Case study 1

The near-insolvency of the German long-term care insurance system

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Germany introduced a pay-as-you-go financed long-term care (LTC) insurance system in 1995. It provides three kinds of benefits: 1) support for nursing home stays, 2) support for informal caregivers, and 3) support for formal home care, care equipment, and home improvements. It is financed by contributions deducted from workers' salaries, up to an earnings ceiling that rises with inflation. The costs of the system increased dramatically between 2015 and 2025, and even more so, the number of beneficiaries. Finally, in October 2026, the system was at the brink of insolvency and had to be rescued by a large government loan. Why did this happen? What lessons can be drawn from this episode?

This case study provides a brief description of the system (Section 1), investigates which developments created the near-insolvency (Section 2), describes the political controversy leading to the lack of timely action (Section 3), and finally, draws lessons (Section 4).

1. The German long-term care insurance

1.1 Eligibility

Eligibility and the level of support that a person gets depend on the severity of impairments that are categorised by a medical inspector that visits the recipient about every year. Initially, recipients of LTC benefits were categorised into three levels of disability, defined by the level of physical limitations. From 2002 to 2013, the government introduced several amendments to better account for cognitive decline, notably dementia. In 2017, the levels of dependency used to determine the support necessary were changed from three levels to five grades to allow better targeting of support. Moreover, these five grades were defined to represent limitations for doing activities, rather than physical limitations, allowing a greater recognition of cognitive and psychiatric impairments.

1.2 Support for nursing home stays

Nursing home costs are divided into "hotel costs" and care costs. Hotel costs cover rent, food, and other services that would occur even for a healthy person. They are not covered by the LTC insurance

at all. The care costs in a nursing home are divided into a subsidy and a co-payment paid by the resident. Initially, the co-payment averaged about 25 percent of total care costs. In 2022, a scheme was introduced by which co-payments declined the longer residents stayed in a nursing home. In the first year, the LTC insurance fund covers 15 percent of the care costs; in the second year, 30 percent; in the third year, 50 percent; and from the fourth year onwards, 75 percent. In 2025, average care costs (excluding hotel costs) were about €2,100 per month. Hence, after the subsidy is applied, the average co-payment was €1,775 in the first year, dropping to €522 after more than three years.

1.3 Support for informal caregivers

From its inception, the German LTC system included informal caregivers as part of the care structure, allowing insured individuals to receive benefits in the form of cash to pay informal caregivers, including partners and children. It also supports training and gives pension points to informal caregivers if they reduce their working hours as a result of informal caregiving. Important efforts were made to reconcile caregiving, family, and work. In 2008, short paid leaves were introduced so that caregivers could take ten days off specifically to provide care and organise the care needs of relatives when they become impaired. In 2012, longer care leaves were introduced. These were unpaid but allowed caregivers to leave their jobs for up to two years to provide care for a relative. In 2015, both forms of leave were improved, and benefits were made more generous to allow for better financing of short-term care. Short leaves could now be taken every year, and the government offered zero-interest loans for people taking long care leaves. In 2017, obtaining pension points for informal care was made easier. In 2023, respite care was further extended such that an individual providing care to multiple people could take as many 10-day leaves as there are care recipients every year.

1.4 Support for formal care workers and home improvements

At the time of the introduction of the German LTC insurance in 1995, formal care workers were part of the healthcare system like any other nurse or nurse practitioner. In 2002, formal care workers that provide LTC obtained a separate legal status as “geriatric nurses” and “geriatric care assistants”. These occupations require specific training to ensure comparable quality of care. Since 2008, these quality requirements were reinforced through inspections. In 2010, a minimum wage was introduced for the care sector in order to increase the caregiving workforce and to reduce turnover. In 2019, a new law provided pay improvements and better compensation for travel times when providing care in rural areas. The minimum wage for formal care workers was increased in 2022 and in 2026.

The LTC insurance also pays for equipment such as walkers and wheelchairs. Since 2015, home adaptations up to €4,000 per improvement became eligible for support.

1.5 Financing

The German LTC insurance is financed by contributions, which started in 1995 at 1 percent of earnings up to a ceiling. Since 2005, a supplement is being levied for childless individuals, initially at 0.25 percent. By 2014, the contribution rate had doubled to 2.05 percent, and it reached 3.6 percent in 2025 for individuals with children, plus a 0.6 percent supplement for childless individuals.

2. The developments leading to near insolvency

Initially, expenditures grew modestly. The average expenditures growth between 2000 and 2015 was

3 percent while the number of beneficiaries grew by an annual average of 2.45 percent between 2000 and 2017. This changed dramatically in 2015 and 2017. The first "LTC Improvement Act" in 2015 increased the generosity of all three support lines, while the second act in 2017 introduced the new five-care-grades scheme that included individuals with milder impairments and individuals with cognitive decline. As a consequence, expenditures increased by 13 percent between 2014 and 2015, and 24 percent between 2016 and 2017. Similarly, the number of beneficiaries grew by 21 percent in 2017 compared to 2016, and remained on a higher growth trajectory from then on, at 7.7 percent annually, about three times the average of 2000-2017. One might note that the first act resulted in an expenditure increase by making benefits more generous, while the second act increased both aggregate expenditures and the number of beneficiaries, mostly by making benefit eligibility more inclusive.

In a ten-year comparison between 2015 and 2025, the expenditures of the German LTC insurance almost tripled, rising from €29 billion to almost €74 billion (Table 1). At the same time, support shifted noticeably towards home-based formal and informal care. This was primarily due to the broader definition of care dependency introduced in 2017 (care grades instead of care levels), which includes significantly more people receiving care in their homes.

Table 1: Ten-year comparison of key figures (2015 – 2025)

	2015	**2025**	**Change**
Total expenditure	€29.00 bn	€73.82 bn	+154.5%
Revenue	€30.70 bn	€73.33 bn	+138.9%
Financing balance	+€1.70 bn	-€0.49 bn	
Benefit recipients	2.67m	6.01 m	+125.1%
Contribution rate	2.35%	3.60%	+1.25 pp
Childless supplement	0.25%	0.60%	+0.35 pp
Outpatient Care	€14.50bn	€47.25bn	+225.9%
Share of Budget	54.5%	67.1%	+12.6 pp
Inpatient Care	€12.10 bn	€23.18 bn	+91.6%
Share of Budget	45.5%	32.9%	-12.6 pp

Source: Bundesministerium für Gesundheit, Berlin.

Table 1 also shows the main structural changes between 2015 and 2025:

1. The "home care boom": Costs for outpatient care rose far more rapidly than those for inpatient care. The main reason is that, in 2025, over 85 percent of those requiring care were looked after at home (often by family members, in combination with professional care services).

2. Cost imbalance: Although the percentage share of the total budget allocated to inpatient care fell, the per-capita cost of a stay in a nursing home remains very high. In 2025, inpatient care costs on average €26,977 per year, whereas outpatient care averaged €9,171. Hence, while 85.7 percent of all individuals requiring care are looked after at home, the 14.3 percent inpatient care recipients consume nearly one-third of the total budget.

Population ageing is not the main reason for the cost increase. Between 2015 and 2025, the share of individuals aged 85 and older has increased by 37 percent, much less than the expenditure increase of 154.5 percent. The main structural change of the demographic composition will be when the baby-boomer generation reaches age 85 in about 20 years. From 2025 until the peak of the care wave, which is expected around 2050, the population aged 85 and older is projected to increase by an additional 96 percent.

3. The political controversy

The cost increase of the German LTC system did not draw much attention until the end of the previous government in 2024. The new government is based on a two-party coalition led by the conservative party (CDU) with the social democratic party (SPD) as a junior partner. They are deeply divided over the future of LTC insurance. This led to inaction in 2025. In June 2026, the Ministry of Health announced that without immediate action the system would be insolvent by the end of October.

The CDU presented a reform package aimed at cutting costs by extending the period over which the subsidies for nursing-home care are provided, from 12 months to 18 months per care stage. Specifically, the subsidy would:

- remain at 15 percent for stays of up to 18 months,
- increase to 30 percent after 18 months,
- amount to 50 percent after 36 months,
- reach 75 percent after 54 months.

The SPD rejects benefit cuts and demands a cap on co-payments. As a first step, their proposal envisages a cap of €1,500 on the co-payments. In a second step, the LTC insurance subsidy is to be applied to this already capped amount. This would reduce the personal contribution for care to below €1,500. The SPD estimates the cost of the first step at around one billion euros, and the second at around three billion euros, bringing the total to approximately four billion euros. The SPD proposes several options for counter-financing. These include a higher contribution burden for people with higher incomes, or an increase in the contribution assessment limit, greater participation by private care insurance, and a higher financing contribution from the federal budget.

These proposals only relate to nursing-home support. Neither CDU nor SPD made proposals to the other two lines of support. This is in spite of the much larger cost increases in the support for informal care.

To avoid the coming insolvency, CDU and SPD agreed on four actions: 1) a government loan of 0.6 billion euros to the LTC insurance, 2) an increase of the childless supplement from 0.6 percent to 0.9 percent of earnings, 3) increasing the contribution rate for childless individuals to 4.5 percent, and 4) the establishment of a commission that is supposed to make proposals for a solution of the impasse until the end of 2026.

4. Lessons

First, LTC insurance needs actuarial projections that permit a long-term planning of expenditures and revenues. Such actuarial projections must include the future development of demographics and the economic environment, as is the case with pension systems, but must additionally include projections of morbidity.

Second, the work in the BB-Future project has shown that already small changes in the average onset age of impairment make a large difference in the total number of required care hours. Prevention is therefore the key to sustainable LTC systems.

Third, as in any other insurance, there is moral hazard in LTC systems. The German case has made this particularly visible in the large share of expenditures -- and its increase -- after the 2017 reform started to support caregivers to relatives with relatively low levels of impairment. Co-payments are an effective means to limit moral hazard in LTC.

Fourth, LTC insurance was introduced in Germany as a minimal burden to the tax and contribution payers. This has changed. The contribution rate to LTC insurance now exceeds that for unemployment insurance, and the combination of all social contributions (public pensions, healthcare, LTC, and unemployment) is currently about 43 percent of total labour compensation. One may note that this is before the major impact of population ageing, and without counting in income taxation. If net earnings become an ever-smaller part of total labour compensation, providing labour supply becomes increasingly unattractive, shrinking the financial foundation of social services. Sweden in the late 1980s may serve as an example that the Laffer curve eventually bites, illustrating the risk that continuously rising tax and contribution rates will eventually undermine the revenue they are intended to raise. Hence, there is a limit to contribution and tax-based revenues, and therefore also an upper limit to what LTC insurance can support.

Fifth, while many baby-boomer households have an unprecedented amount of wealth, co-payments may strain low-income households. Hence, Germany may want to introduce substantially more means-testing in providing LTC benefits.

Sixth, connected to the previous point, since the demographically-determined peak of LTC expenditures is about 20-25 years in the future, there is sufficient time to build up savings among households with medium and higher incomes in order to finance co-payments for LTC expenditures. This would reduce the pay-as-you-go financed subsidy and therefore also the labour-related taxes and contributions.

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