



## **Long-term care – the problem of sustainable financing**

Magdi BIRTHA, PhD, COFACE seminar ‘Economics at the service of society’,  
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# Overview

1. The case for social protection against long-term care needs
2. Advantages and disadvantages of the main financing approaches to LTC
3. To make or to buy LTC?
4. Concluding remarks



## What is long-term care (LTC)?

LTC is defined as care provided to people who need assistance to carry out their everyday activities for a prolonged period of time.

- Most commonly restricted to older people (65+)
- Are persons with disabilities of working age included?
- Informal care is still the backbone of LTC in Europe (80%)

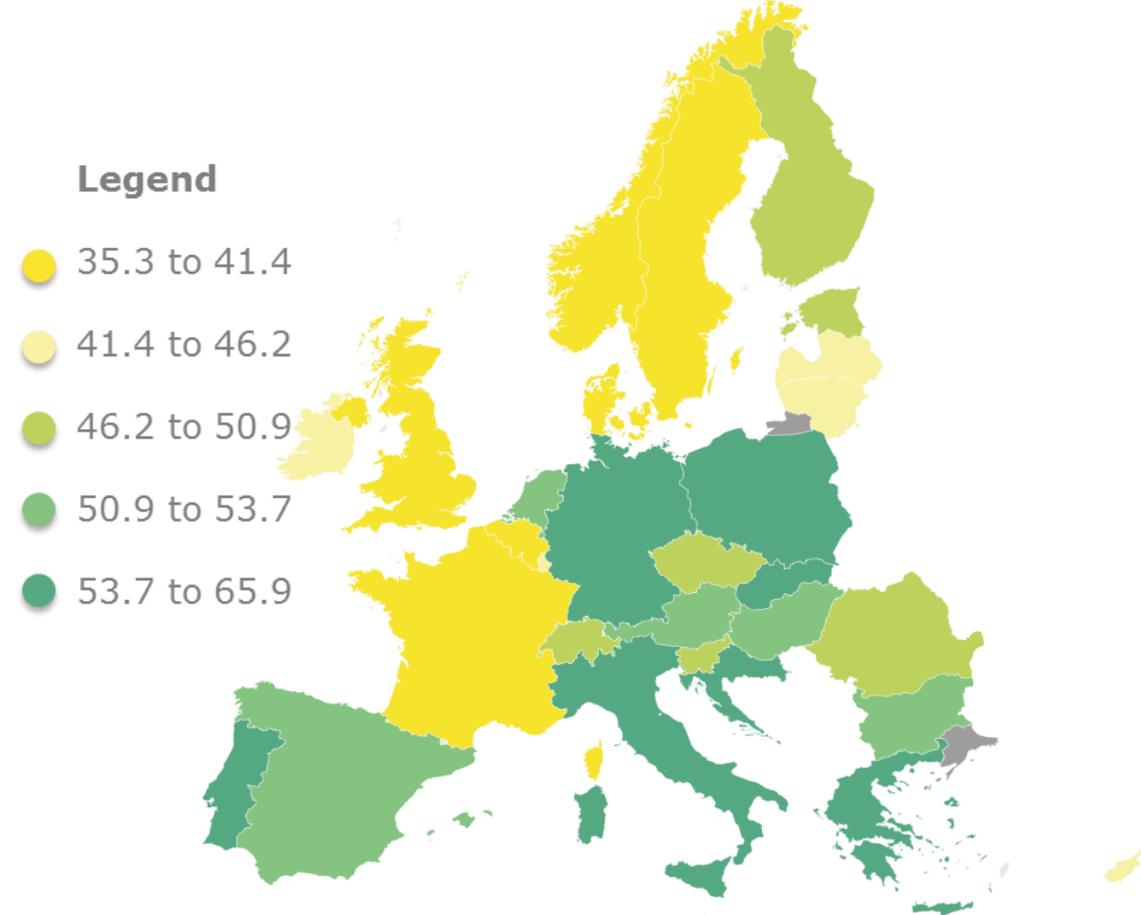
*'Everyone has the right to affordable long-term care services of good quality, in particular home-care and community-based services'. (Principle 18, EPSR)*

European  
Pillar of  
Social Rights

# The case for social protection against long-term care needs

1. Demographic ageing
2. Catastrophic costs
3. 'It only happens to others' approach
4. Needs and income
5. Inequalities (genetic, financial etc.)
6. Would public support it?

Projected old age dependency ratio by 2060



Source: Eurostat & European Commission

# Overview of public expenditure on LTC in the EU

Country	Public expenditure in 2010	Projected public expenditure in 2060 – AWG Reference Scenario	Range of projected public expenditure in 2060, taking into account improved disability and policy changes
Belgium	2.3	5.0	4.7-6.2
Bulgaria	0.5	0.8	0.7-1.4
Czech Republic	0.8	1.5	1.3-2.0
Denmark	4.5	8.0	7.5-9.1
Germany	1.4	3.1	3.0-5.9
Estonia	0.5	0.8	0.7-1.3
Ireland	1.1	2.6	2.5-3.3
Greece	1.4	2.6	2.4-3.5
Spain	0.8	1.5	1.4-3.1
France	2.2	4.2	4.1-6.9
Italy	1.9	2.8	2.7-4.6
Cyprus	0.2	0.3	0.2-0.3
Latvia	0.7	1.0	0.9-4.4
Lithuania	1.2	2.3	2.1-4.7
Luxembourg	1.0	3.1	2.8-4.8
Hungary	0.8	1.4	1.3-2.0
Malta	0.7	1.5	1.3-4.3
Netherlands	3.8	7.9	7.4-9.0
Austria	1.6	2.9	2.7-4.1
Poland	0.7	1.7	1.6-2.8
Portugal	0.3	0.6	0.6-1.3
Romania	0.6	1.7	1.4-3.2
Slovenia	1.4	3.0	2.8-5.6
Slovak Republic	0.3	0.7	0.6-2.3
Finland	2.5	5.1	4.8-5.8
Sweden	3.9	6.4	6.1-7.1
United Kingdom	2.0	2.7	2.5-3.9
EU 27	1.8	3.4	3.2-5.0

Source: European Commission, (2012).



## Case study: Slovenia

- More than 50% of publicly financed LTC is financed by the compulsory healthcare funds (health insurance)
- This is mostly allocated to institutional care:

**2013: Almost as many older people are cared for in institutions (5%) as they are in their homes or communities (4,7% home care + 2,1% cash benefits)**

- 25% of total LTC expenditure is paid out-of-pocket
- On-going SRSS project on supporting the Slovenian authorities with the implementation of an integrated system for long-term care (LTC):

<https://www.euro.centre.org/projects/detail/3154>

# Summary of advantages and disadvantages of the main financing approaches to LTC

Financing approach	Advantages	Disadvantages	National examples
<b>Private insurance</b>	Theoretically neutral for the public budget	Limited tax base May require subsidies for low-income or inactive (if mandatory) Adverse selection (unless mandatory) Difficulties in assessing risk Pre-funding imposes a 'waiting period'	No country in the EU, barring France, has a private LTC insurance that is anything but residual
<b>Social insurance</b>	Transparency: by creating an explicit entitlement to benefit (less stigma) and dedicated financing Reliable and predictable revenues Affordable contributions (if income-related) No waiting period (if PAYG)	Rigidity in benefits awarded Limited tax base Implicit debt (if PAYG)	Germany, Luxembourg, Belgium (Flanders), the Netherlands (AWBZ)
<b>Tax-based system (universal)</b>	Broader tax base No waiting period (if PAYG) Potentially greater flexibility in benefits awarded	No direct link between revenues and benefits Less transparency in allocation of benefits (may ultimately depend on available budget) Implicit debt (if PAYG)	Sweden and Denmark (without cash benefits) Austria and Czech Republic (with cash benefits)

## Some remarks about the financing of LTC

- LTC systems usually combine different types of financing mechanisms, linked with different eligibility rules
- Mixed picture: existing public LTC services rarely cover the full cost of LTC – eligibility rules, depth and scope of coverage are not closely related to the mode of financing
- LTC systems combine universal and means-tested features
- Integrated care: fully merging LTC with the healthcare system is not a viable option

## To make or to buy LTC?



Past decades: Market-oriented governance & strong consumerism increased competition & user choice in the provision of long-term care services



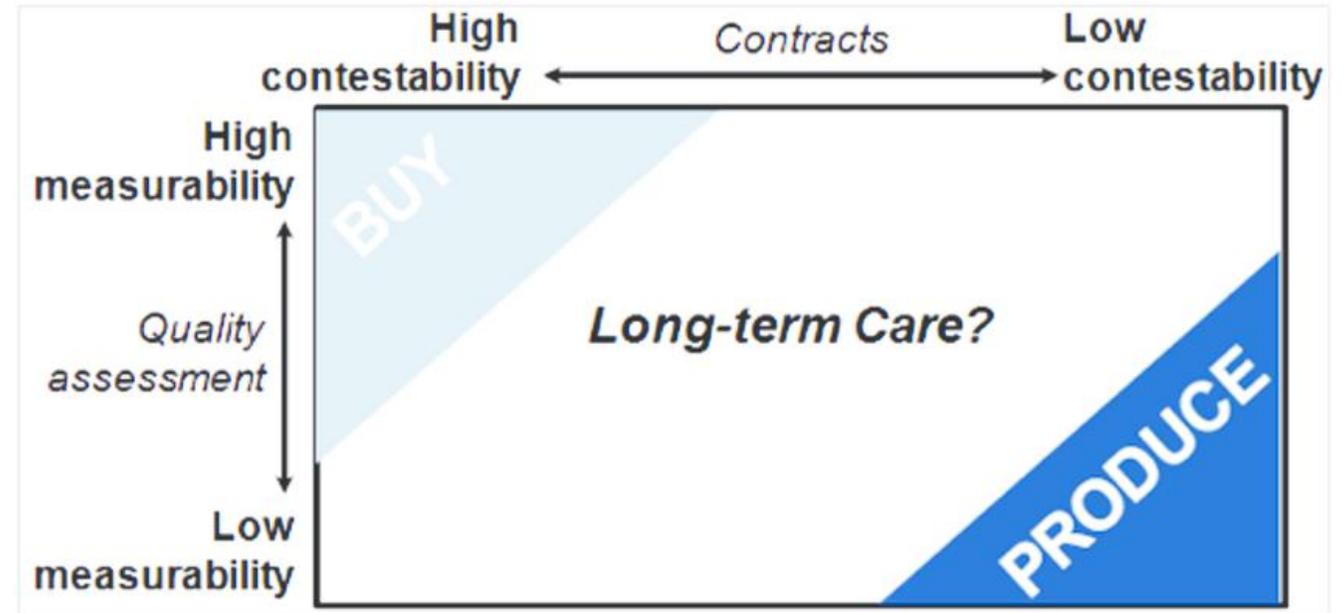
New for-profit and non-profit providers



New challenges in steering and regulating service provision

## Market mechanisms in the context of LTC

- **Tendering (public procurement)**
- **Outsourcing**
- **Public-Private Partnerships (PPP)**
- **Competition**
- **User choice**
- **User fees**
- **Vouchers**



Make or buy decision matrix, Source: Rodrigues et al (2014).

Early 2000: Personal Budgets and Direct Payments were introduced in England – choice still depends on acceptance to services

Measuring 'quality' in LTC is a persistent challenge... indicators are needed!

## Some elements to keep in mind

1. **Users of social services may not behave like typical consumers in other markets:** decisions are made in crisis
2. **Information is key to the functioning of care markets as quality is difficult to assess:** quality is multi-dimensional
3. **Marketization increased autonomy & choice for users, but led to standardisation of care and fragmented provider markets:** mixed outcomes for users
4. **Cash benefits are more popular than in-kind home care services:** dimensions of user choice and outcomes for LTC users

## Unresolved tensions

- The role of prices: demand and supply, too low to pay for quality (e.g. training and staff)
- Mastering contract design and avoiding taylorisation of quality
- Monopsonic purchasing: impacting price, quality and concentration
- Market concentration: efficiency gains or too much market power
- Managing risk: choice to make wrong decisions and who says so?
- When choice is not enough: support agencies, information and (de)regulated markets of care
- Transaction costs

## Concluding remarks

- Introduction of quasi-markets in LTC brought + and – outcomes for care markets and care users
- Strong arguments to pool resources to finance LTC needs: protection from the costs & creating jobs - social investment
- Decision on financing LTC services should take into account the advantages and disadvantages of different solutions
- Breadth, scope and depth of coverage of LTC benefits are important elements for fiscal and social sustainability
- A new UN Convention on the Rights of Older Persons could support expanding public financing of LTC services + improve quality assurance - human rights approach



## Further readings

- Rodrigues, R., Leichsenring, K. & Winkelmann, J. (2014). To Make or to Buy Long-term Care? Part I: Learning from Theory. Policy Brief 9/2014. Vienna: European Centre.
- Winkelmann, J., Rodrigues, R. & Leichsenring, K. (2014). To Make or to Buy Long-term Care? Part II: Lessons from Quasi-markets in Europe. Policy Brief 10/2014. Vienna: European Centre.
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- Rodrigues, R., (2014). *Long-term care – Dilemmas concerning sustainable financing*. Discussion Paper, Peer review on financing of long-term care, Slovenia.
- Rodrigues, R. & Schmidt, A.E. (2010). Expenditures for long-term care - At the Crossroads Between Family and the State. *GeroPsych*, 23(4), pp.183–193.

**Thank you for your attention!**



Any questions?

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