In Germany, health care funding for about 90% of the population is organised through statutory health insurance funds, which act at “arm’s length” from the government. Around 200 funds collect “premiums” through earmarked payroll taxes. These (non-progressive) taxes are paid in equal parts by the employer and employee to the social health insurance fund.

There is a mechanism, called risk adjustment, for redistributing resources among funds according to the risk structure of their clients. Employees are free to choose their preferred social health insurance fund. However, the premium remains the same, independent of the insurance fund they are enrolled in. Therefore, insurance funds rather compete on (perceived) quality and responsiveness and not on price.

The idea of the system goes back to the Social Reforms in the Bismarckian era in the 19th century. It is often referred to as a “sickness fund” system, since its primary focus is on paying for health services (which are mostly delivered by private actors) in cases of ill health. Prevention as an additional focus was introduced only in recent years.