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Less social health insurance, more private supplementary insurance? Empirical evidence from Germany

Boris Augurzky [a,b], Harald Tauchmann [a,*]

[a] *Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Hohenzollernstraße 1-3, D-45128 Essen, Germany*
[b] *IZA, Bonn, Germany*

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Abstract

Based on individual level data from Germany, we analyze the effect of changes in the compulsory benefit package of the social health insurance on the demand for supplementary private insurance, employing a difference-in-differences approach. The focus is on the exclusion of dental prostheses from the benefit package in 1997 and its re-inclusion in 1999. Individuals born prior to 1979 serve as control group because only the young were affected by the reform. No significant effect on the demand for supplementary health insurance is found. Thus, the notion of clients making informed choices about their health insurances' coverage is not supported.
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1. Introduction

Personal responsibility for individual health has become a major issue in Germany's health policy. In the light of increasing health care expenditures that in many industrialized countries have developed into a key drain on national budgets[1] (e.g. OECD, 2010), the German health

* Corresponding author. Tel.: +49 201 8149 259; fax: +49 201 8149 200.
E-mail address: harald.tauchmann@rwi-essen.de (H. Tauchmann).

[1] See e.g. Warshawsky (1999) for a similar process of health expenditures increase in the US, and e.g. Correa and Namkoong (1992) for determinants of health care expenditures.

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system has come under criticism for setting incentives for the overuse of health care services. In particular, comprehensive and mandatory insurance cover, rendering marginal cost of health care utilization very low to the insured, has been blamed to be a major source of inefficiency. In consequence, strengthening personal responsibility for individual health and individual health care utilization appears to be a promising route to reduce health care expenditures.

This view, already stressed by health economists for a long time, has become more relevant in the current political debate as the liberal party, which has a long tradition in advocating personal responsibility and consumer sovereignty, has reentered the federal government late in 2009. A steady objective of liberal health policy (e.g. FDP, 2005) is strengthening private health insurance and allowing for more choice among individualized insurance packages. Hence, rather than being mandatorily and comprehensively insured with a uniform statutory health insurance scheme, the insured themselves are supposed to decide which health risks they want to be insured against.[2]

In practice no such fundamental reform has been adopted. Rather the statutory health insurance scheme has only been reformed moderately in 2011.[3] Yet, the issue of more personal responsibility for individual health remains on top of the agenda and is still subject to public debate. This, in particular, applies to personal responsibility and individual freedom of choice with respect to the benefits covered by health insurance. Economists often argue that allowing for greater choice will increase welfare since preferences are likely to vary across individuals (e.g. Bundorf, 2002). Yet, the counterargument to this is that individuals typically are not able to appraise what kind of medical treatment they may need in the future and therefore are unable to make informed individual choices about the benefit package. For instance, Bauer (2006) argues that many patients lack the required competences to make informed and responsible decisions about individual health care. Letting medical experts define a rather broad package may therefore be in the best interest of those who are insured under the statutory health insurance scheme. Moreover, letting clients decide about their insurance coverage may result in a severe problem of adverse selection.

This paper contributes to this debate by empirically analyzing the response to a specific reform that fostered personal responsibility in seeking health insurance cover. We analyze a cutback in the standard benefit package of the statutory health insurance scheme. In 1997 dental prostheses – including partial ones such as dental crowns and dental bridges – were excluded from the compulsory health insurance package. Yet, for political reasons, two years later these benefits were re-included again. We are interested in the effect of this reform on the demand for private supplementary health insurance. If individuals do make informed choices about the size of their insurance coverage and individuals' preferences are in fact heterogeneous the demand for supplementary dental insurance should increase if such services are no longer covered by the compulsory health insurance scheme. The reverse should happen if such benefits are (re)included into the compulsory health insurance package.

The reform of 1997, and its abolishment in 1999, is particularly well suited for measuring the effects of changes in the compulsory benefit package. In contrast to many other reforms the reduction in benefits did only apply to a well-defined subgroup of individuals. For those born in 1978 or before dental prostheses remained in the benefit package. In contrast, individuals born after 1978 were affected by the reform. Therefore, the latter represent a treatment group while the former may serve as control group. For the identification of treatment effects

[2] Evidently, some regulations are required, in particular mandatory insurance against major health risks. Otherwise, moral hazard would become a severe problem.

[3] The relevant bill 'Finanzierungsgesetz für die gesetzlichen Krankenkassen (GKV-FinG)' passed the parliament in November 2010.

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