Help! Finding the Right Balance for Long Term Care – Fair Protection versus Financial Sustainability

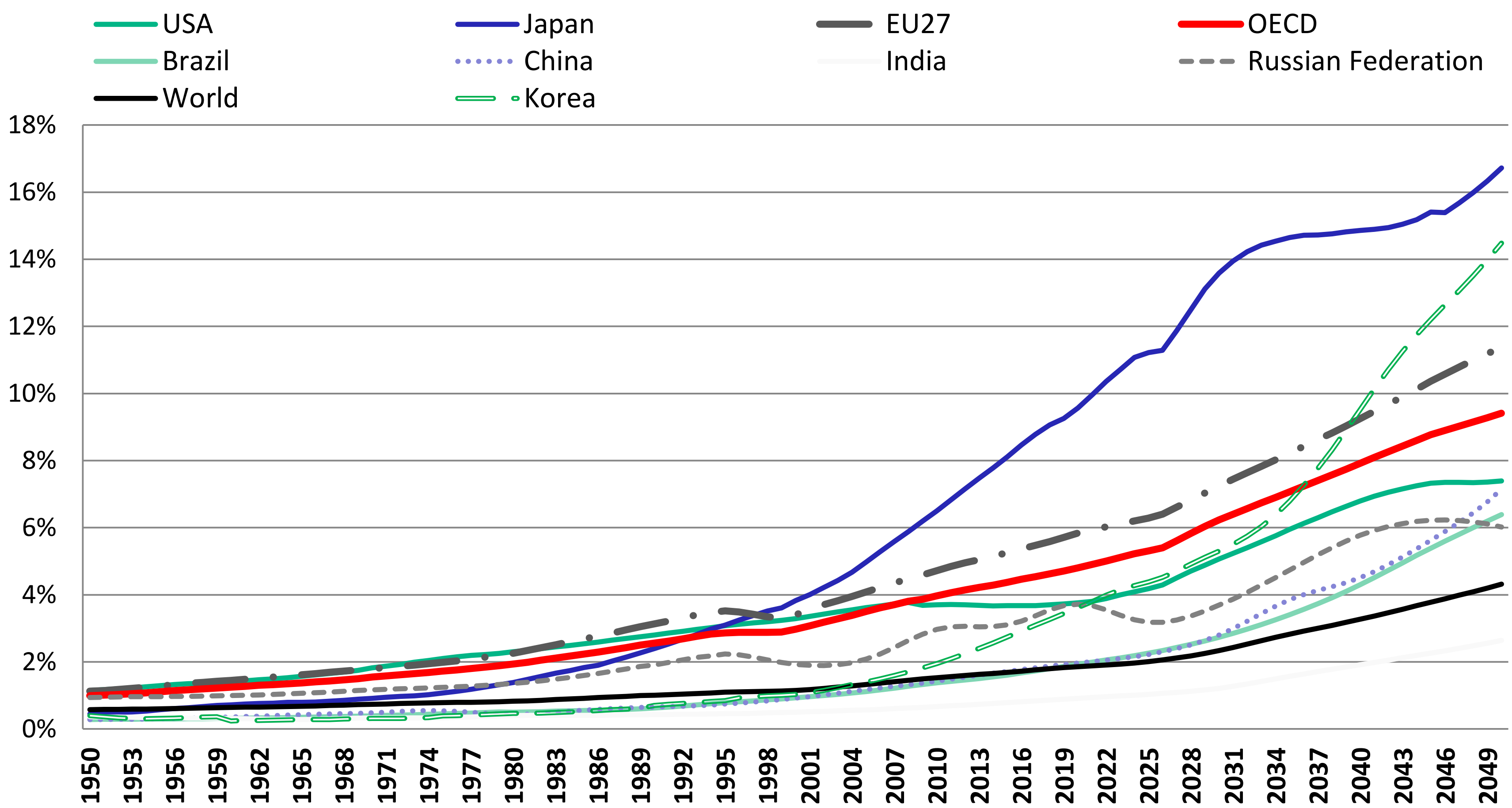
Jérôme Mercier, OECD

Francesca Colombo, Ana Llena Nozal, Fritz Tjadens

Gauging future LTC demand and costs

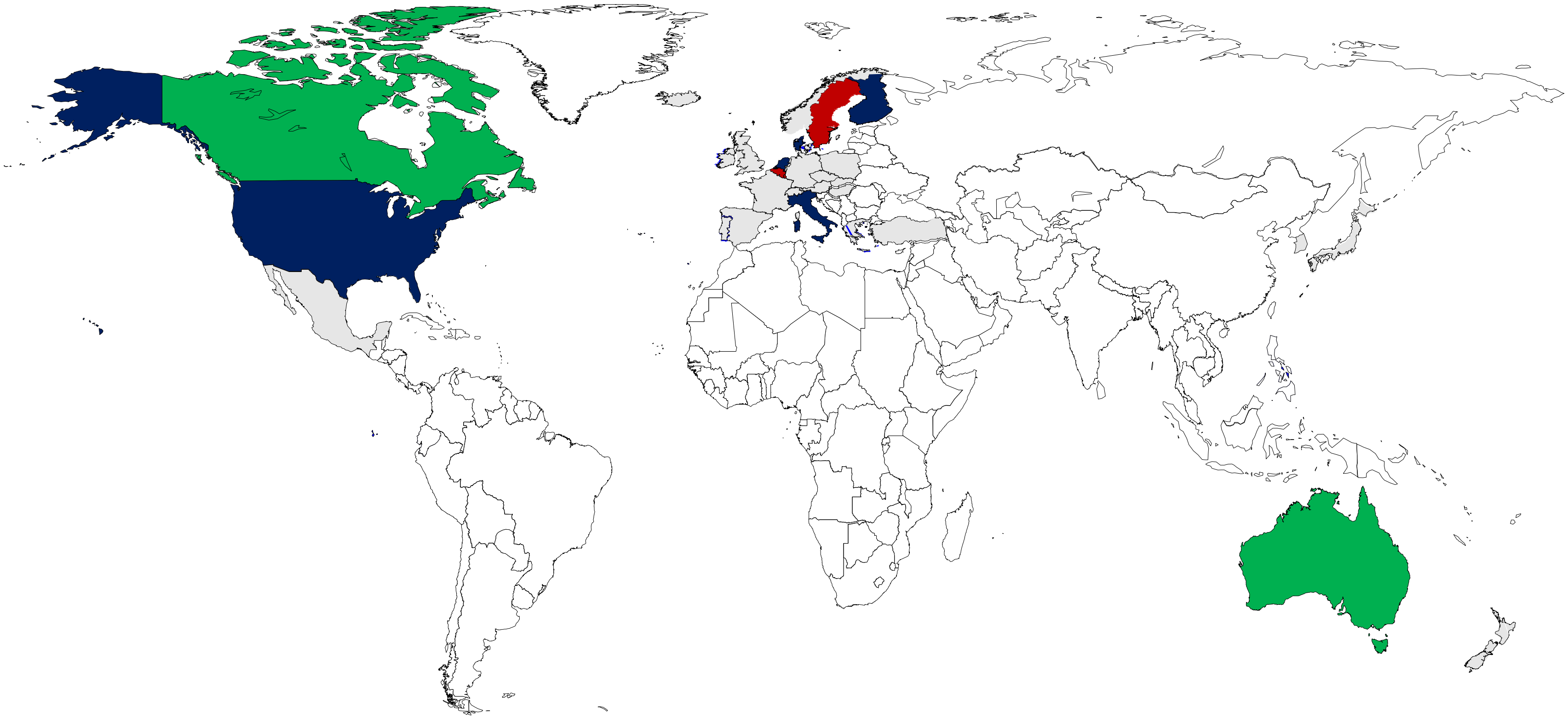
- Projections, typically based on a simple mechanical exercise reflecting:
  - Changes in the age distribution of the population;
  - Changes in the prevalence of dependency over time;
  - Changes in the real costs of delivering LTC over time;
  - The evolution of formal and informal care; or
  - Policy or institutional changes.

Steep rise in the share of over 80 years old



Source: OECD Labour and Demographic database

No general pattern of improvement in health/disability status of the elderly



- ***Falling disability***: Denmark, Finland, Italy, Netherlands, US.
- ***Stable disability***: Australia, Canada.
- ***Rising disability***: Belgium, Sweden

Source: Lafortune and Balestat, 2007, OECD HWP 26

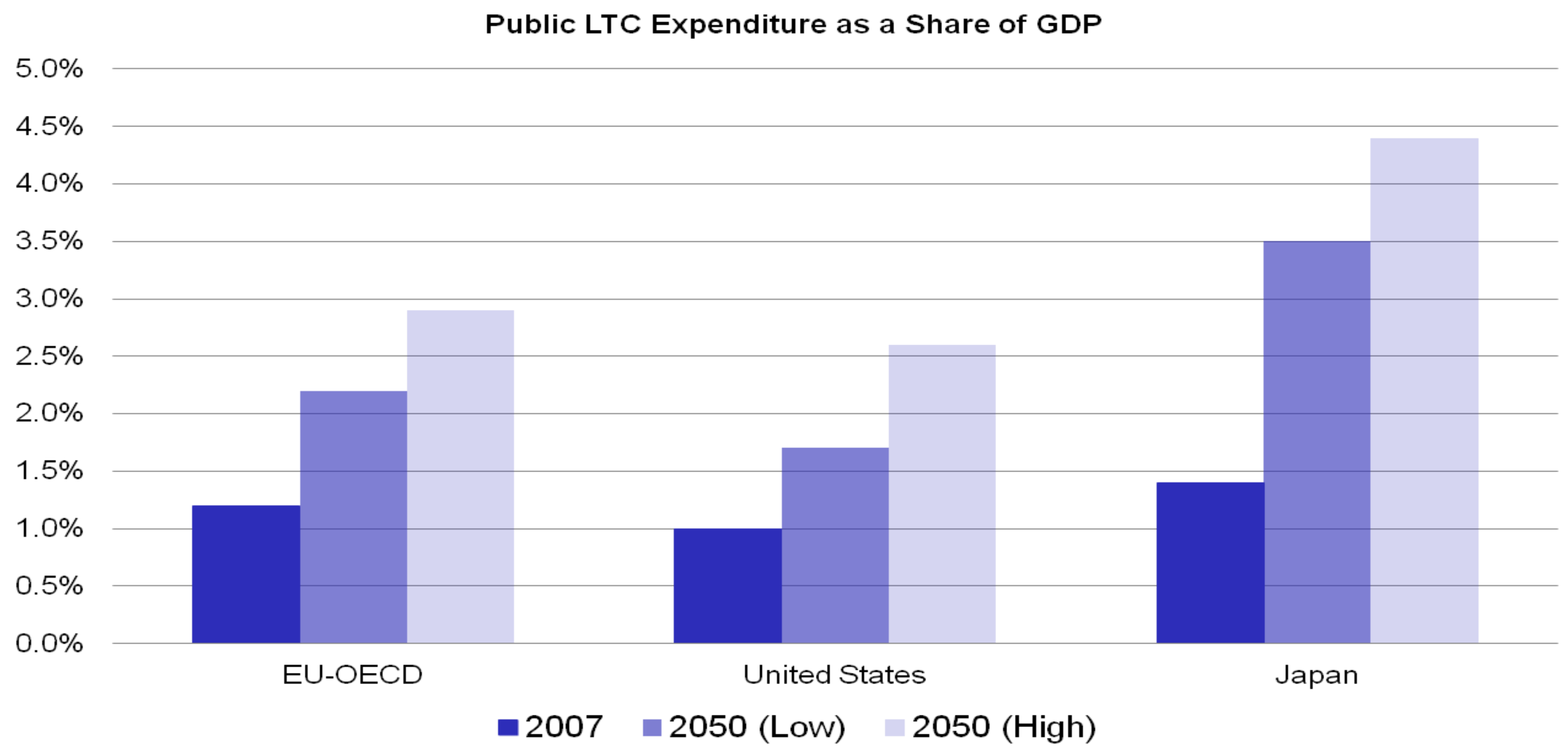
The costs of delivering LTC

- LTC is a labour intensive sector.

- As such, the cost of providing LTC is assumed to grow in line with wages in the rest of the economy.
  - Maintain its ability to keep and attract workers.

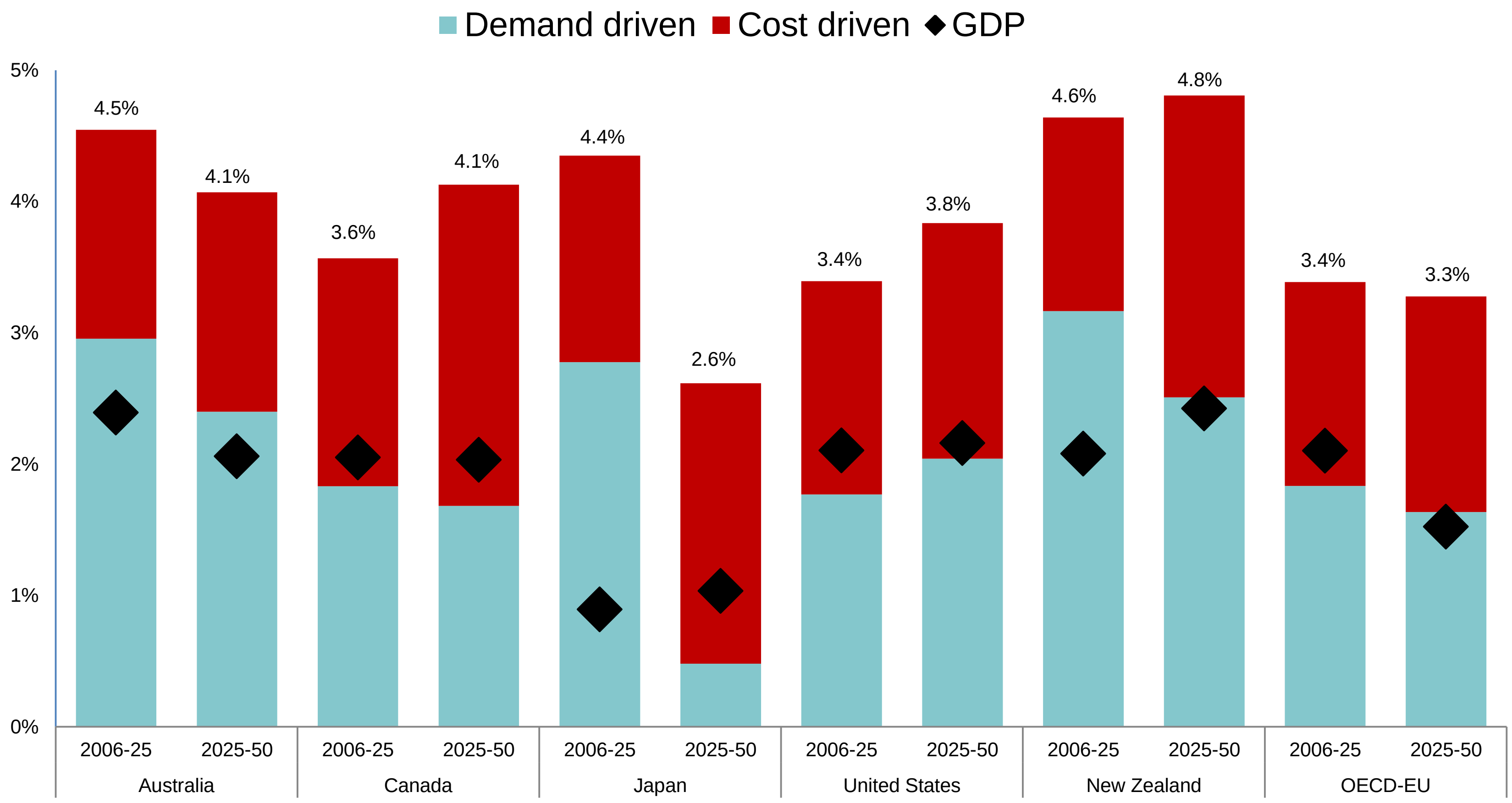
- Existing costs structures reflect a number of factors such as:
  - The set of eligibility criteria;
  - the range of services provided (intensity of care);
  - the existing mix of care services; and
  - the quality of care.

Public LTC cost expected to at least double and possibly triple by 2050



Source: OECD calculations and 2009 Ageing Report, European Union,

Some countries face more immediate LTC costs



Source: OECD calculations based on OECD Health data, EU (2009) Ageing report, OECD Labour force and Demographic database, 2010 and Duval and de la Maisonneuve (2009).

Healthy ageing and productivity gains could mitigate some of the rise in LTC spending

- Estimated reduction from healthy ageing:
  - Ranging between 5 to 10% by 2050.
- Estimated reduction from productivity gains:
  - About 10% by 2050.

Public LTC expenditure as a Percentage of GDP				
	Base year	Pure Ageing 2050	**Healthy Ageing 2050**	**Productivity Gains 2050**
OECD-EU	1.3	2.4	**2.3**	**2.2**
United States	1.0	1.9	**1.7**	**1.7**
Japan	1.4	4.0	**3.5**	**3.6**

Source: OECD calculations based on OECD Health data, EU (2009) Ageing report, OECD Labour force and Demographic database, 2010 and Duval and de la Maisonneuve (2009).

What can be done to encourage healthy ageing and prevention?

- Some interesting recent country initiatives:
  - As of 2006, all elderly requiring low-need care are eligible to preventive benefits in Japan.
  - Reforms to the funding of Germany's sickness fund based on a 'carrot and stick' approach.
    - Financial incentives provided for residents transferred to a lower level of care setting; and
    - Can be subject to fine if not providing rehabilitation services.
- Uncertainty remains as to which measures lead to better pay offs or cost-effectiveness .

Towards more efficient delivery of long term care

- Providing care in the right care setting.
  - Avoid the use of acute-health care services for LTC purposes (Financial measures in Ireland, Japan, Sweden, U.S.).
  - Encourage home and community care (Canada, New Zealand, Poland).

- Improving productivity in the LTC sector by:
  - Paying LTC providers based on performance (some nursing homes in the U.S.)
  - Fostering competition among providers (Sweden, Denmark, Finland and Japan).
  - Increasing the capital-intensity of the sector (e.g., technology)

- More evidence on what works in this area is badly needed.

But, future pressures on LTC costs and demand remain

- Increasing demand for LTC workers in a context of a stagnating or even declining total workforce could put pressure on wages.
  - Estimated rise of about 10% by 2010.
- Declining availability of family care is expected to exacerbate the rise in LTC spending.
  - Estimated rise ranging between 5 to 20% by 2050 for OECD-EU countries
- These costs pressures could easily offset gains arising from healthy ageing and increased productivity.

All countries face a context of rapidly increasing age-related spending

→ Spending on old-age pension/early retirement programmes to increase by 40% by 2050 across the OECD

→ Health care spending to increase by over 50% at least

→ LTC spending to double at least.

In a context of….

- Public expenditure expected to grow more rapidly than revenues

Leading to ….

- Growing fiscal pressures and the current economic climate, will raise pressure to mitigate growth in total public outlays

Recommendations

- **<u>Basic universal coverage</u>** is desirable, since the costs associated with high-care need can exceed 60% of the disposable income of most seniors.

- But, projections points to significant increases in future costs and demand. It is therefore necessary to strike the 'right balance between '*universal coverage*' and '*financial sustainability*'.

How? 4 potential axis

1) Target care to those with the highest needs

- **Put in place cost-sharing polices -** based on income and/or care need (e.g., APA in France);
- **Define the level of dependency triggering LTC entitlements** in line with government's resources (e.g., Korea versus Japan);
- **Note: Benefits-in cash** can help provide for a more flexible coverage as care needs evolved, but control mechanism on its use are needed to mitigate the development of black markets.

2) Move towards forward-looking financing policies

- ✓ **Better pooling** of financing across generations (e.g., Germany, Japan)
- ✓ **Broadening** of financing sources beyond income earned from work (e.g., France, Japan, Belgium, Lux, Nl)
- ✓ Elements of **pre-funding** (private LTCI, Lux)
- ✓ **Innovative** approaches, partnerships (CLASS Act; Singapore)

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3) Financial mechanisms to help users mobilise cash

Some savings will need to be allocated to pay for expenses associated with LTC, but most users' savings are "locked" into principal residence.

Potential role for governments to **facilitate the conversion of non-financial assets (e.g. a home)** into cash.

- e.g., bonds / equity release (as in Australia and Ireland)
- Public measures to defer payments (United States and United Kingdom)
- Private sector products such as the combination of LTC and life insurance and reverse mortgages.

4) Ensure better value for money

And, as discussed earlier, continue seeking for better value for money (e.g., healthy ageing and productivity gains).

For more information

- Colombo,F. et al. (2011), *Help Wanted? Providing and Paying for Long-Term Care, Paris*

- *www.oecd.org/health/longtermcare*

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