Long-Term Care systems and horizontal and vertical equity: Germany, the Netherlands, Poland and Spain

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Approach

- Evaluation of key features of the long-term care systems in terms of whether they promote or hinder horizontal and vertical equity.

Key features of long-term care systems:

- **Main revenue raising mechanisms:**
  - Private savings/equity + non-monetary private effort (informal care)
  - Private insurance (sometimes with public sector support)
  - Public sector: tax-based, usually non-hypothecated.
  - Social insurance: hypothecated payments.

- **Main resource allocation mechanisms:**
  - Entitlement/access rules to public/collective funding
  - System for assigning benefits to those who are entitled (algorithms vs. care management approach).
  - Type of benefits: cash vs. benefits (sometimes both types co-exist within the same public/collective scheme).
  - Role of informal carers: from “free resource” to recognised and supported partners in the care system.

Equity

- Generally understood to relate to the fair distribution of resources and burdens
- Evaluated with regards **needs** and **resources**
- Equity in **revenue raising**:
  - Horizontal equity: individuals with the same resources contribute the same amount.
  - Vertical equity: extent to which the funds are raised in a progressive (well-off pay proportionally more), proportional (all pay equal proportion), or regressive (well-off pay less) manner.
- Equity in **resource allocation**:
  - Equity of outcomes
  - Equity of access
  - Equity in levels and mix of services relative to needs

Equity and revenue raising features

- **Horizontal equity** (those with equal resources and needs pay the same)
  - Degree of risk pooling (in the public and private sector) will affect the extent to which disabled people pay more for long-term care than non-disabled people with the same income and assets.
  - Degree of geographical variation
  - Degree of support for carers
  - Diagnostic/sector inequity (health vs. social care).
- **Vertical equity** (those with more resources pay proportionally more)
  - Analysis of the main sources of funds and their progressivity: taxation (direct vs. indirect, income vs. capital, national vs. local), social insurance, private insurance, private savings…).

Informal care and equity

- Different implications if care is provided through choice, complementing available formal care, or because formal care is not available or unaffordable.
- **Horizontal:**
  - Informal care involves **no risk-pooling**. People with more availability of informal care may get more care than others who may have greater need but less availability.
- **Vertical:**
  - Providing care has a cost (direct and indirect). Regressive form of funding as people with less economic resources tend to provide more informal care.

Private income, savings and assets

- If main source of finance, without risk-sharing:
- **Horizontal equity:**
  - No risk-pooling, so those who will need care will pay more towards it than those who do not need it.
  - Those with higher resources can buy more and better care given the same level of need.
- **Vertical equity:**
  - Given same level of need and service use, those with low income and assets will contribute a higher proportion of their resources towards care. Very regressive.

Private insurance

- **Horizontal:**
  - Involves risk-pooling, so redistribution of risk amont those who are insured. However leaves outside the system those with insufficient resources.
  - Risk-adjusted premiums can result in people with same resources paying different amounts.
- **Vertical:**
  - Those with higher risk profile (who often have less resources) are likely to have to pay more.
  - Even if premiums were the same, as a proportion of their income or wealth the less well-off would pay more.

Social insurance

- **Horizontal equity:**
  - Has the potential to provide good horizontal equity, depending on how resources are allocated and whether entire population is covered.
- **Vertical:**
  - Several typical features of social insurance hinder progressivity: disregard of non-wage income, ability of wealthy to opt out, contribution ceilings…

Taxation

- **Horizontal:** has the potential to promote horizontal equity, depending on how resources are allocated, and whether taxes vary at local level.
- **Vertical:** Different types of taxes have different progressivity implications i.e. income taxes vs. indirect taxation…

Revenue raising: percentage of people providing informal care and percentage of total LTC expenditure by source:

	Germany Source: Rothgang, 2011	**The Netherlands** Source: Schut and van den Berg, 2011	**Poland** Source: Golinowska, 2010	**Spain** Source: Gutierrez et al, 2009
Informal care** (Pickard, 2012)	5%	2%	7%	4%
Social Insurance	57	68	57*	10
Taxation	10	24	43*	50
Private payments	31	9	n.a.	40
Private insurance	2	negligible	negligible	(0.3)

*Note: as a percentage of public expenditure only, see country section for sources.
**Prevalence of provision of informal personal care to older people by people aged 50 and over (percentages). Pickard (2012).

Horizontal equity in revenue raising for LTC in Germany, Netherlands, Poland and Spain

- **Dutch** system performs very well in terms of horizontal equity, offers very good risk coverage.
- **German** system also performs reasonably well, except for people with needs below entry point. Well-off people with private coverage may pay less for cover than people public scheme.
- **Spain:** level of coverage had increased since introduction of 2006 reforms, although problems with geographic variation. Recent cuts have reversed some of the improvements.
- **Poland:** universal age-related benefit that covers the entire population, but other than that low level of risk coverage and high reliance on family care.

Vertical equity in Germany, the Netherlands, Poland and Spain

- **German** public LTC insurance system has many features that suggest it is regressive (low vertical equity):
  - Proportional rates up to an income ceiling
  - Only includes work-related income and benefits (income from assets, etc. not included).
  - Wealthier (and lower risk people) are in a separate scheme with risk (rather than income)-related premiums.
  - Relatively high level of co-payment.
- **Dutch** system:
  - Social insurance has some features that make it less progressive.
  - Covers whole population.
  - Taxation contributes quite substantially to total public LTC.
  - The system overall would do better in terms of vertical equity than Germany.
- **Poland** and **Spain** rely on informal care to a large extent, which is a regressive form of “finance”.

Equity and resource allocation mechanisms

- Equity of outcomes
- Equity of access: means vs. needs testing
- Equity in levels and mix of services relative to needs
- Issues of “diagnostic equity” in comparison to health care.

Equity of outcomes?

- LTC system's goal: to improve people's wellbeing, compensating for needs.
- Ideally services would be allocated so that those with equal needs achieve equal outcomes. In practice, outcomes of social care are rarely measured (though has been progress).
- LTC is more often evaluated in terms of "intermediate outputs": access to the system and levels and mix of services/benefits.

Equity of access

- Access is not a end in itself but equal access may contribute to better equality of outcomes.
- Assessed with relation both to needs and resources: extent to which people with same levels of need and resources have the same access to care.

Equity of access in Germany, Netherlands, Poland and Spain

- **Germany:** very equitable for those with levels of dependency high enough to be covered by the system BUT those with lower levels of need or with particular conditions have poor access to care.
- **Netherlands:** access according to need alone, with some consideration of role of carers.
- **Spain:** equity of access improved since introduction of new system and “needs alone” test. Still significant geographical variations and now two year wait for care benefits.
- **Poland:** high level of coverage from age-related payment. Access to care homes based on assessment of need.

Equity in level and mix of services

- In principle: same benefits to same needs, and also higher benefits to higher needs.
- Whether benefits or packages of care are allocated using national algorithms, or individual assessments.
- Extent of local variation.

Equity in level/mix of services in Germany, Netherlands, Poland and Spain

- **Germany:** based on national algorithm. Everyone within same category of need has same package options (good for horizontal equity). Those at the top of a need category receive exactly the same as those at the bottom of it. Poor ability to adapt to individual circumstances (not so good for vertical equity).
- **Netherlands:** benefits assigned according to individual circumstances. Likely to perform better in terms of vertical equity.
- **Spain:** in part based on national algorithm, but large regional variation.
- **Poland:** Benefit for over 75s does not perform well in terms of vertical inequality as amount does not vary by need or resources.

Resource allocation and equity

	Germany		**The Netherlands**		**Poland**		**Spain**	
	Horizontal	Vertical	Horizontal	Vertical	Horizontal	Vertical	Horizontal	Vertical
Equity of access: means vs. needs testing	High	Medium	High	High	Low	Low	Medium	Low
Equity in levels and mix of services relative to needs	High	Low	High	HIgh	Medium low	Low	Low	Low

Conclusions:

- **Horizontal and vertical equity are often in conflict.** As a rule of thumb, better risk protection promotes equity.

- **Germany:** concentrates on horizontal equity much more than vertical equity.
- **The Netherlands:** most equitable system of the four considered due to
  - generous public coverage LTC risk (including people with relatively low risk compared to other countries),
  - Because social insurance is the main source of funds, it does not perform as well in terms of vertical equity as it would if it were more reliant in tax funding or did not have contribution ceilings.
  - It is likely to be less regressive than the **German** system as there is no separate scheme for wealthy people and higher reliance on taxation.
- **Spain**: the dependency law from 2006 improved considerably the coverage of LTC for those facing higher levels or risk. However, substantial geographical variations. Due to budget constraints people may not receive any care or benefits for the first two years.
- **Poland** relies very heavily on informal care, some provision of residential care in the health care and social assistance sectors. Cash benefit for people aged 75+. The cash benefit does provide some improvement in horizontal equity, but not vertical equity. Overall low level of risk protection