

FINANCING DISABILITY: NEW FRONTIERS IN SOCIAL ECONOMICS

Lessons from the academic
analysis and from the European
comparative system experience

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My understanding: The challenge of LTC and the way to handle it

- **MACRO:** LTC an income elastic good? Reverse causality? A pure forecast of demographic 'needs'?
- **CONTEXT:** Culture matters a lot. Idem: organization of the public sector (functionally, geographically). Individual insurance, extent of public responsibilities, religion and family networks –and changing structures...
- **NATURE:** Extending a health risk, a social risk or just a common condition (for moderate dependence)?
- **INSTITUTIONAL:** Not always reliable words (universal – mandatory social; compulsory private), 'proportionated', progressive -means/ needs testing; free access -coinsurance, copayment-, breadth and extent of coverage...under limited reimbursement)...

IMPLICATIONS

- Need to check on operational strategies (cash including informal home care, reimbursement just for formal services...)
- Public-private crowding out issues and intertemporal correlation of LTC costs for an intertemporal pool over the individual life cycle
- Convergence of systems in approaching how to deal with problems! (service coordination, choice, finance, complement-supplement insurance) including Nordics..
- Be careful with comparative statics of social spending... (health and social care, share of finance, topping up by prices/ by premia; comprehensiveness –chronic psychiatric, mental health, handicapped children, non elderly disables..)

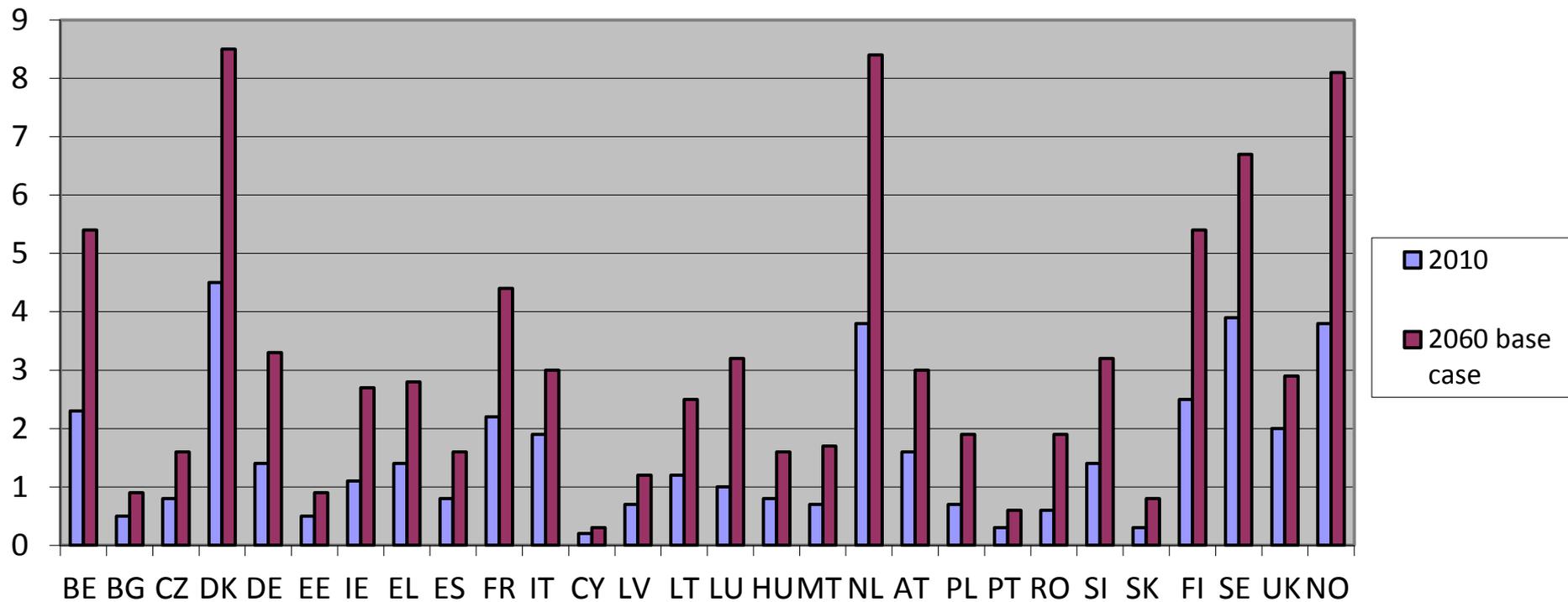
Main issues

- Annual cost commonly 5 times average disposable annual income for a person aged 65 if care-dependent is needed. Insurance: 1/5 rules... But ?? when, for how long, intensity, transition probabilities...
- Goal: safety net to prevent falling into poverty (but different by age)
- Finance: Prepayment, pooling.. Intra and intergenerational redistribution aspects idiosyncratic to the countries (ie. the role of the inheritance tax, donations, equality of opportunities...)
- 'Do something' is not 'equal access' to everyone; aware on side effects, quality of life and social welfare.

No 'models', but history

- New start coverage or extent of health-social services. (institutional vs. ADL personal/ nursing care).
- As a health risk or a social risk?
- If new: tax financed, premia (compulsory, at age?, degree of cost-share and cross-subsidies, among insurees and/or taxpayers...)
- Partial support services vs. integrated coordinated coverage. In cash and/or in kind. 'Only service' delivery. Only 'some' services. Just for some people (income related; needs tested)
- Explicit (coverage, insuree's choice) or implicit (waiting list, time and quality) prioritisation; always, de facto targeting

SPENDING TRENDS IN EU: Forecast of Public Expenditure on LTC as a% of GDP 2010-2060. Estimation basis scenario

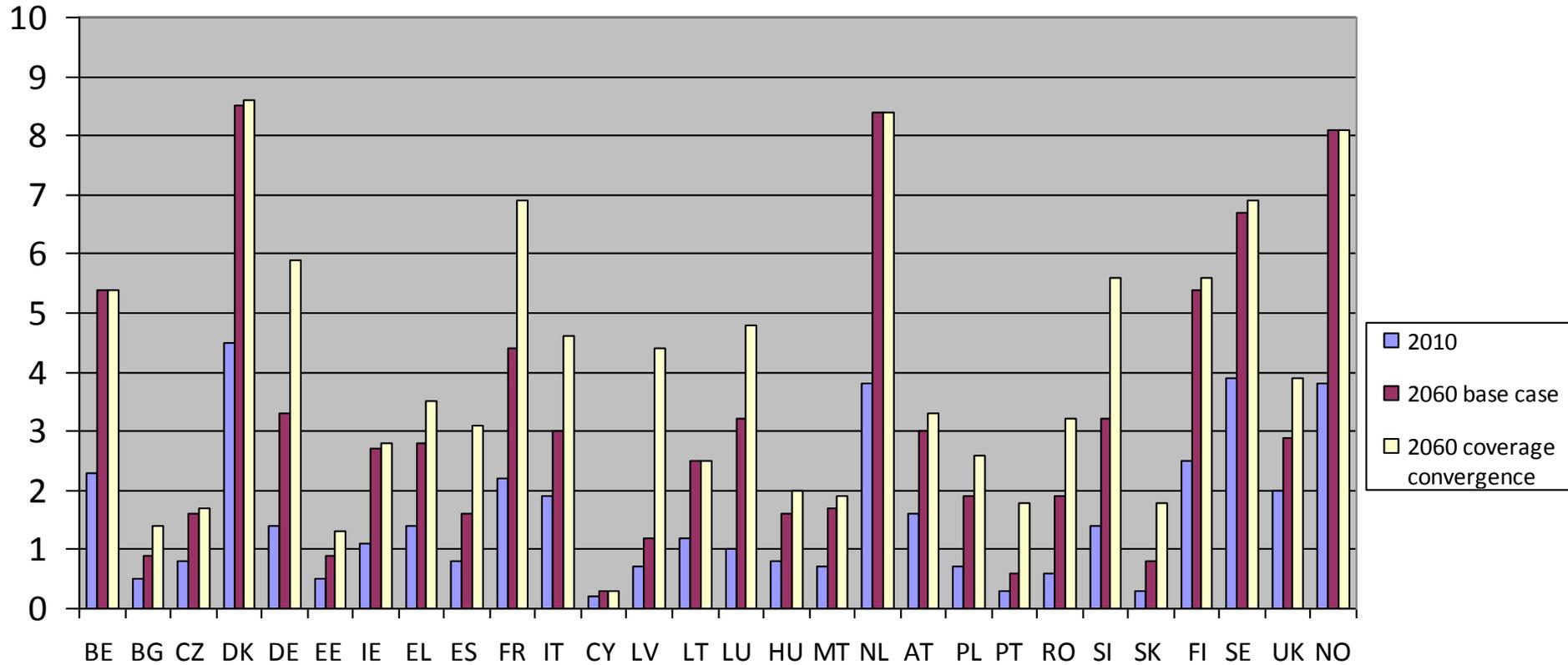


Source: The 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010-2060). European Commission.

Adelina Comas-Herrera

Public Expenditure in EU on LTC as a% of GDP 2010-2060.

Estimation basis and the “convergence of coverage scenario”



Source: The 2012 Ageing Report:
 Economic and budgetary projections for
 the EU27 Member States (2010-2060).
 European Commission.

Adelina Comas-
 Herrera

**Some specific data Australia (Spain) Changes
expected 2000-40 for those above sixties (Source
:www.csis.org/media/csis/pubs/ageing_index)**

- Public benefits of the elderly as % GDP: from 9.0% to 16.6% (12.6% to 33.1%)
- Total taxes as % GDP assuming that taxes pay for all that growth in public benefits: 32.6% to 39.2% (38.2 to 57.2%)
- As a % of total government outlays assuming cuts in other expenditures: 27.2% to 41.2% (32.7% to 72.1%)

- Net government debt addition and year debt reaches 150% of GDP, assuming borrowing pay for all growth in public benefits: + 11% year 2038 (+38.2%, year 2029)
- Net public benefits to the elderly as a % of after tax non elderly income 12.4% to 22.1% (17.2 to 42.7%)
- Per capita ratio of after tax income of the elderly to the non elderly 1.3 to 1.45 (0.98 to 1.118)
- % of elderly living with their adult children: 18.5%
(40.5%: *not sure in Spain at present who supports who!*)

Framing (OECD)

the scope of entitlement to long-term care benefits

- whether there is universal or means-tested entitlement to public funding; and
- whether LTC coverage is through a *single system, or multiple benefits, services and programmes*.

country clusters on these two criteria:

- universal coverage within a single programme;
 - mixed systems;
 - means-tested safety-net schemes.

Others: ● *eligibility rules* – universal *versus* means-tested systems; the *basket of services* covered (breadth of coverage); and the extent of *private cost sharing* on public coverage (depth of coverage).

Table 7.1. Public LTC coverage: A summary

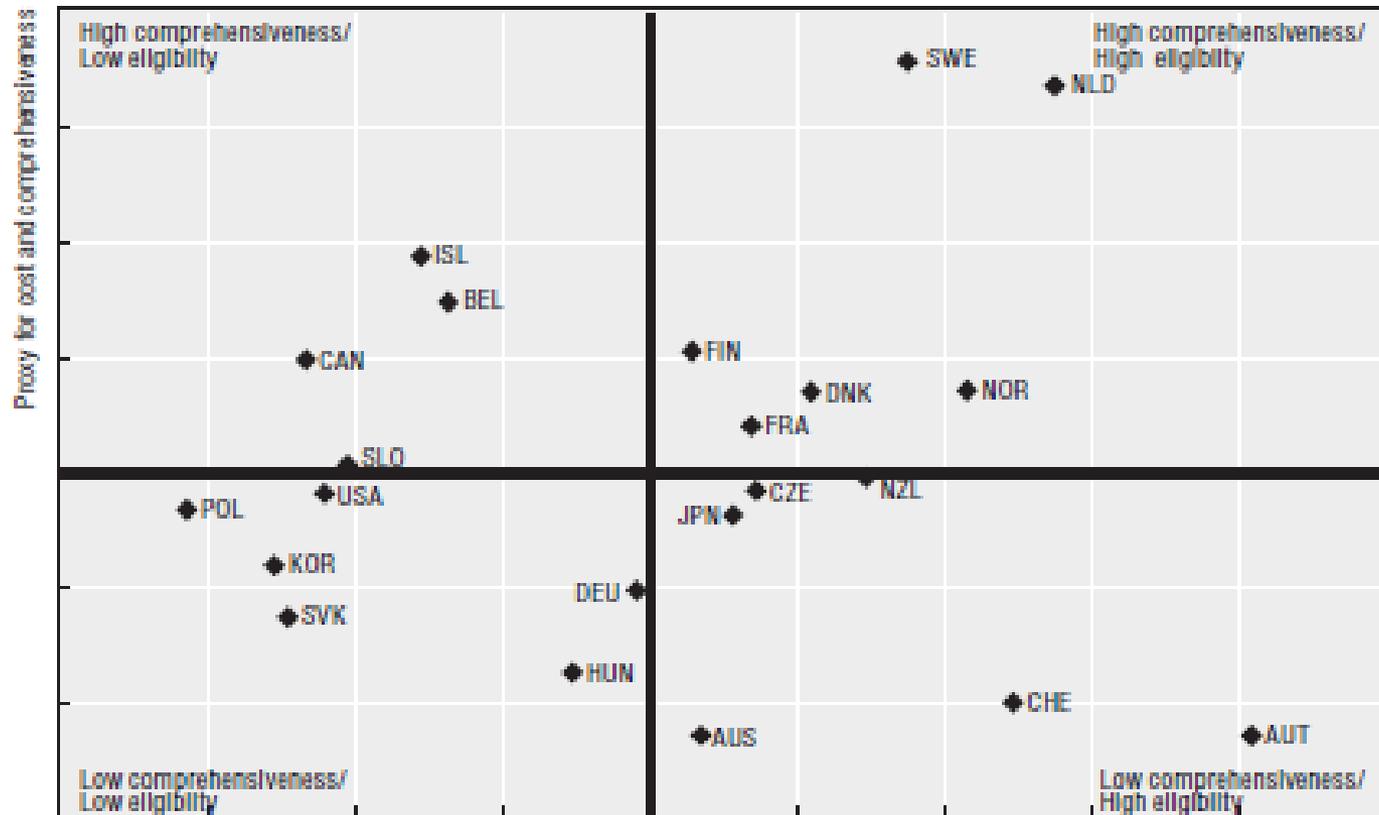
Eligibility to coverage	Coverage programmes	Programme(s) name	Source of financing LTC	Target disabled population	Types of benefits provided	Public LTC spending, share of GDP (%)
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Cost sharing in OECD

- 1: Means-tested systems: Users have first to exhaust their means;
- 2- Defined public contributions, cost sharing as residual;
- 3: Flat-rate cost sharing;
- 4: Income and/or assets-related benefits

Figure 7.4. Comprehensiveness of public LTC coverage across the OECD, 2008

Share of LTC recipients in the over 65 population (X axis) and LTC spending in GDP (Y axis)



LTC recipients population over the age of 65

Note: Each country point shows the distance from the average share of LTC recipients in the over 65 population (in X axis) and the distance from the average share of LTC spending in GDP (in Y axis), across the OECD. Spending data are based on both public and private LTC spending. For Austria, Belgium, Canada, Denmark, Hungary, Iceland, Norway, Portugal, Switzerland and the United States, spending data are based on LTC nursing care only.

Source: OECD Health Data 2010.

LAST: Policy Brief *A Good Life in Old Age*

OECD/European Commission June 2013

- In 2010, OECD countries allocated 1.6% of GDP to public spending on LTC. LTC expenditure has grown on average at an annual rate of over 9% since 2000 across 25 OECD countries, compared to 4% for public expenditure on health.
- LTC services are increasingly being delivered in care recipients' homes. In 2010, over 8% of people aged 65 years old and over received care at home while less than 4% of them received care in institutions.
- Less than a third of OECD countries collect LTC quality measures systematically – e.g., in Canadian provinces, Finland, Iceland, Korea, Germany, the Netherlands, Norway, Portugal and the United States.
- In more than two-thirds of 27 OECD and EU countries reviewed, accreditation of LTC institutions is either compulsory (England, Spain, Ireland and France), or is a condition for reimbursement or contracting (e.g., Australia Germany, Spain, Ireland, England, and Portugal, the United States).

On Quality:

- Very little on quality: effectiveness and safety (clinical: elderly falls and related fractures, bedsores, medication use, weight loss, depression among old), patient centredness and responsiveness and care coordination (avoidable hospital admissions for chronic conditions –EPOC, asthma, uncontrolled diabetes... well managed from primary care.
- A bit more on regulatory standards (on labour, infrastructure..) Mainly for ex ante accreditation or reimbursement conditioned, and not so much on standards to normalise care practices (treatment profiles, mainly for neurodegenerative dementia)

Learnings from the past, for the future

- Fiscal consolidation: easy to stop new programs. Low lobby strength of LTC beneficiaries in isolation
- Dual fiscal systems: search for redistributive spending
- Intergenerational change of equity balances (a Musgrave rule? Esping Andersen et al...)
- Workfare deserving welfare...
- Difficult implementation of Voluntary LTCI (social reinsurance, public extraordinary first losses?) Adverse selection; Myopia

(...)

- A gap in the middle: in some countries, not wealthy enough for self-solving and not poor enough for social assistance
- If tax financed, be careful with income and asset related copays . At least for the core services...

SOME FEATURES for Spain

Spain passed new legislation in 2006 introducing a tax-funded National Long-term Care System (Dependency Act, in force since 1 January 2007). The law guarantees a right to long-term care services to all those assessed to require care, subject to an income and asset test. Entitlements to cash and in-kind services are slightly different, with cash allowances being universal, while not all individuals might receive in-kind services. Recipients are expected to pay one third of total costs of services.

The system is intended to provide a “formal response” to societal and labour markets changes that are reducing the supply of family care in a context of ageing societies – and of growing need. It is expected to benefit 3% of the Spanish population in the short-term (a comparable percentage to that of some countries with fully universal benefits), and is to be phased in gradually until 2015. **July 2011: Crisis and re-timing the Act. Uncertainties and important beneficiary concerns**

Spain

Finance:

- Private contributions are determined by each autonomous region and differentiated according to care setting and type of service. The extent of cost sharing depends on an assessment of financial capacity which typically considers available capital, the estate of the beneficiary as well as household income. According to an individual's economic capacity, contributions for residential care range from 70 to 90% and 10 to 65% for home help.

Experience:

- Dominance of cash for informal home care. Against initial institutional bias. Private sunk costs for investing without contracted-out public services. Costly accreditation. Arbitrage between health entrance doors and between cash and services to be copaid.
- Needs assessment 'contaminated' by discontinuity in supply of packages of care
- Lack of functional coordination and absence of regional fiscal corresponsibility
- Strong fiscal consolidation under the absence of social prioritisation. Uncovered expectations: the worst situation, damaging potential future LTCI

Some OECD countries initiatives

- Germany (2010) Searching for mandatory complementary capital based insurance above compulsory social insurance
- Moving out of reimbursing the full cost of services (Japan)
- Netherlands trying to incentivate supplementary care
- Targetting (in Belgium and France) 'a care severity package. New 'means testing' in Nordics
- The attraction of cash benefits, to convert scores to money values and re-scalaing for financial sustainability (Spain)

(...)

- Personal budgets (UK, Netherlands) despite some caveats
- Moving to LTC insurance (UK): mandatory, open to private providers, plus adjusting the means tested benefits criteria
- Favouring personal informal-formal home care (Italy, Spain)
- Some ideas on the inheritance tax (Spain) and some proposals for changes (2016) in means testing requirements –life time caps on costs and upper limits on capital for eligibility (UK)

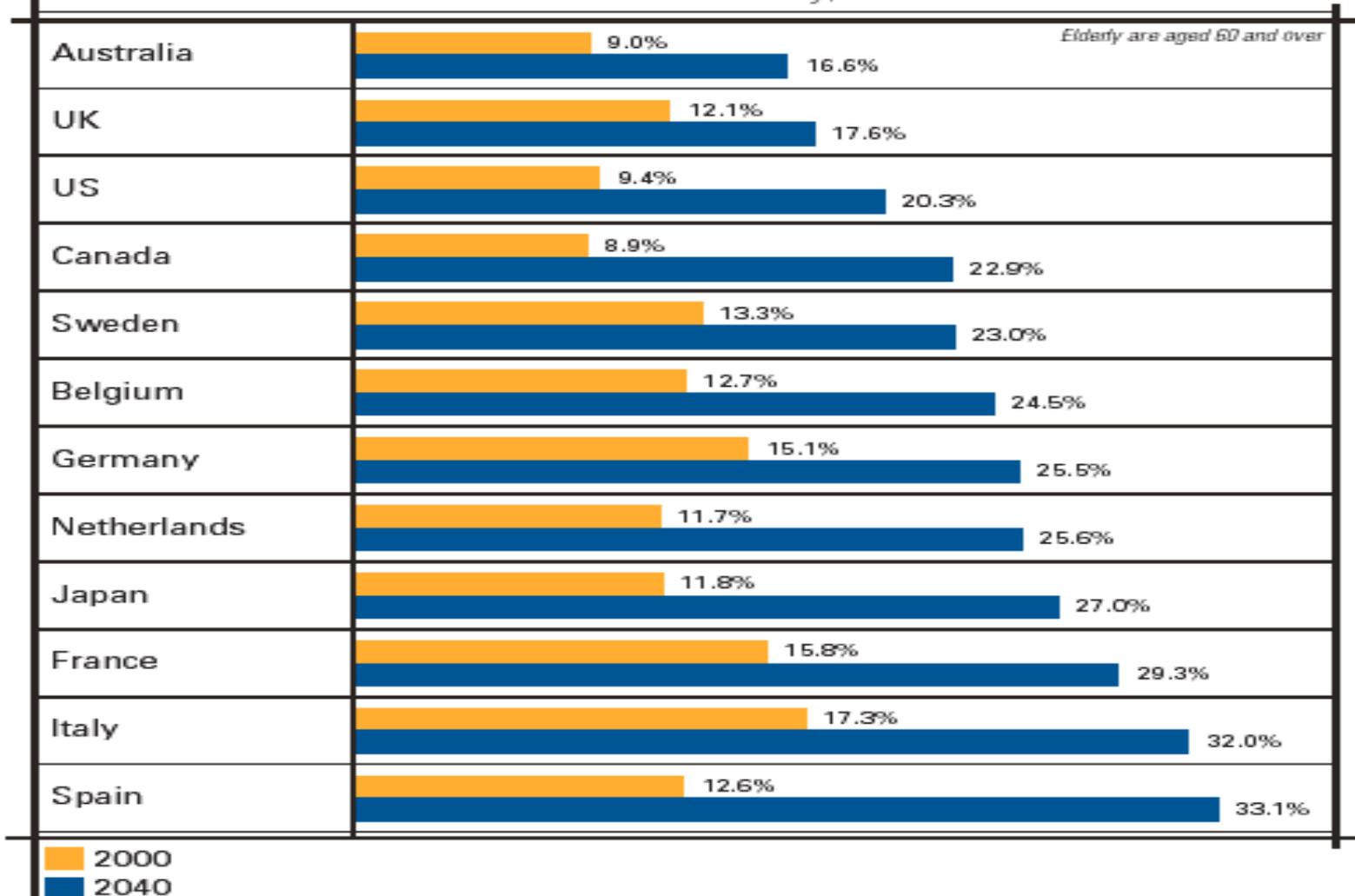
Ageing is a privilege; welfare increasing if accompanied by functional autonomy. Let's protect it, and care in case of need

**THANKS FOR YOUR
ATTENTION!!**

DATA ANALYSIS on the effects of ageing on social policy

Source: www.csis.org/media/isis/pubs/ageing_index.pdf

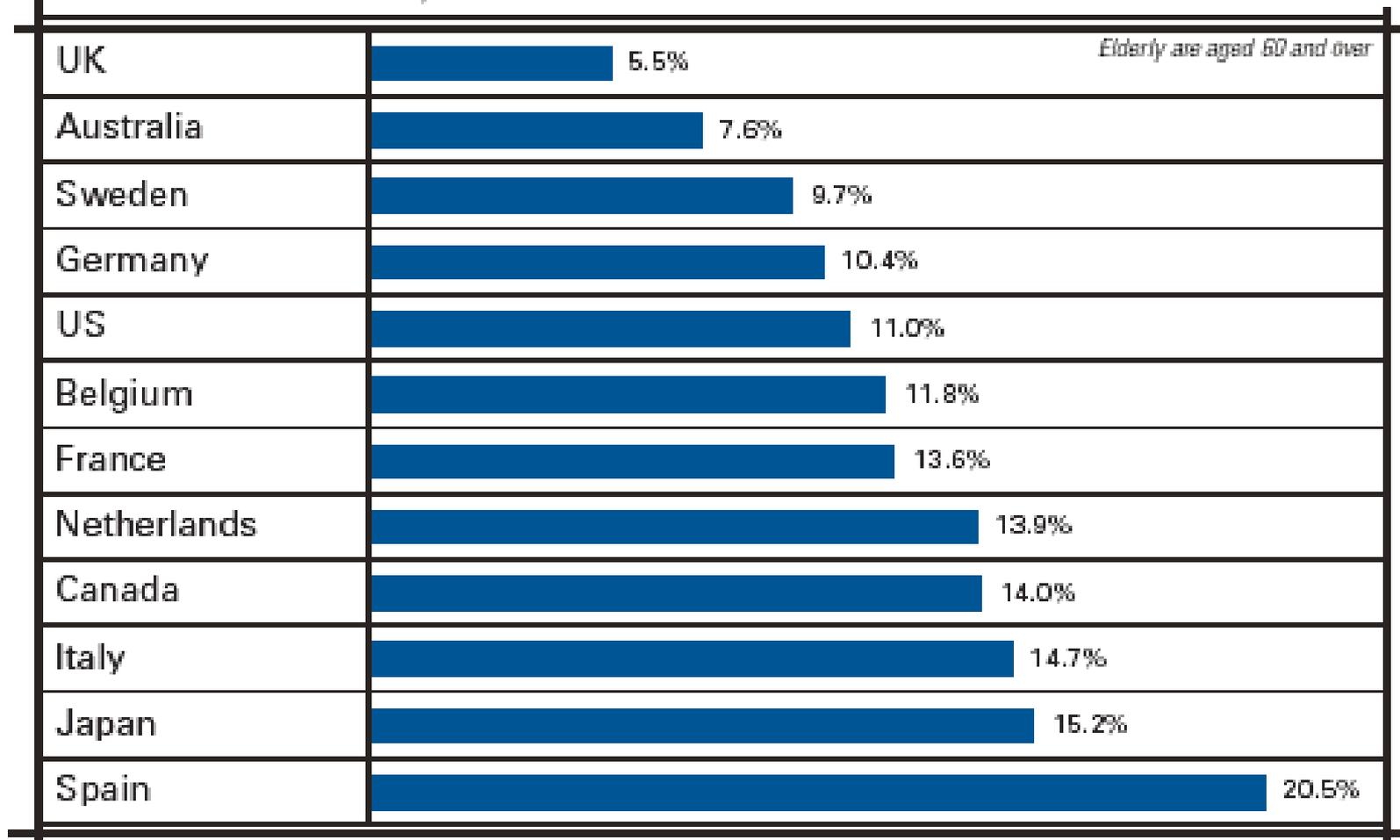
FIGURE 3: Public Benefits to the Elderly, as a Percent of GDP



Different approaches to the effects of ageing on social policy

Source: www.csis.org/media/isis/pubs/ageing_index.pdf

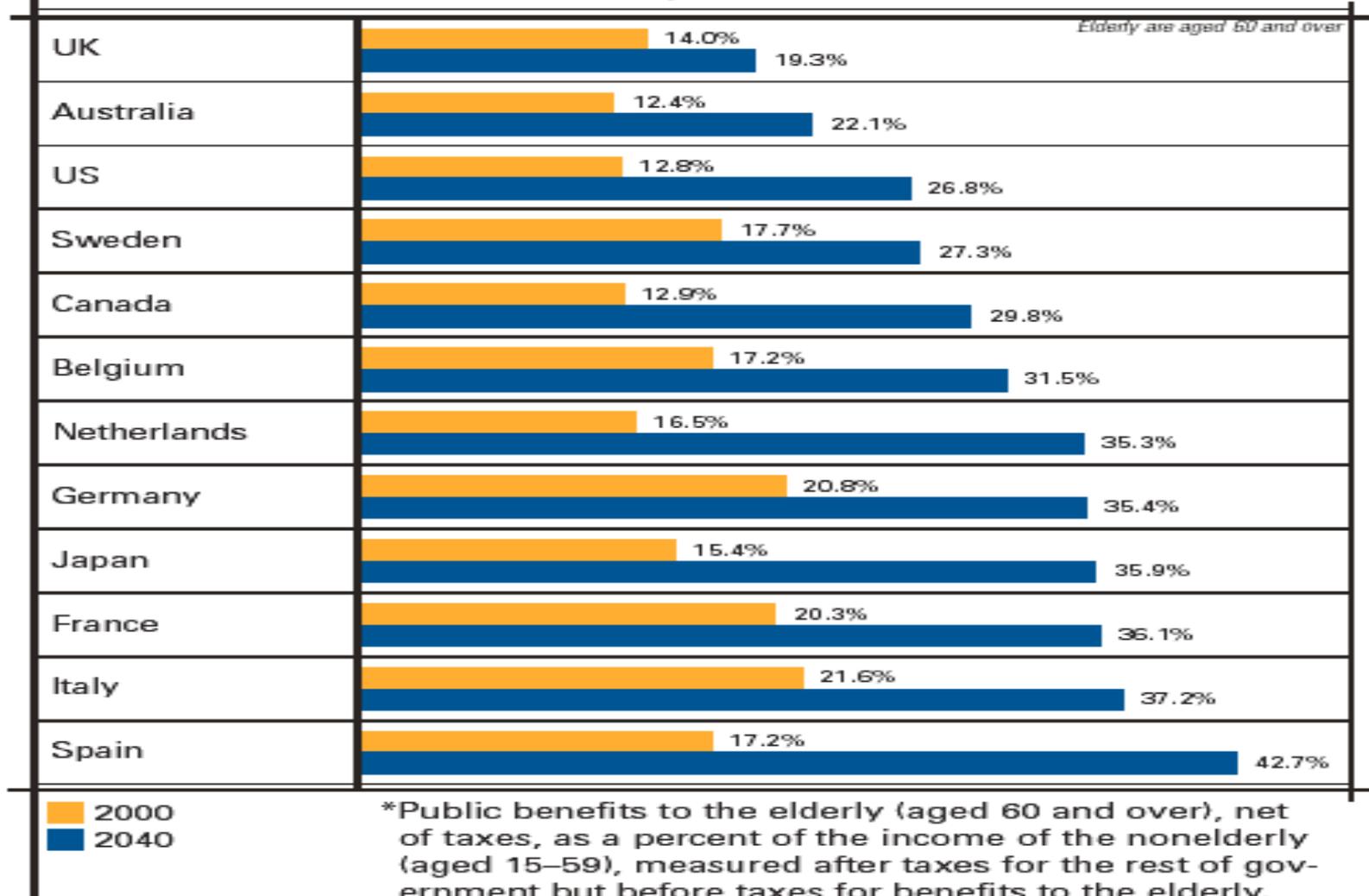
FIGURE 4: Growth in Public Benefits to the Elderly from 2000 to 2040, as a Percent of GDP



Different approaches to the effects of ageing on social policy

Source: www.csis.org/media/isis/pubs/ageing_index.pdf

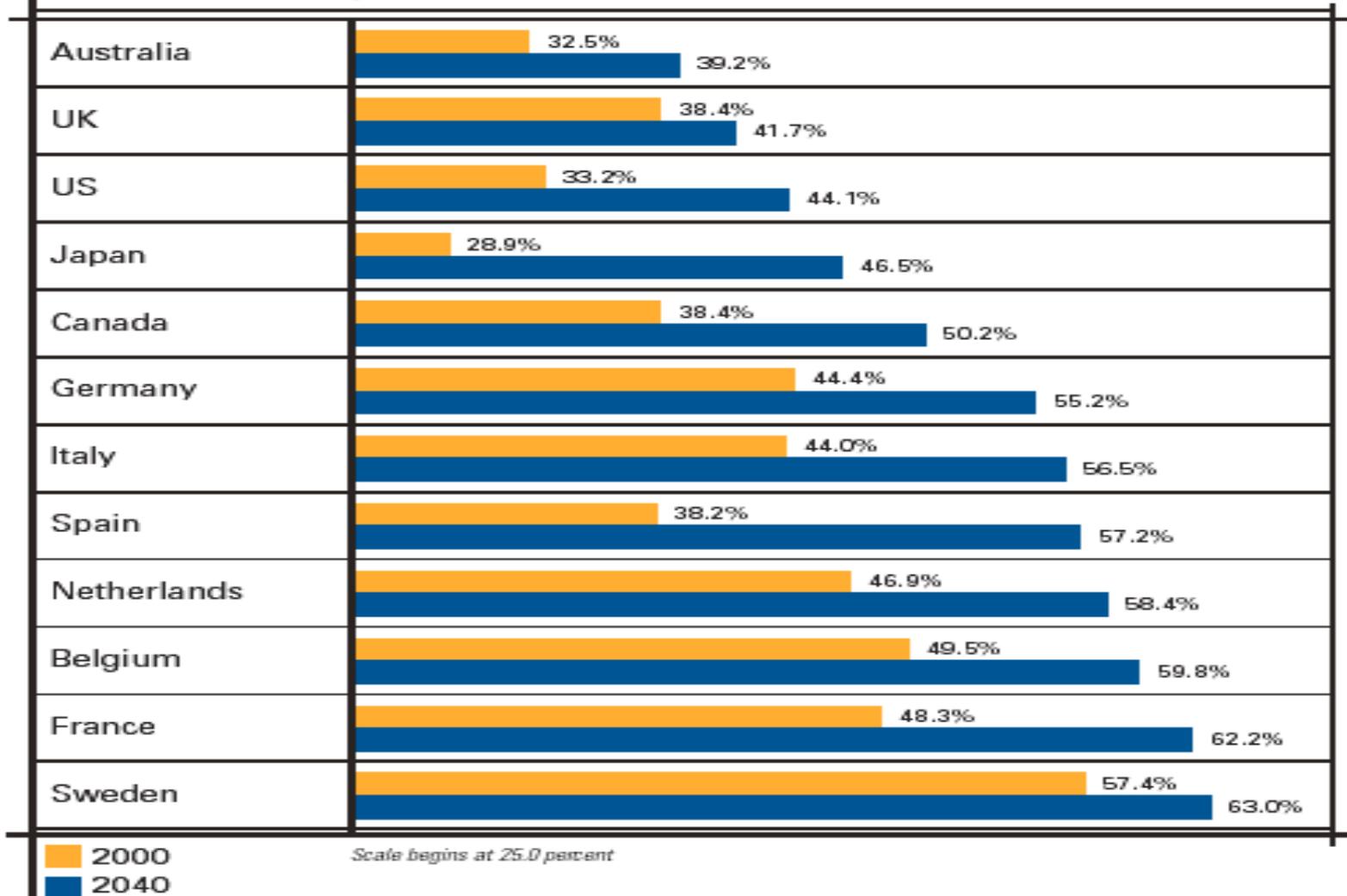
FIGURE 5: Net Public Benefits to the Elderly, as a Percent of After-tax Nonelderly Income*



Different approaches to the effects of ageing on social policy

Source: www.csis.org/media/csis/pubs/ageing_index.pdf

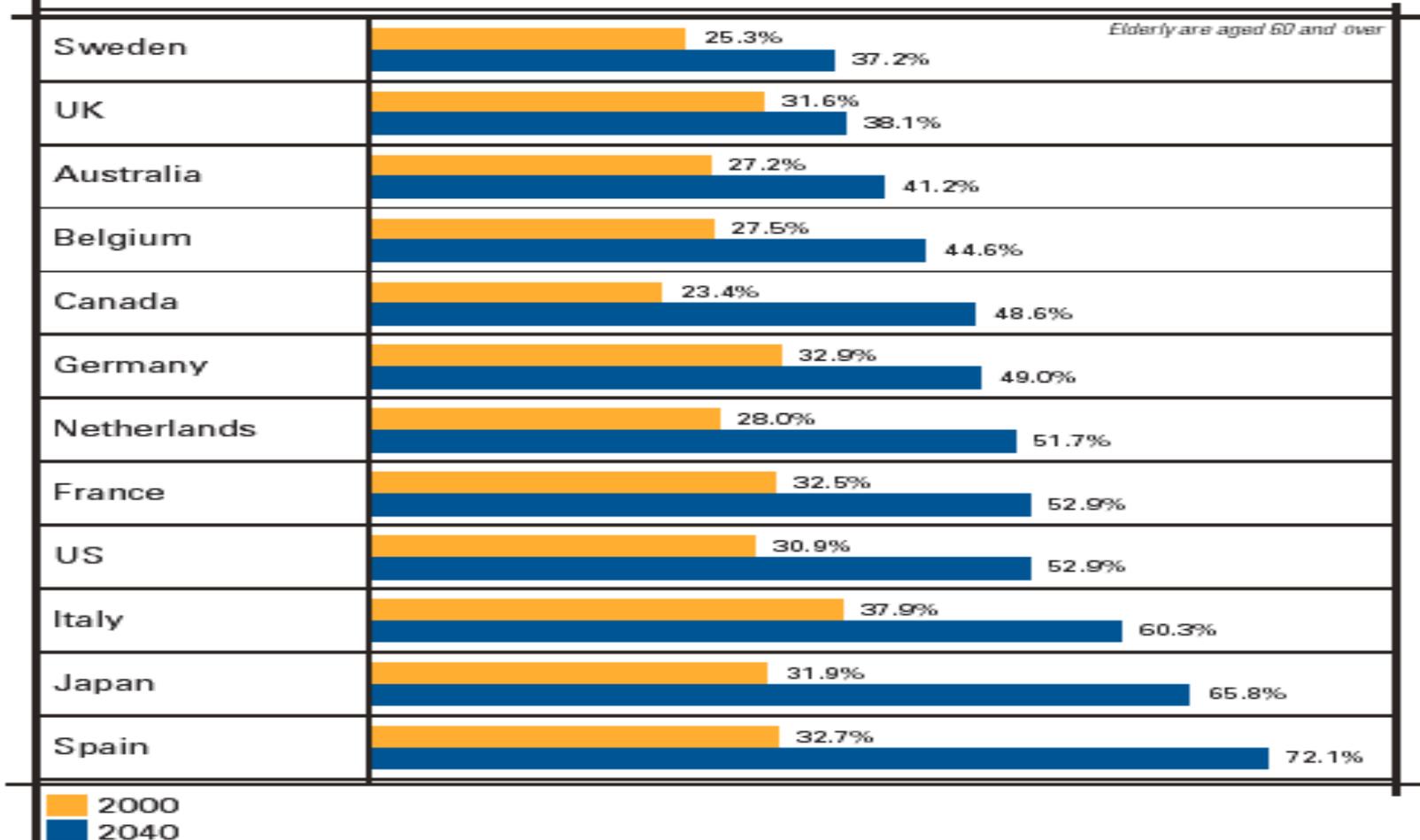
FIGURE 7: Total Taxes as a Percent of GDP, Assuming Tax Hikes Pay for All Growth in Public Benefits



Different approaches to the effects of ageing on social policy

Source : www.csis.org/media/isis/pubs/ageing_index.pdf

FIGURE 8: Public Benefits to the Elderly as a Percent of Total Government Outlays, Assuming Cuts in Other Spending Pay for All Growth in Public Benefits



Different approaches to the effects of ageing on social policy

Source : www.csis.org/media/isis/pubs/ageing_index.pdf

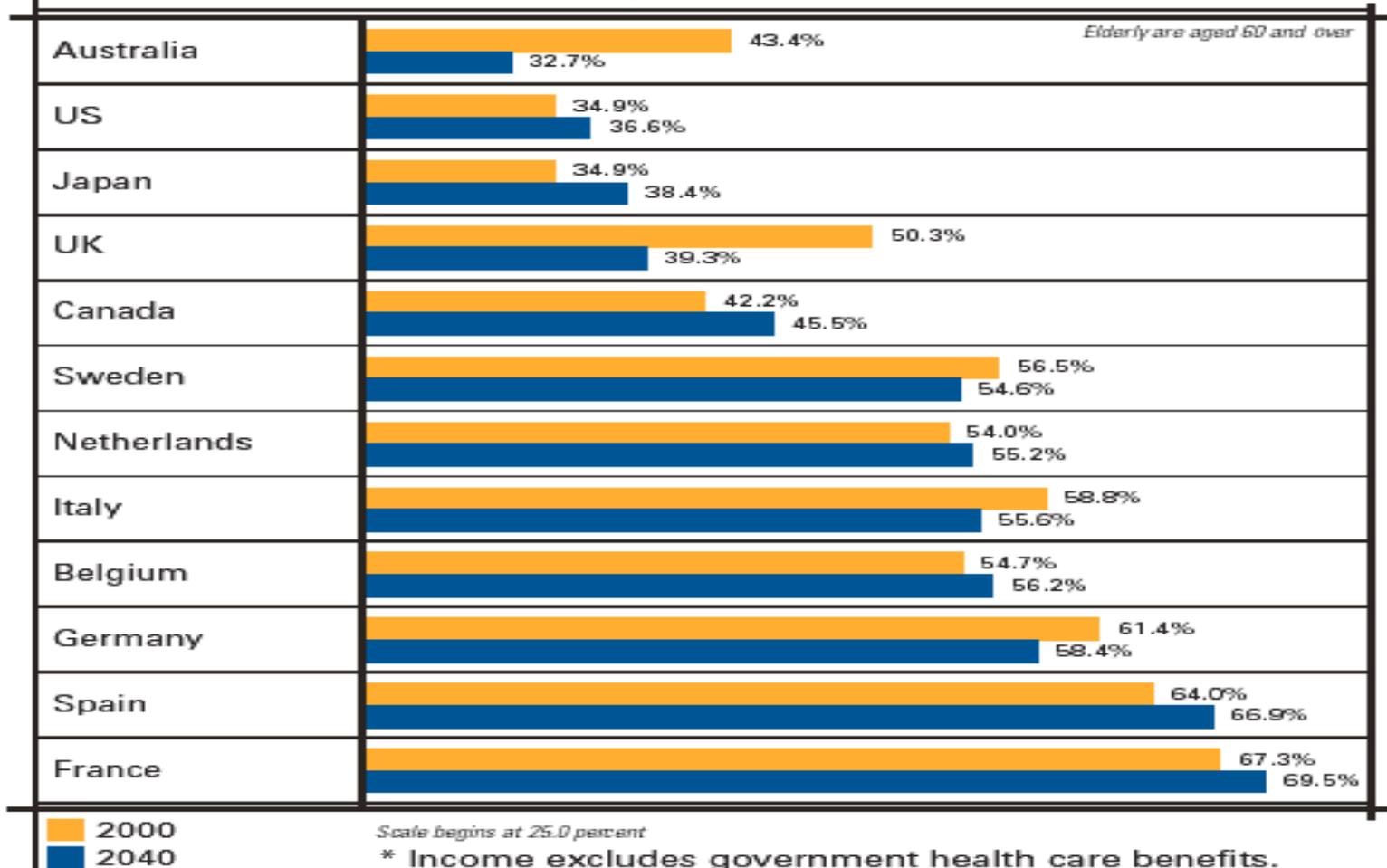
FIGURE 9: Net Government Debt in 2001 and Year Net Debt Reaches 150 Percent of GDP, Assuming Borrowing Pays for All Growth in Public Benefits

UK	2046	 30.9%
Australia	2038	 10.8%
Sweden	2037	 1.0%
Germany	2033	 43.5%
Spain	2029	 38.2%
Netherlands	2027	 42.1%
US	2026	 41.9%
Canada	2024	 53.0%
France	2024	 42.1%
Belgium	2022	 98.9%
Italy	2021	 96.5%
Japan	2020	 58.5%

Different approaches to the effects of ageing on social policy

Source : www.csis.org/media/isis/pubs/ageing_index.pdf

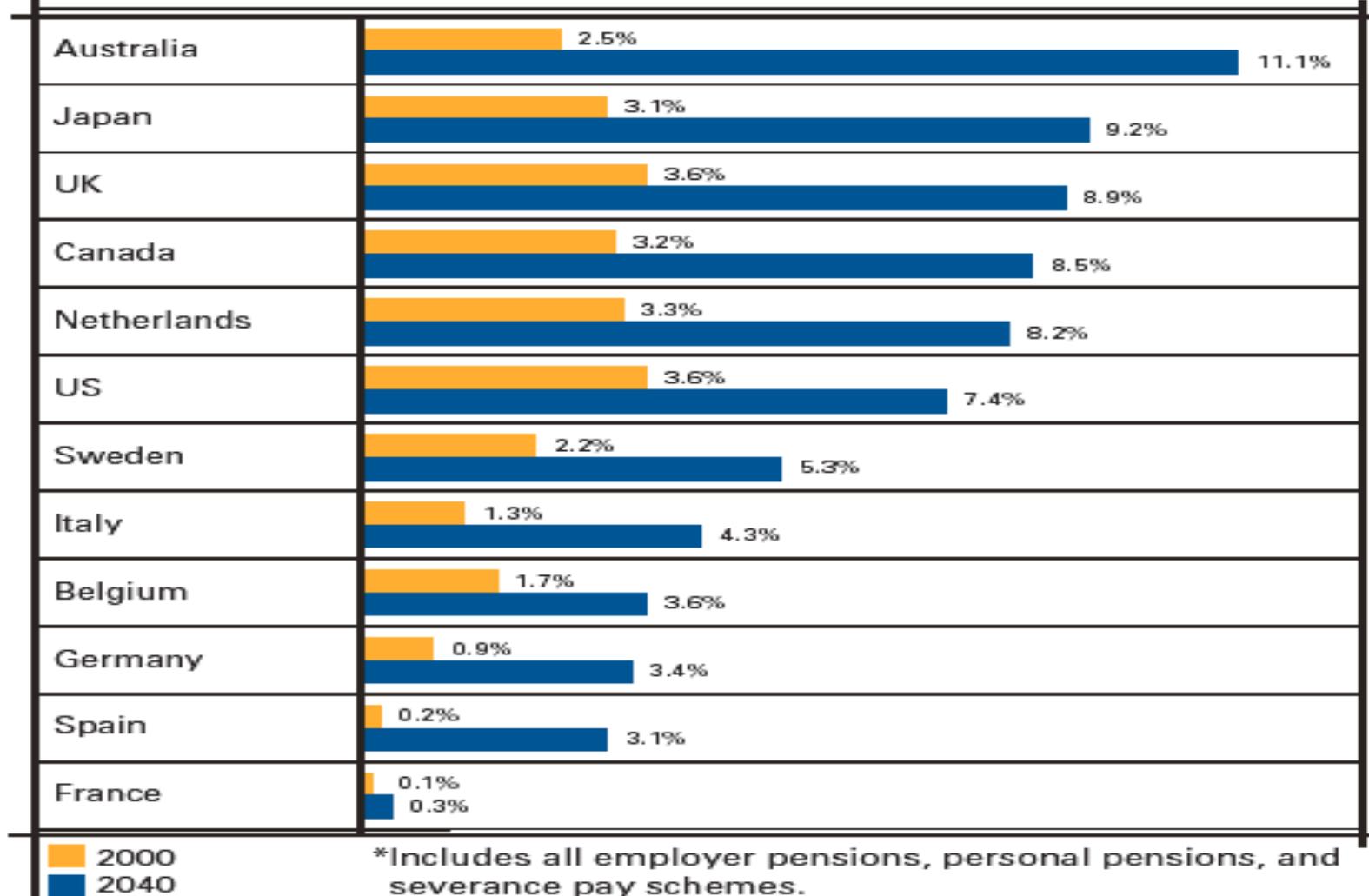
FIGURE 11: Public Benefits to the Elderly, as a Percent of After-tax Elderly Income*



Different approaches to the effects of ageing on social policy

Source : www.csis.org/media/csis/pubs/ageing_index.pdf

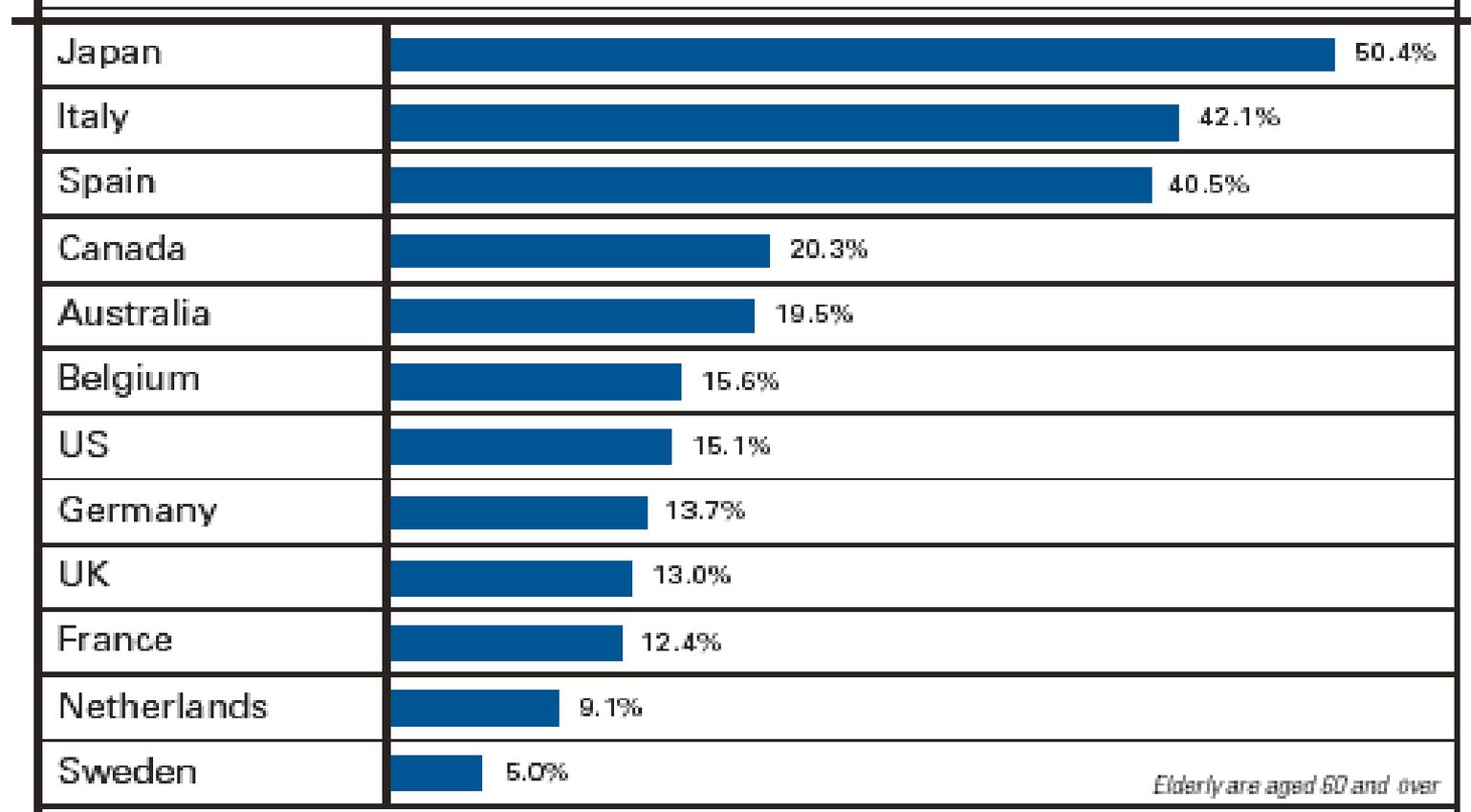
FIGURE 12: Private Pension Benefits, as a Percent of GDP*



Different approaches to the effects of ageing on social policy

Source : www.csis.org/media/isis/pubs/ageing_index.pdf

FIGURE 13 : Percent of the Elderly Living with Their Adult Children*

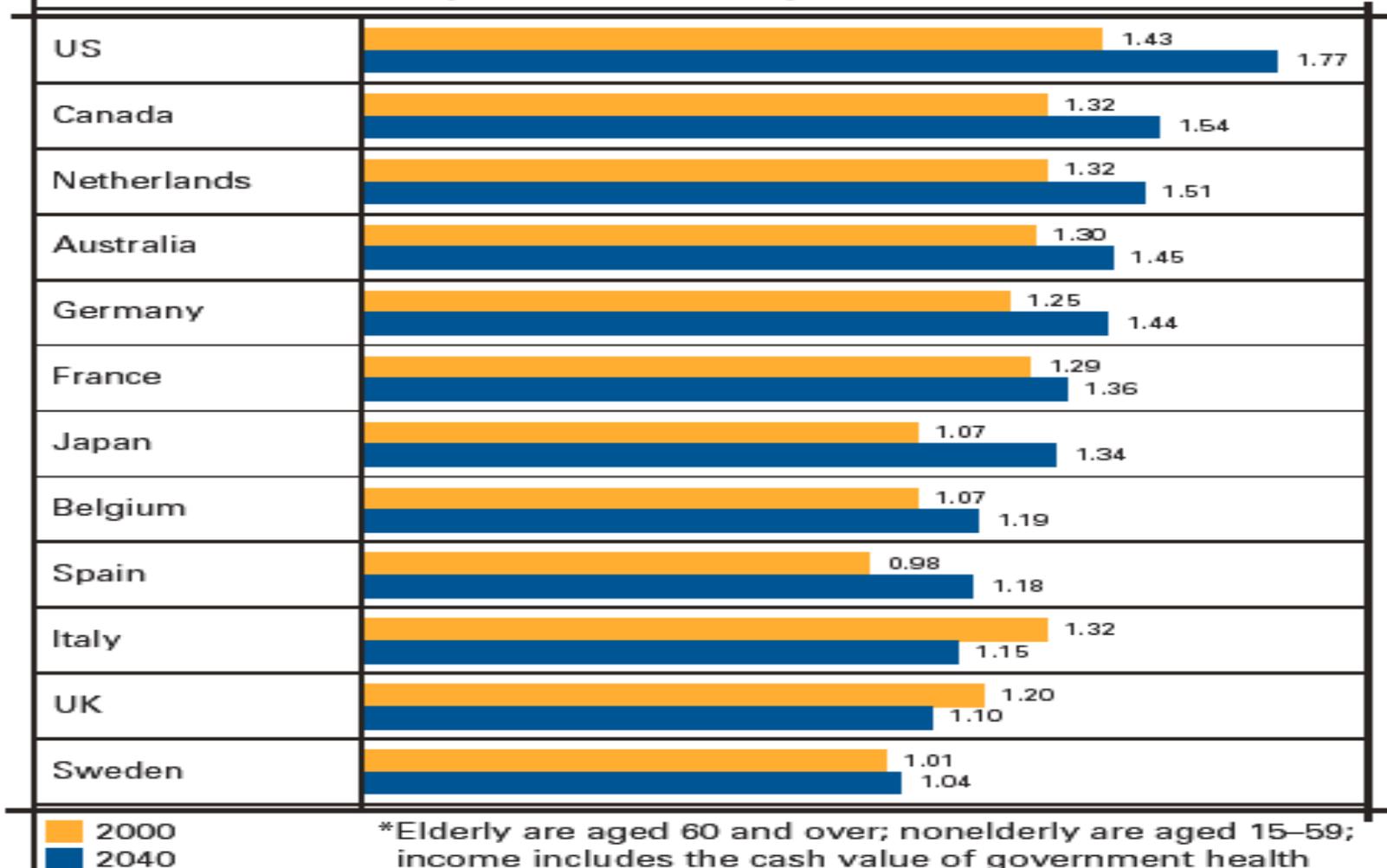


*Data refer to latest year available, generally in mid-1990s.

Different approaches to the effects of ageing on social policy

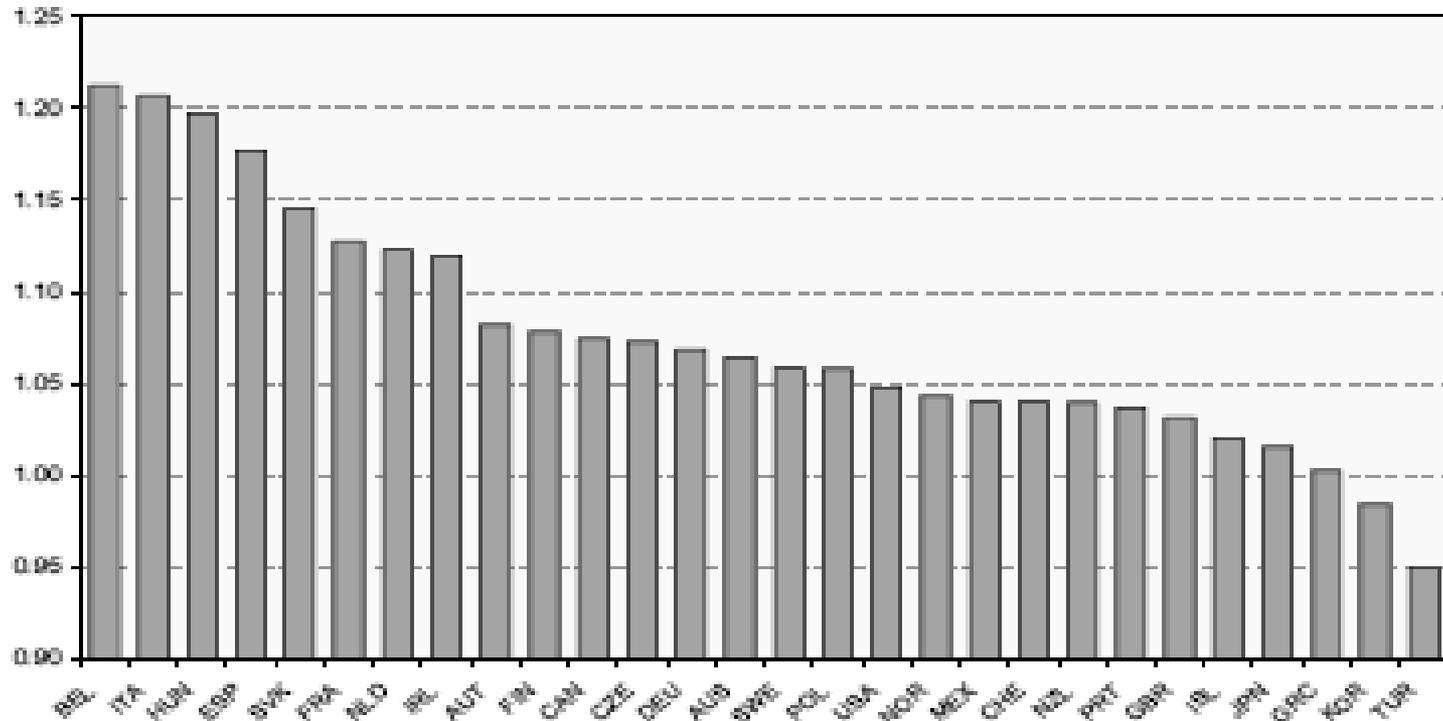
Source : www.csis.org/media/isis/pubs/ageing_index.pdf

FIGURE 16: Per Capita Ratio of the After-tax Income of the Elderly to the Nonelderly*



THE EVIDENCE: EDUCATION AND AGE COHORT (55-64 YEARS) (2000)

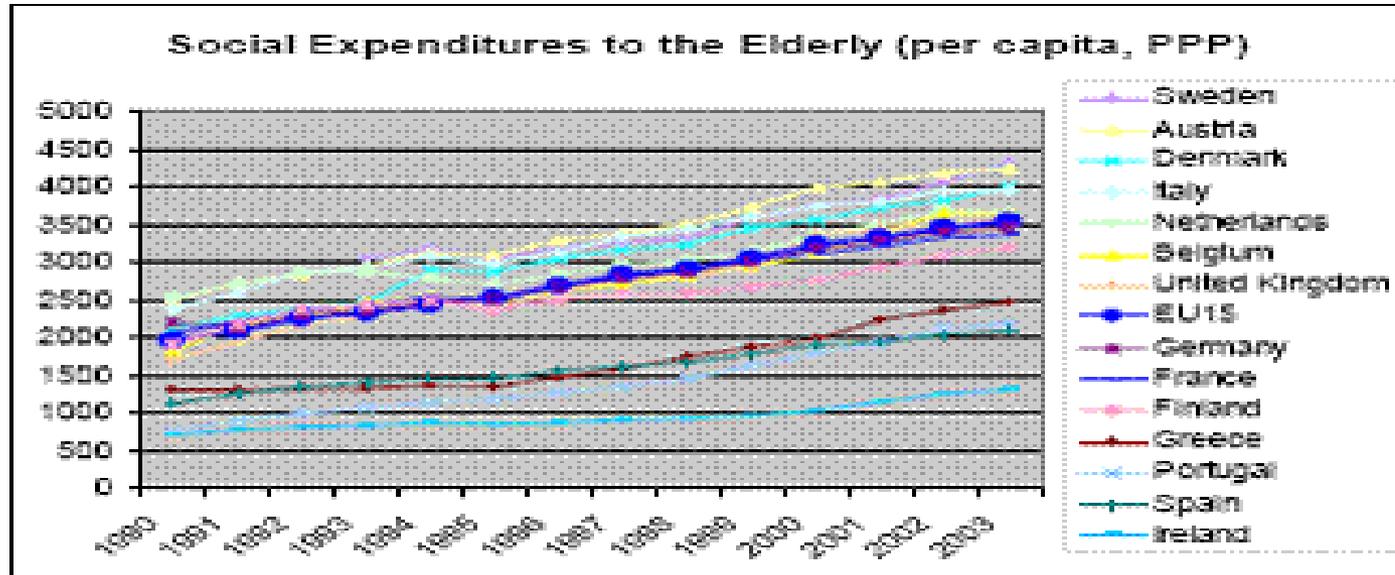
Figure 5.8 Relative level of education of employed workers 55-64 years of age¹, 2000



1. Ratio between the average education level of employed workers 55-64 years old and the average level of education of the population in the same age group.

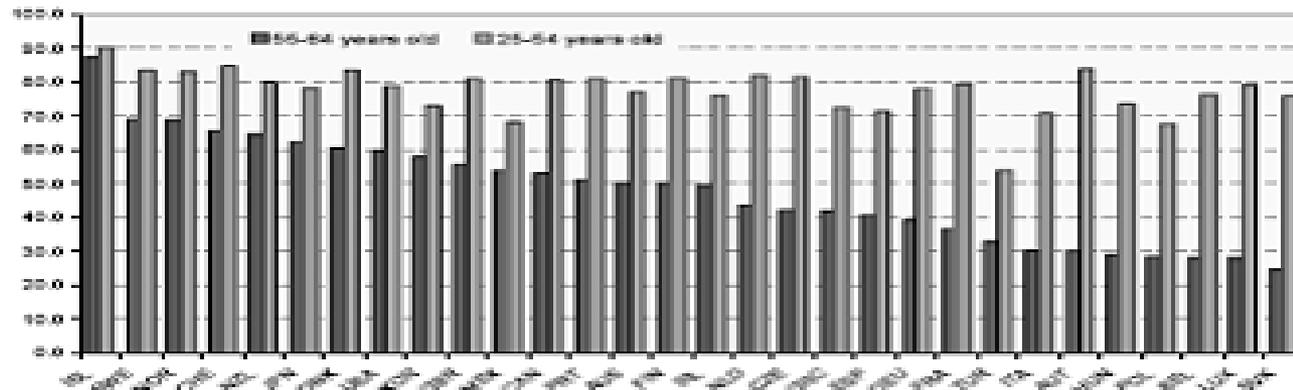
Source: OECD Education database.

Figure 6: Social Expenditures Dedicated to the Elderly (per capita, in Euro PPP)



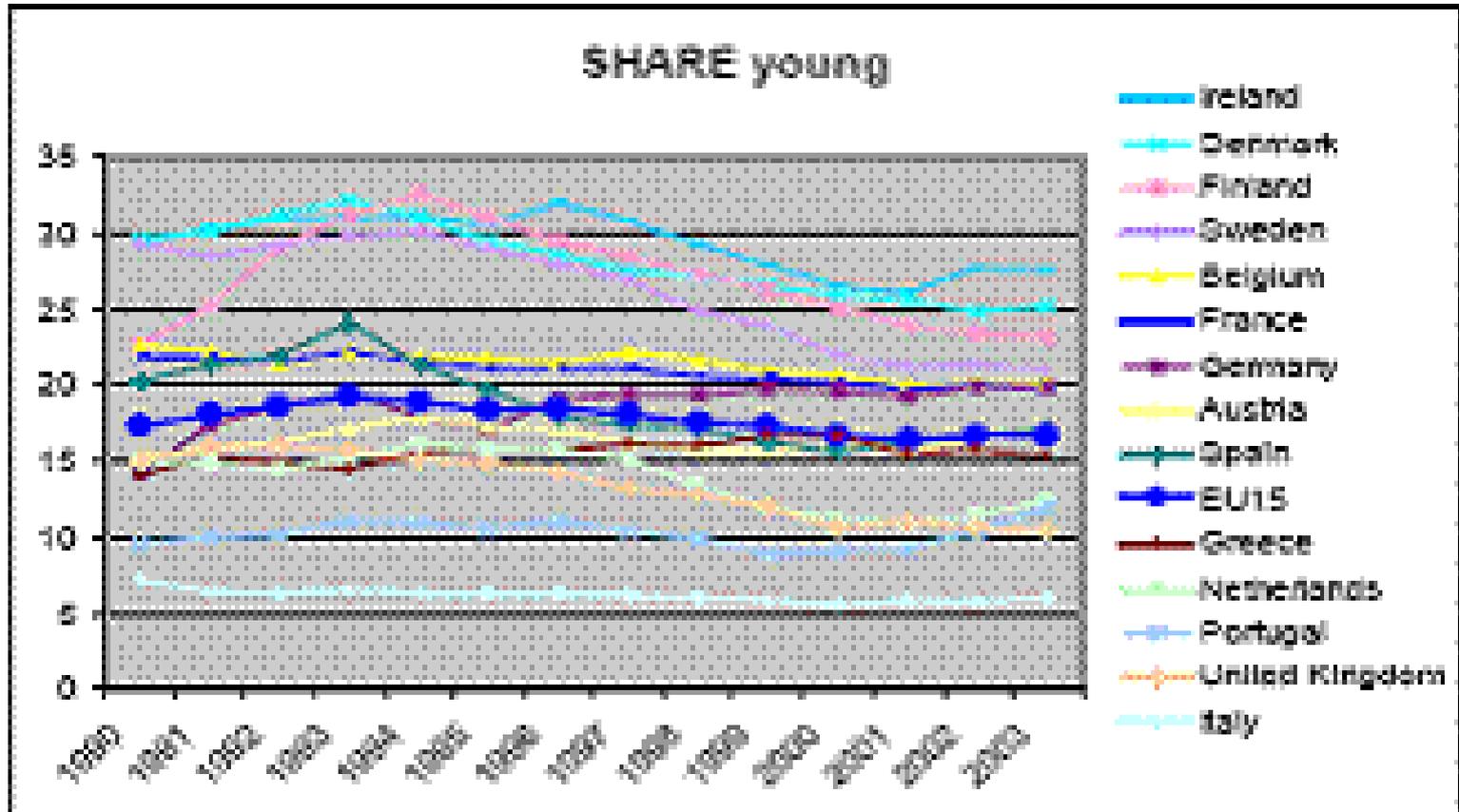
Source: Eurostat Data Archive: 2005

Figure 5.7. Employment ratios by age groups across OECD countries
(Latest available year (2003 or 2002))



Source: OECD Labour Force Statistics.

Figure 8: Share of Social Expenditures Dedicated to the Young (Percentages of Total)



Source: Eurostat Data Archive 2005

- (EXTRACTED FROM BORSCH-SUPAN, THE LEVY ECONOMICS INSTITUTE WP-479, 2006)

Some reflections on social policy

- This is not a “young versus old” at any particular point in time.
- generational equity is to be understood dynamically through time (there aren't two kinds of people but rather different ages in each individual's life cycle).
- there should be a practical way to measure the welfare effects of the pattern of inter-generational fluctuations.

Some reflections on social policy

- One dynamic model of inter-generational fairness is Musgrave's Fixed Proportions Rule recently re-discovered by Esping-Andersen and Myles.
- This model proposes to define a desirable lifetime distribution of income or welfare consumption and stick to it over time. Whether retirement is to be relatively short and frugal or extended and relatively costly in proportion to earlier stages of life, the adopted proportion ought to be kept over time and generations.
- Obviously the proportion cannot be exactly fixed because available funds fluctuate with demographic trends and productivity shocks. Musgrave's fixed proportions rule foresees these fluctuations and advocates splitting any surplus or deficit homogeneously among all age groups at every instance.

Some reflections on social policy

- The social trends in Spain proves that policy doesn't naturally and flexibly adjust to circumstance, but often lags behind, particularly in cases of straits that require distributing a shortfall or per capita decline. The delay in the introduction of pension reforms is a universal example of this. A passive stance by politicians who allow a deficit to accumulate whose eventual effects are severe but diffuse faces less focused resistance than any reform with a defined target and date.
- The pay-as-you-go pension scheme meanwhile grows unsustainable due to the gradual inversion of the population pyramid. Yet retirement benefits were defined and promised to today's pensioners decades ago, and so their claims are literally grandfathered in.

Some reflections on social policy

- As it happens, it is likely that one generation (the baby boom generation) will be hit at several stages of its life cycle by various related and unrelated shocks that fail to compensate for one another. These may compound to impose an undue share of the demographic burden, whilst depriving it of an inter-generationally fair share of productivity gains. This total effect may come out event not being intentional in any political instance.
- Three possible reasons for the observed shift, 1) vertically separated budget administration, 2) political power and voter composition, and 3) cash vs. kind defined benefits.

- For example, a policy discussion on the desirability of an exemption from co-payment on drugs for pensioners is conducted without taking into account the level or trend of pension payments. It is considered pertinent to the Health authority and unrelated to the Pensions system.
- Other reasons for life cycle shifts in public expense distribution are voter composition, and cash vs. kind definition of benefits. Benefits to the elderly tend to be acquired cash defined individual rights, whereas more general welfare benefits are discretionary given the means available at any point in time and therefore susceptible to reduction and dilution.
- Reallocations of funds therefore occur between cohorts and within an area of authority rather than cross-sectionally or intra-generationally. This type of encapsulation promotes inter-generational fluctuations by the mere possibility that such inter-generational redistributions will compound rather than compensate.

Some reflections on social policy

- From an efficiency standpoint, there is a clear advantage to investment in children and education.
- If intergenerational fairness were to be adopted as an explicit policy aim, the means to achieve it would involve a clear understanding of the dynamic concept. The tools to achieve it include
 - a) more gradual reform and adjustments to social expenditure or legislation that affects welfare distribution when a long-term trend requires adjustments, and
 - b) a horizontal accounting system that analyses the welfare situation of specific target groups and age bands cutting across the vertical budget administrations and monitors check-sums of resources and effects obtained.