"Against the discontinuity trap. The case of Long-Term Care in Spain"

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Abstract:

Objective: Population ageing has stressed the demand on formal long term care (LTC). The design of LTC policies should target social welfare. Our research focuses on the Spanish LTC policy, the benefits of which are organized by discrete intervals. Financial benefits structured "in brackets" aim to adjust for needs; however, these systems may also trigger moral hazard, leading to distortions. Using the Spanish experience in LTC, our objectives are to measure the effects driven by such discontinuous schemes in public policies and to compare this outcome with an alternative scheme.

Background: External physicians evaluate the physical and intellectual capabilities of the applicants, and score them following official medical guidelines. The applicants' needs are grouped into three degrees of LTC, based on scores. Thus, the benefits are defined according to these three degrees.

Data & Methods: We use a unique administrative dataset of Catalonia (a Spanish region). We correct the discontinuity of the score distribution by using a Poisson function. In addition, we estimate the inefficiency driven by intervals of financial benefits.

Results & Conclusion: We show that this strategy in policy implementation creates strong distortions. Applicants whose actual level of LTC needs is just below the threshold tend to be scored higher. The physician's upgrading behaviour results in an inefficient LTC expenditure, which we estimate to be 1034€ annually per upgraded beneficiary. We argue that a smooth system of benefits would address this, and additionally would improve the equity of the allowances. To illustrate the policy recommendation, we consider a linear system of benefits. We find the monetary value of a single point of the LTC score (8€) and propose to give as much money as the sum of points of the severity score, accounting for income and type of service discrimination.