained to sustain the system, but support for carers is minimal and care responsibilities often mean people have to withdraw from the employment market. There is now an active focus across government on introducing legislation that better supports carers to remain in employment and ensures that they have adequate access to social security and support.

Recommendations for England

- There is an urgent need for policy-makers to start an honest debate about the likely need for informal care in any future system, given the challenges in the professional workforce and the rising level and complexity of need. How responsibilities for care are shared fairly between families and the state applies not only to who pays for care, but also to who provides it.
- The government should work with employers to bring forward dedicated employment rights and consider paid short-term leave, to help carers find, stay in, and return to work. At the same time, tangible changes are needed to make benefits work better for carers.
- It needs to be recognised that informal care is not a free good. Many informal carers are unable to work and this has implications for other areas of state expenditure. There needs to be recognition that social care does not exist in a vacuum and that its design has implications for many other services, the economy and society more broadly. Robust estimates of informal care need to be factored into any system reform.

9. Social care needs to be part of a bigger vision: building sustainable communities

Germany's LTCI system was intended to be wider than just funding and providing for needs. It was also intended to promote prevention, independence and social inclusion, but debate about this wider vision is only just emerging. With changing demography and growing needs, it is likely that sustaining the care system will become increasingly challenging. Germany is now turning its attention to alternative models of community-based care and living that help to keep people well and independent for longer.

Recommendations for England

- Projections of demographics and needs suggest that we need to rethink our approach to care and focus on preventing deterioration and keeping people independent within supportive communities.

- Debate around the future of social care should include how it supports and works alongside all other public services, as well as wider society, to promote wellbeing and independence.
- England has a strong local infrastructure for supporting change but this has been eroded in recent years. Local infrastructure needs investment to develop innovative approaches to prevention and wellness.

What next for England?

While we can learn a huge amount from the systems and experiences of other countries, a new social care system in England needs to suit this country's social and cultural context and trends. Far from advocating for a wholesale adoption of Germany's system, we would urge a thoughtful approach to identifying elements that might work for England while being mindful of the long-term consequences of some of Germany's original decisions. The mechanisms and system design will necessarily be different, but the fundamental principles upon which Germany's system is based – fairness, transparency, consistency, stability and sustainability – are ones that provide strong foundations for the next stage of debate. There is also much to be learnt from the policy development process Germany adopted to bring about comprehensive system change.

Reform of our social care system cannot be put off any longer. We urge policy-makers to start a positive dialogue about social care and we urge politicians to cross political divides to find a workable long-term solution.

References

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