# FINANCING DISABILITY: REDISTRIBUTION IN UNIVERSAL WELFARE SYSTEMS. TIME FOR BETTER TARGETTING?

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

The **Evaluation for public policies for sustainable Long-Term Care in Spain Workshop**

Barcelona, July 3rd 2014

The *Riskcenter* and the *International Long-Term Care policy Network*.

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# My understanding: The challenge of LTC and the way to handle it DIFFICULT TO GENERALIZE FRAMES

- MACRO: LTC  an income elastic good? Reverse causality? A pure forecast of demographic 'needs'? Sense of social responsibilities...
- CONTEXT: Culture matters a lot (formal/informal care). The organization of the public sector too (functionally, geographically). Insurance forms and risk aversion, life cycle wealth, religion and family networks –and changing structures... and the extent of public coverage
- 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)...
- **REFOCUS: UNIVERSALISM UNDER FISCAL DUALITY.  UTILISATION AND REDISTRIBUTION. TIME FOR A NEW TARGETTING?**

# Effects on welfare

- Need to check on operational strategies (cash including informal home care, reimbursement just for formal services...)
- Need to check on operational issues: need test formulation, rating discontinuities, equity and efficiency from potential moral hazard, fiscal/individual responsibility.. under different socialchanging contexts
- Public-private crowding out issues (depending on the level of basic/minimum social coverage)
- The intertemporal correlation of LTC costs for a single pool over the individual life cycle

# On system comparisons

- Convergence of systems in approaching how to deal with problems! (need of service coordination, new stands for choice, mix of finance, complement-supplement insurance).

- Becareful with comparative statics of social spending... (health and social care, share of finance, topping up by prices/ by premia; comprehensiveness of the coverage – chronic psychiatrics, mental health, handicapped children, non elderly disables..)

# k issues to deal with

- 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 do start, for how long, with which intensity, how to minorate transition probabilities...

- Goal: safety net to prevent falling into poverty (but this being different by age)

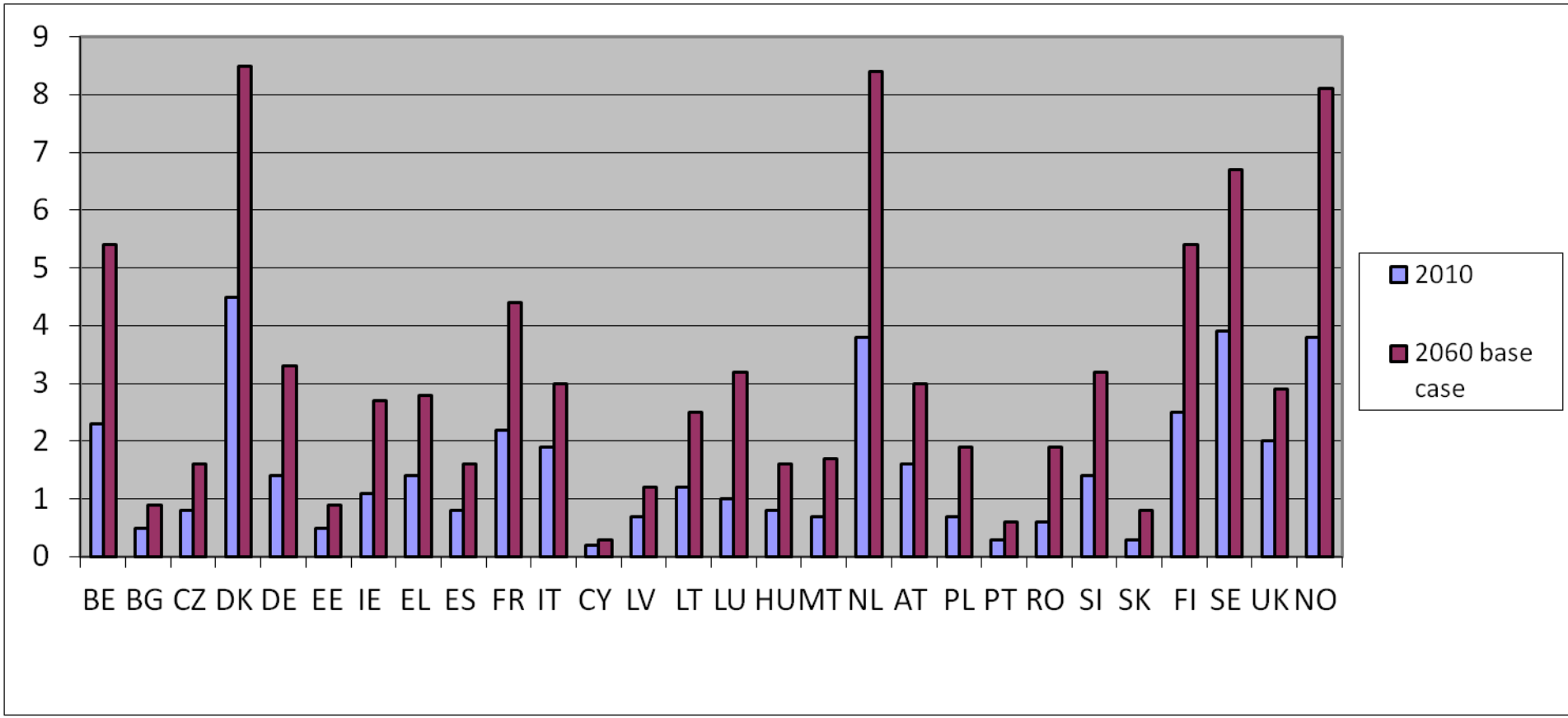
- Finance: Prepayment, pooling.. Intra and intergenerational redistribution aspects idyosincratic to the countries (ie. the role of the inheritance tax, donations, equality of opportunities...)

- Equity concerns: ‘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. (instutional 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 tax-payers...)
- 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, insureee’s choice) or implicit (waiting list, time and quality) prioritisation; always, de facto targetting

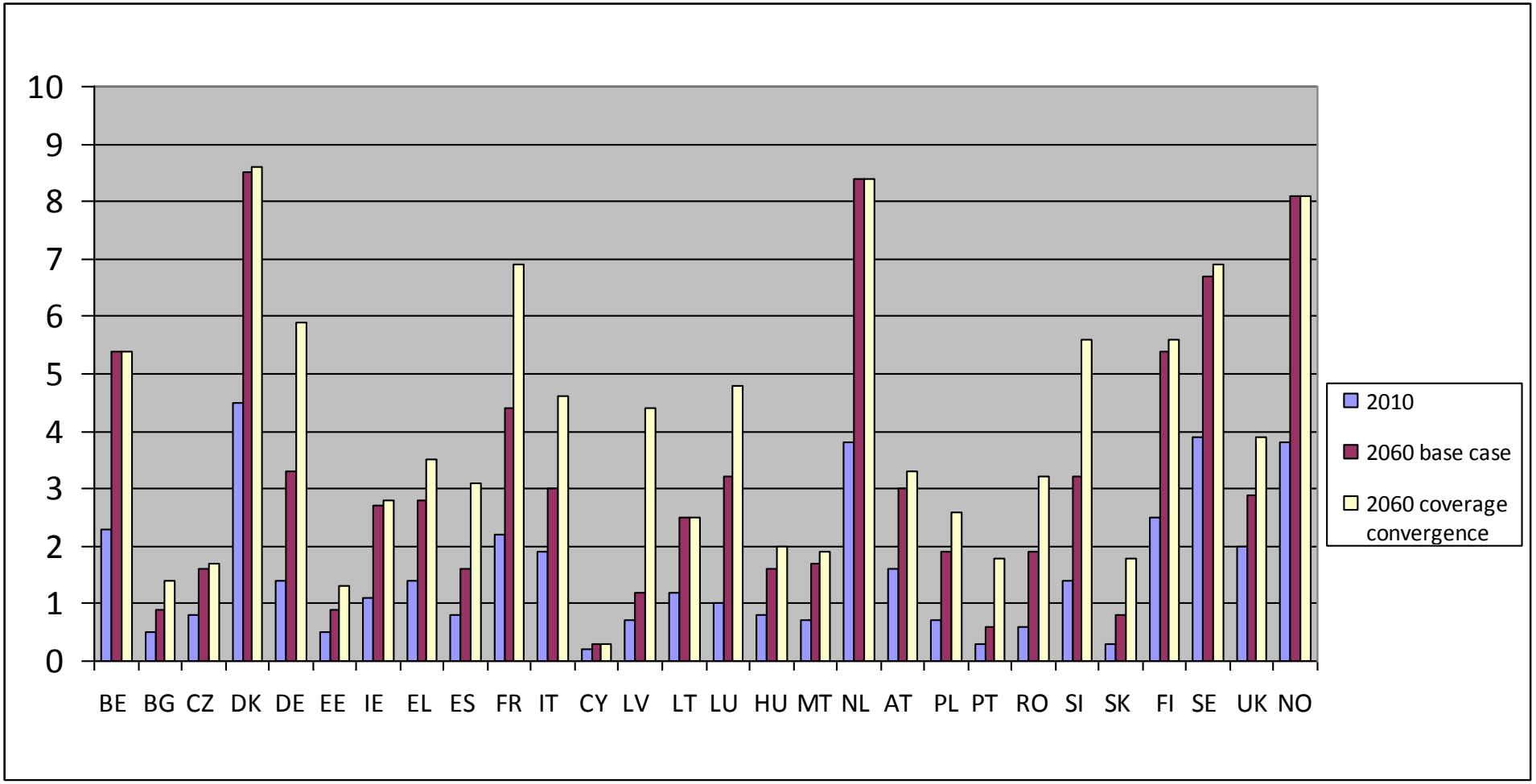
# SPENDING TRENDS IN EU: Forecast of Public Expenditure on LTC as a% of GDP 2010-2060. Estimation basis scenario




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 for 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 12.6% to 33.1%

- Total taxes as % GDP assuming that taxes pay for all that growth in public benefits: from 38.2 to 57.2%

- As a % of total government outlays assuming cuts in other expenditures: from 32.7% to 72.1%

- Net govern debt addition and year debt reaches 150% of GDP, assuming borrowing pay for all growth in public benefits: +38.2%, year 2029

- Net public benefits to the elderly as a % of after tax non elderly income,  from 17.2 to 42.7%

- Per capita ratio of after tax income of the elderly to the non elderly,  from 0.98 to 1.18

- % of elderly living with their adult children: 40.5%; *not sure in Spain at present who supports who*!

# Framing altenatives (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.

Other differences: ● *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 (%) |
|---|---|---|---|---|---|---|

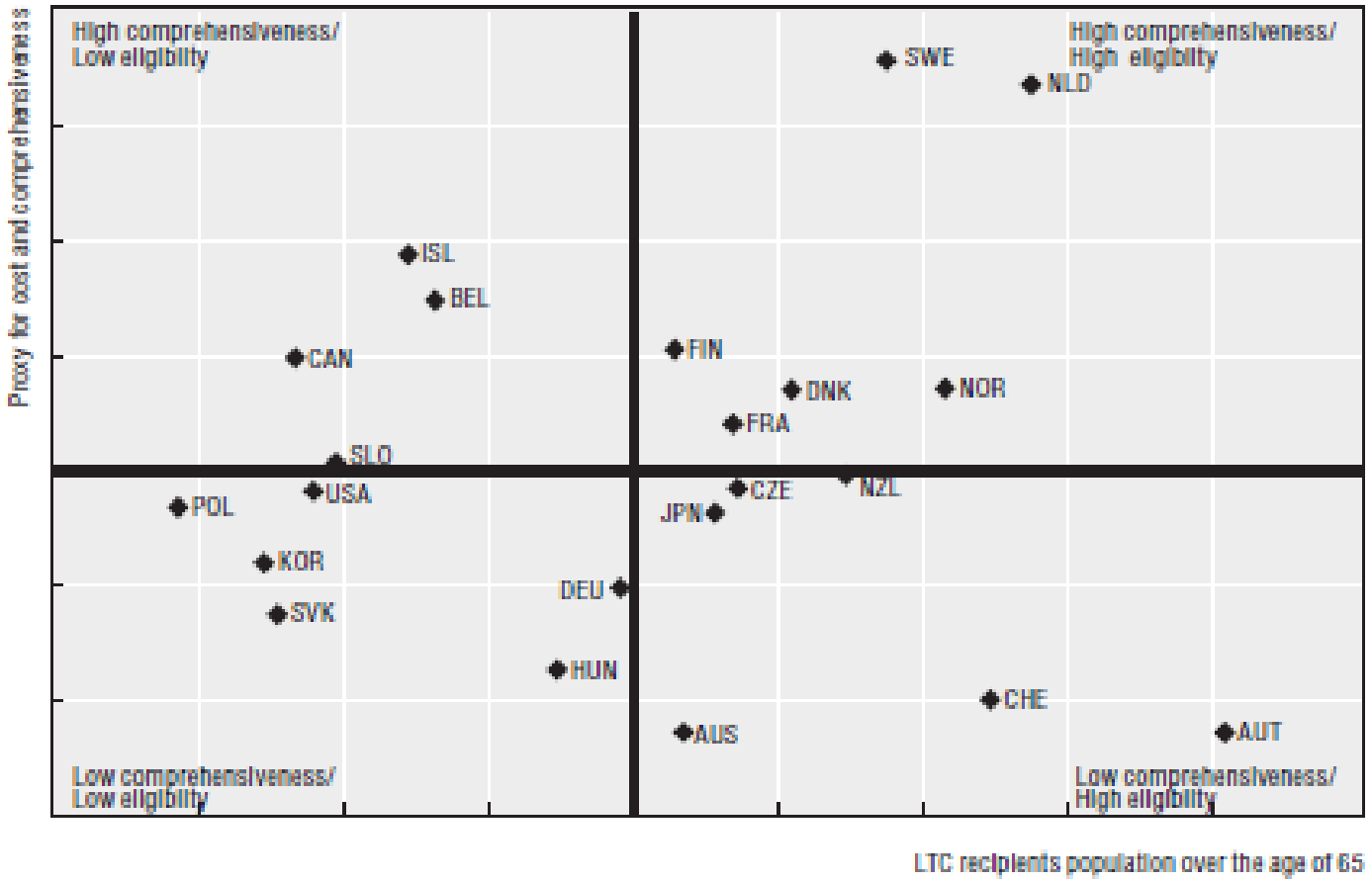
## On Cost sharing in OECD

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

## On LTC coverage in OECD

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)




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.

StatLink http://dx.doi.org/10.1787/888932401634

# 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**:

- No much on quality: effectiveness and safety (clinical: elderly falls and related fractures, bed-sores, medication use, weight loss, depression amon old), patient centredness ans responsiveness and care coordination (avoidable hospital admissions for chronic conditions –EPOC, asthma, uncontrolled diabetes... well managed from primary care.

- A bit more on regulatory standars (on labour, infrastructure..) Mainly for ex ante accreditation or reimbursement conditionned, and not so much on standards to normalise care practices (treatment profiles, mainly for neuro degenerative dementia)

# Learnings from the past, for the future

- Fiscal consolidation: easy to stop new programs. Low strength of LTC beneficiaries in isolation for lobbying
- Dual fiscal systems: search for redistributive spending
- Intergenerational change of equity balances (a Musgrave rule? Myles, Esping Andersen et al...)
- Workfare deserving welfare...
- Difficult implementation of Voluntary LTCI (social reinsurance, public extraordinary first losses?) Adverse selection?; degree of myopia under 1/5 rule

# (…)

- Mind the gap.  More focus!: A gap in the middle: in some countries, not wealthy enough for self-solving LTC and not poor enough for social assistance

- If tax financed, becareful with income and asset related copays  . At least for the core services...

- The Spanish situation and the experience of some OECD countries initiatives

# 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 bephased 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 copaids.

- 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 priorisation. 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) inmeans testing requirements –life time caps on costs and upper limits on capital for elegibility (UK)

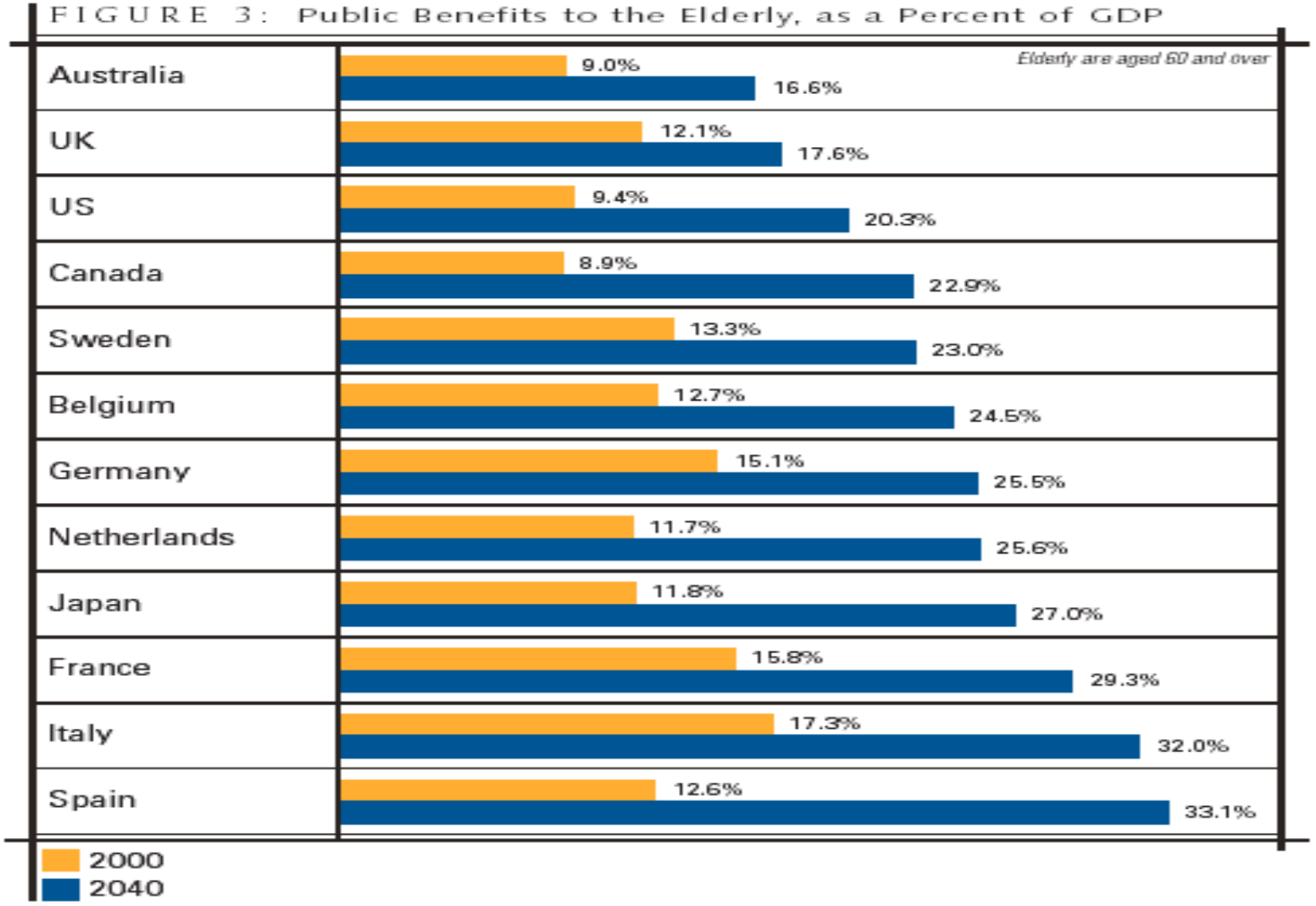
*Ageing is a privilege; very much welfare increasing if accompanied by functional autonomy. Let's protect it and care*

THANKS FOR YOUR ATTENTION!!

- …Follows a data appendix

# DATA ANALYSIS on the effects of ageing on social policy

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



# Different approaches to the effects of ageing on social policy

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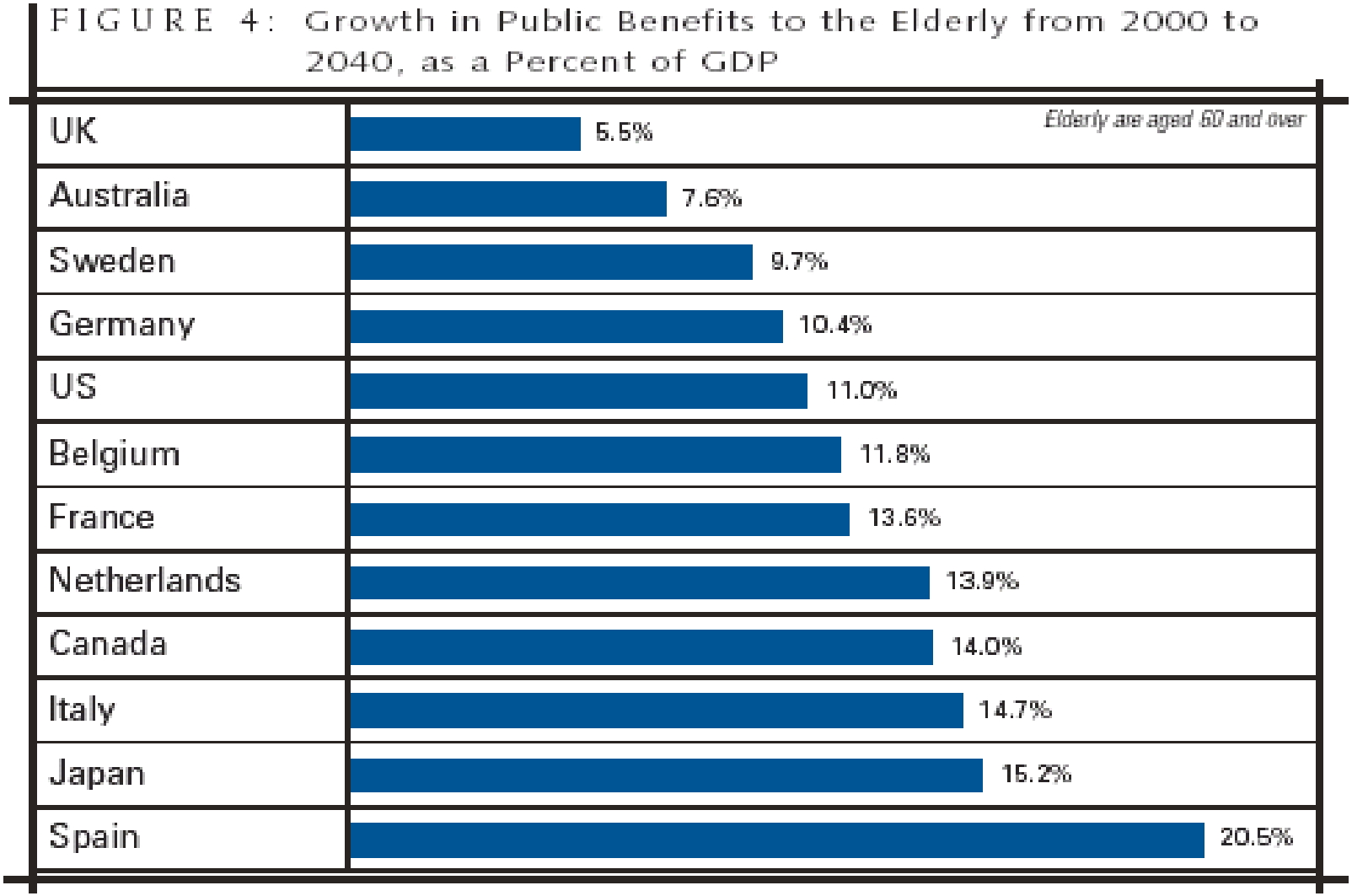

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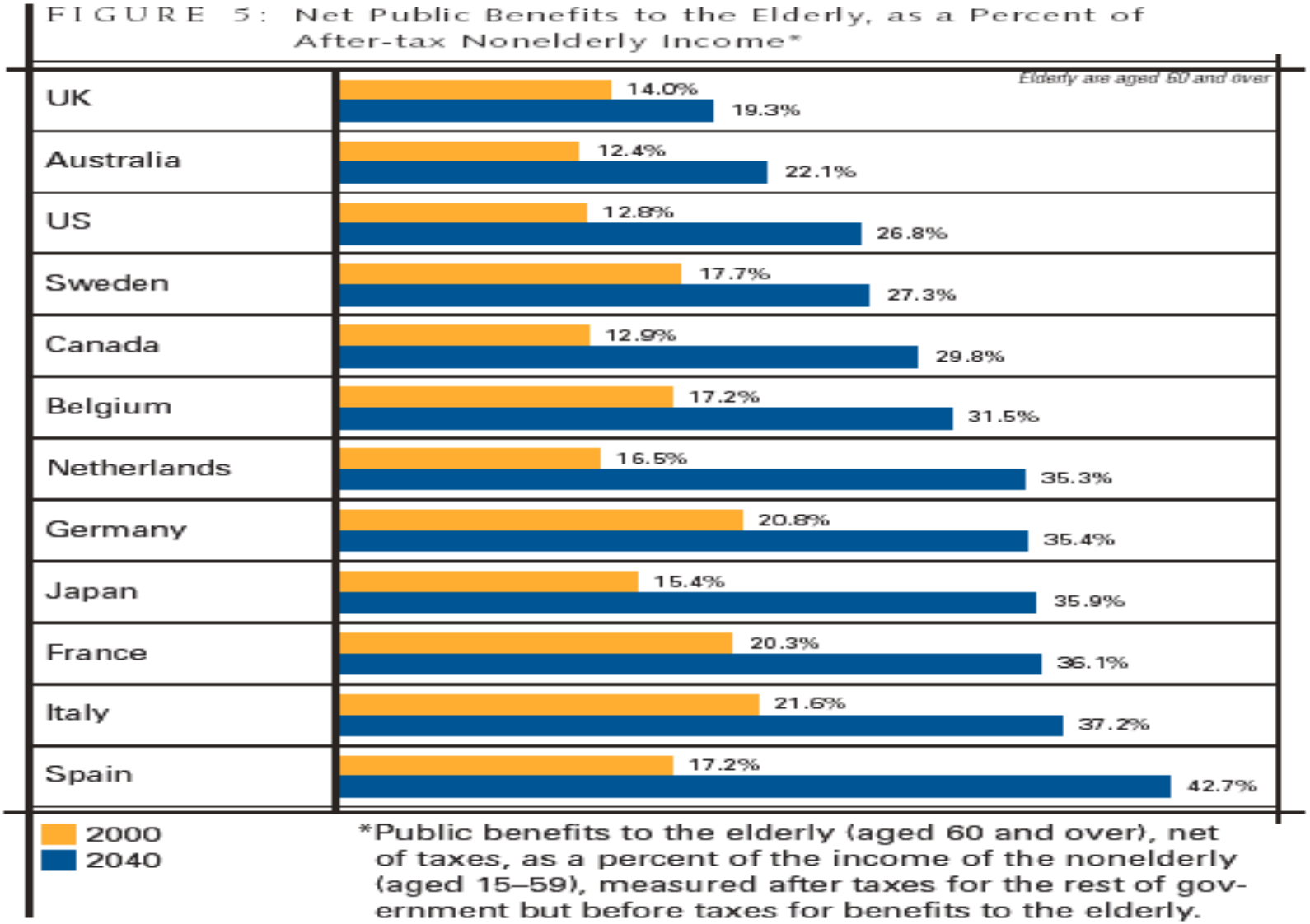

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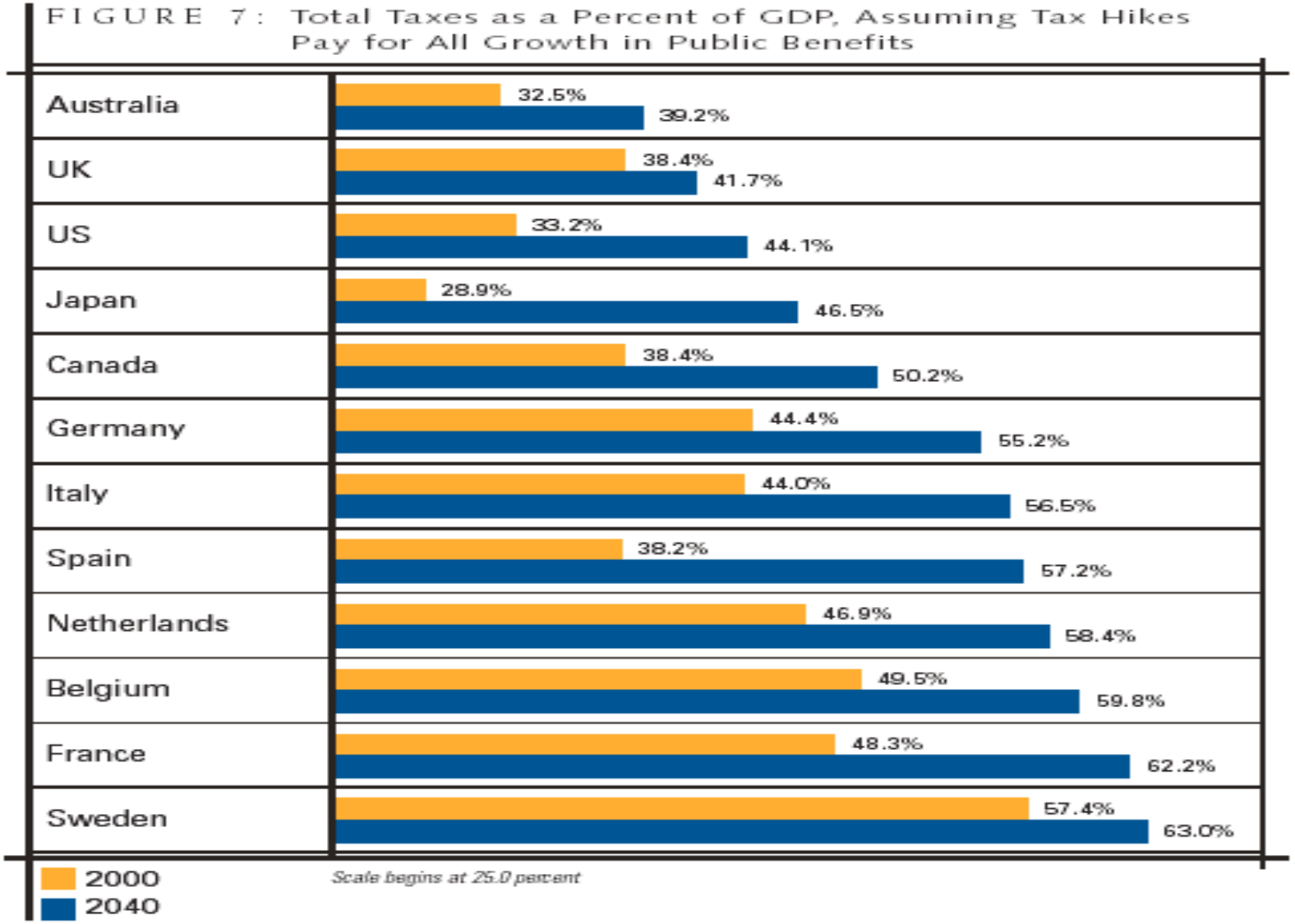

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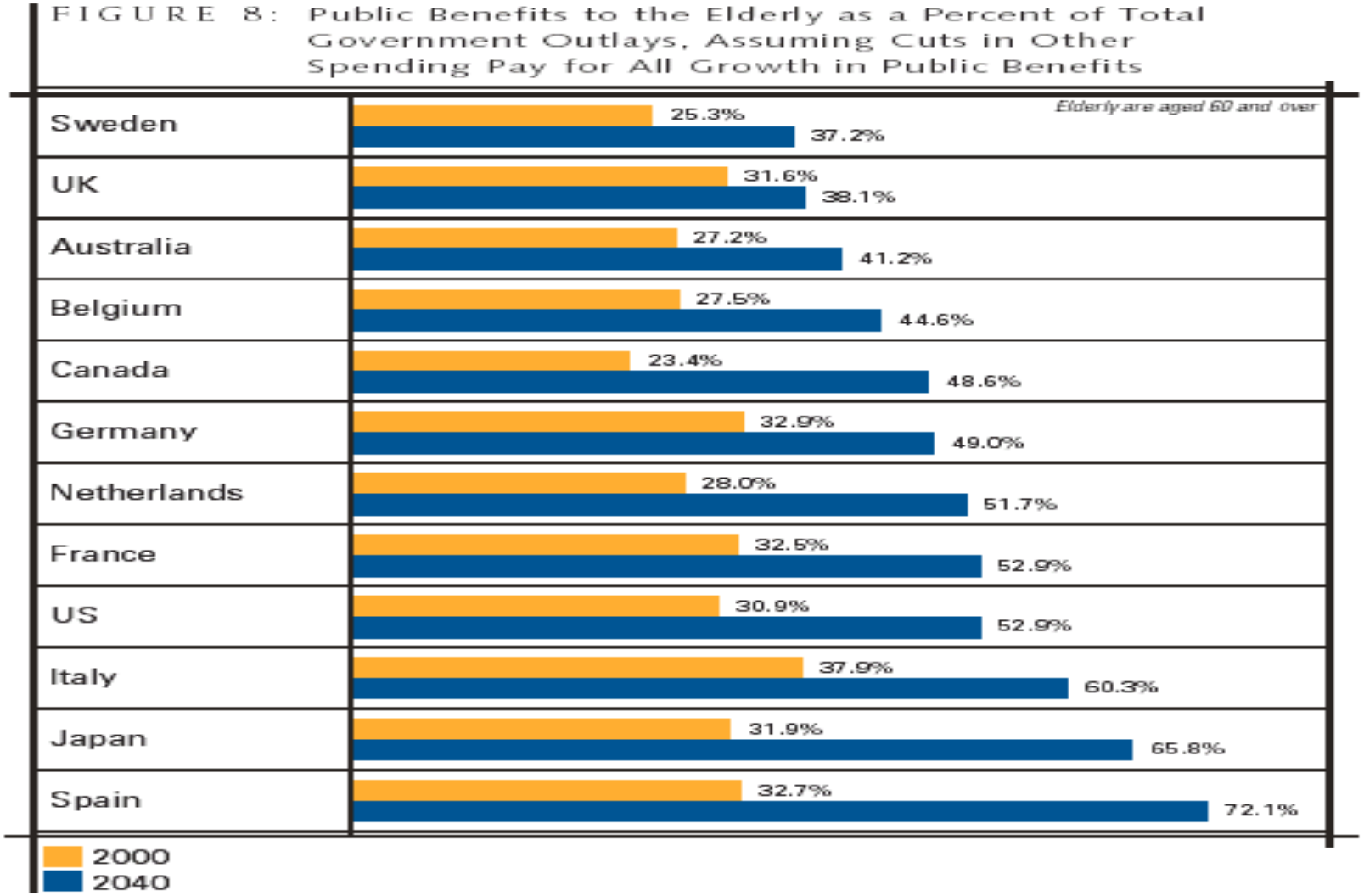

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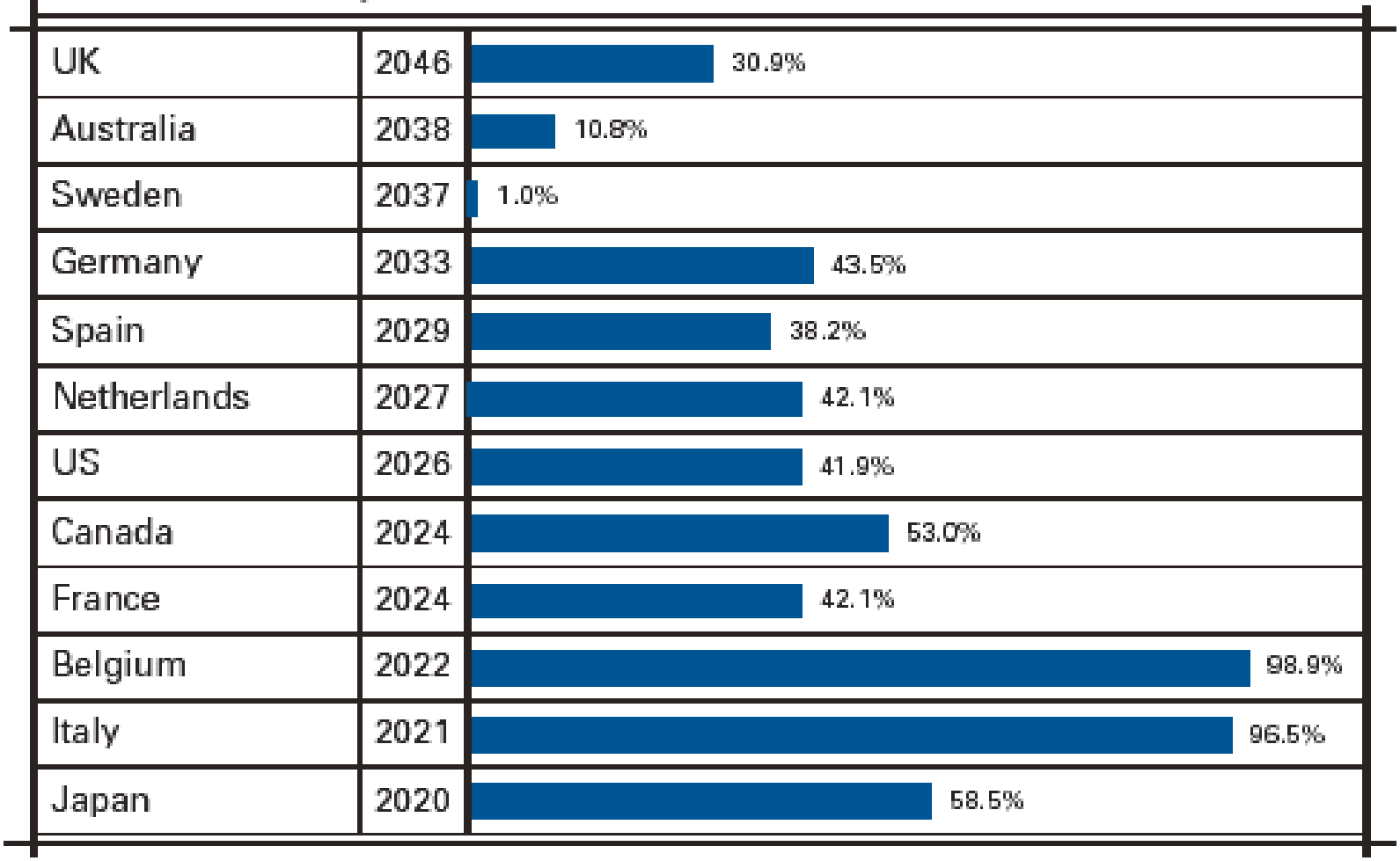
FIGURE 9: Net Government Debt in 2001 and Year Net Debt Reaches 150 Percent of GDP, Assuming Borrowing Pays for All Growth in Public Benefits



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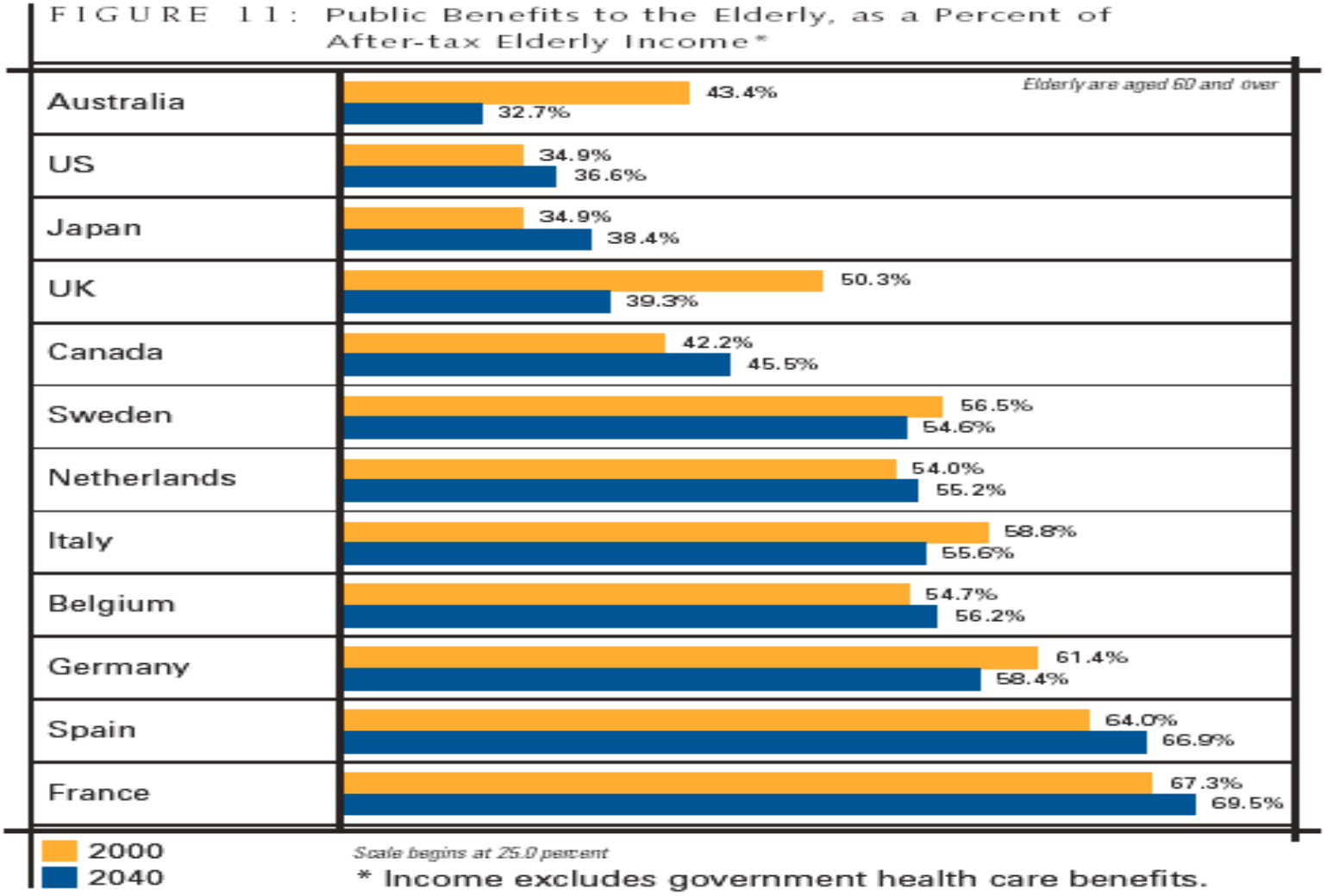

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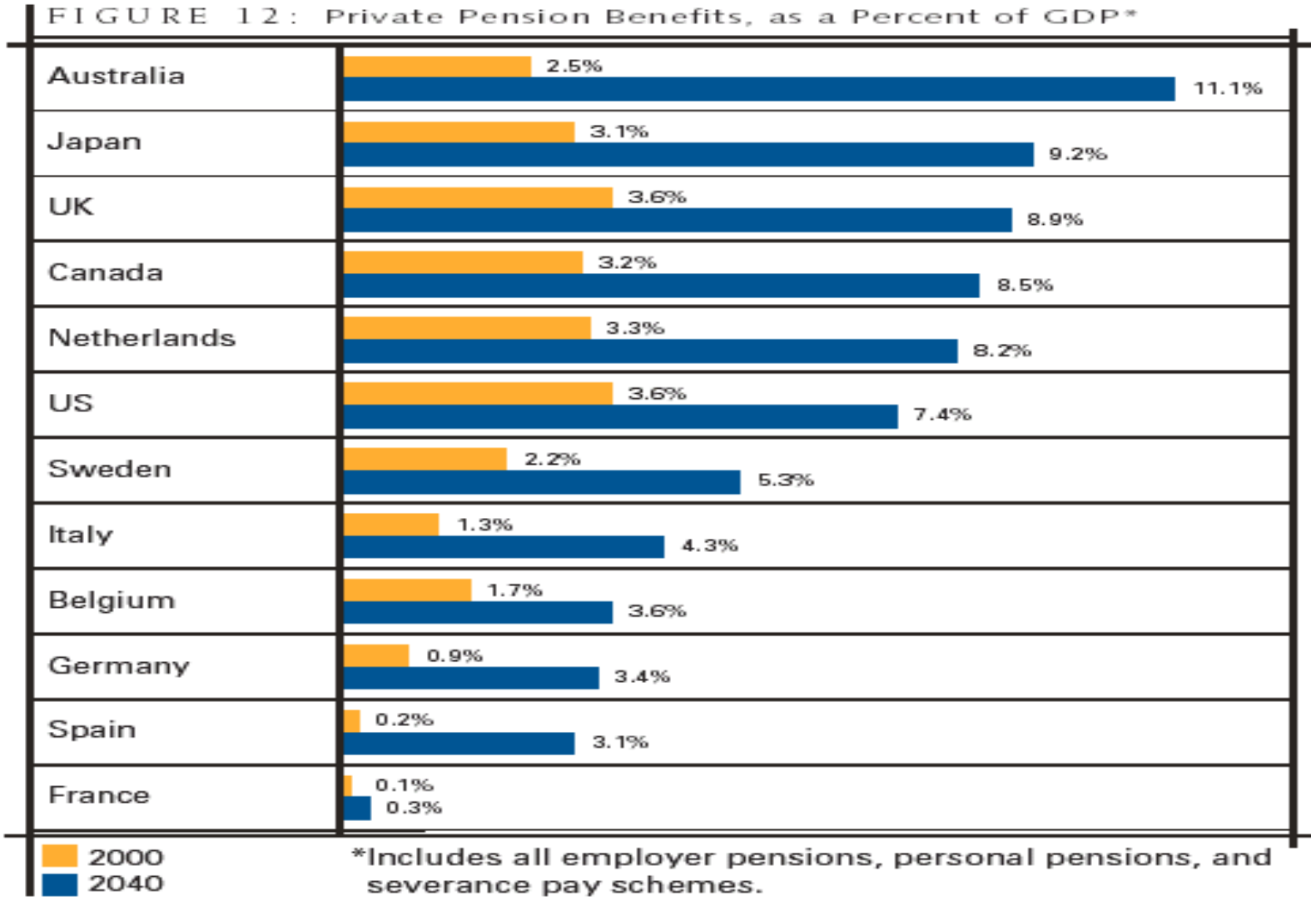

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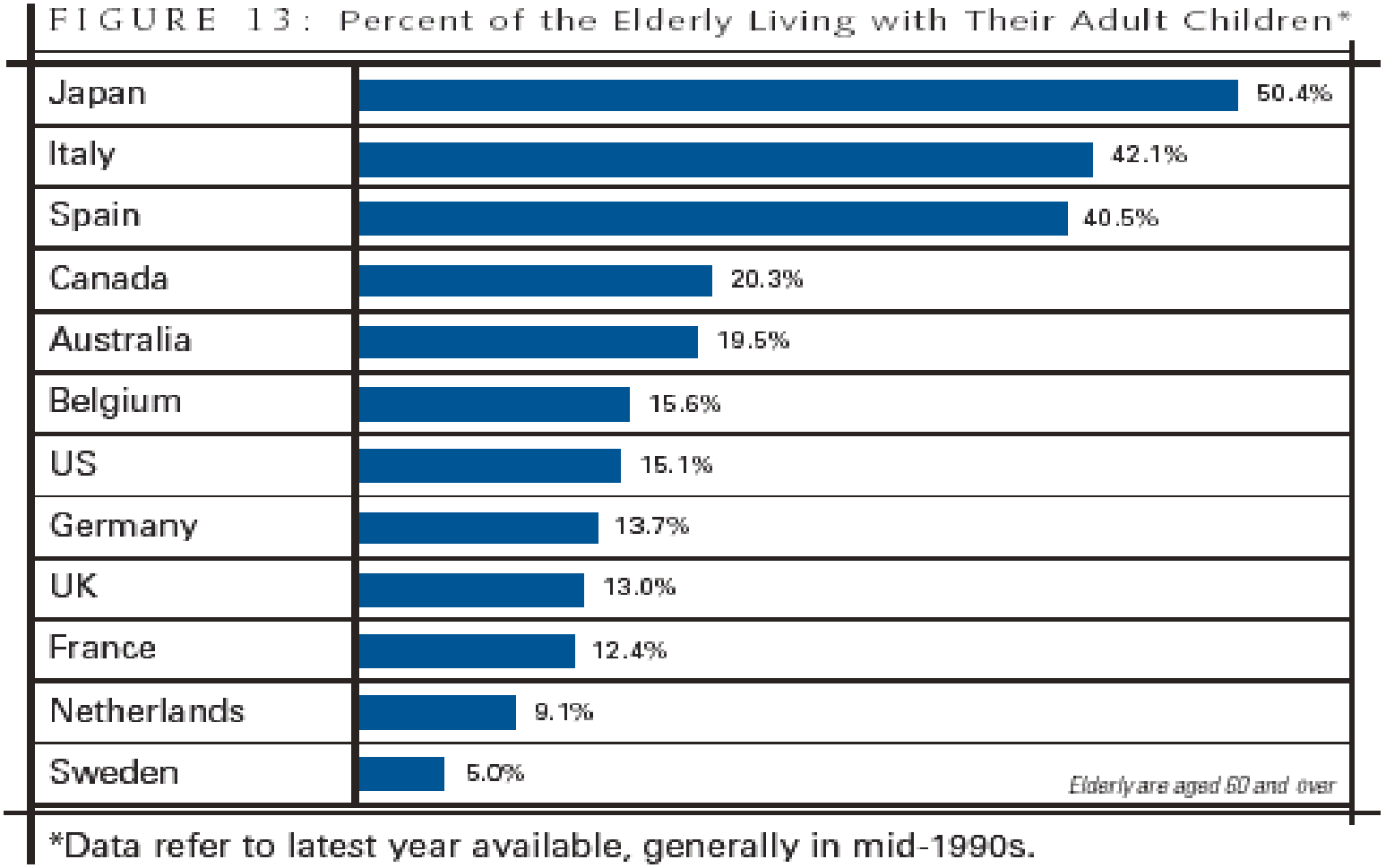

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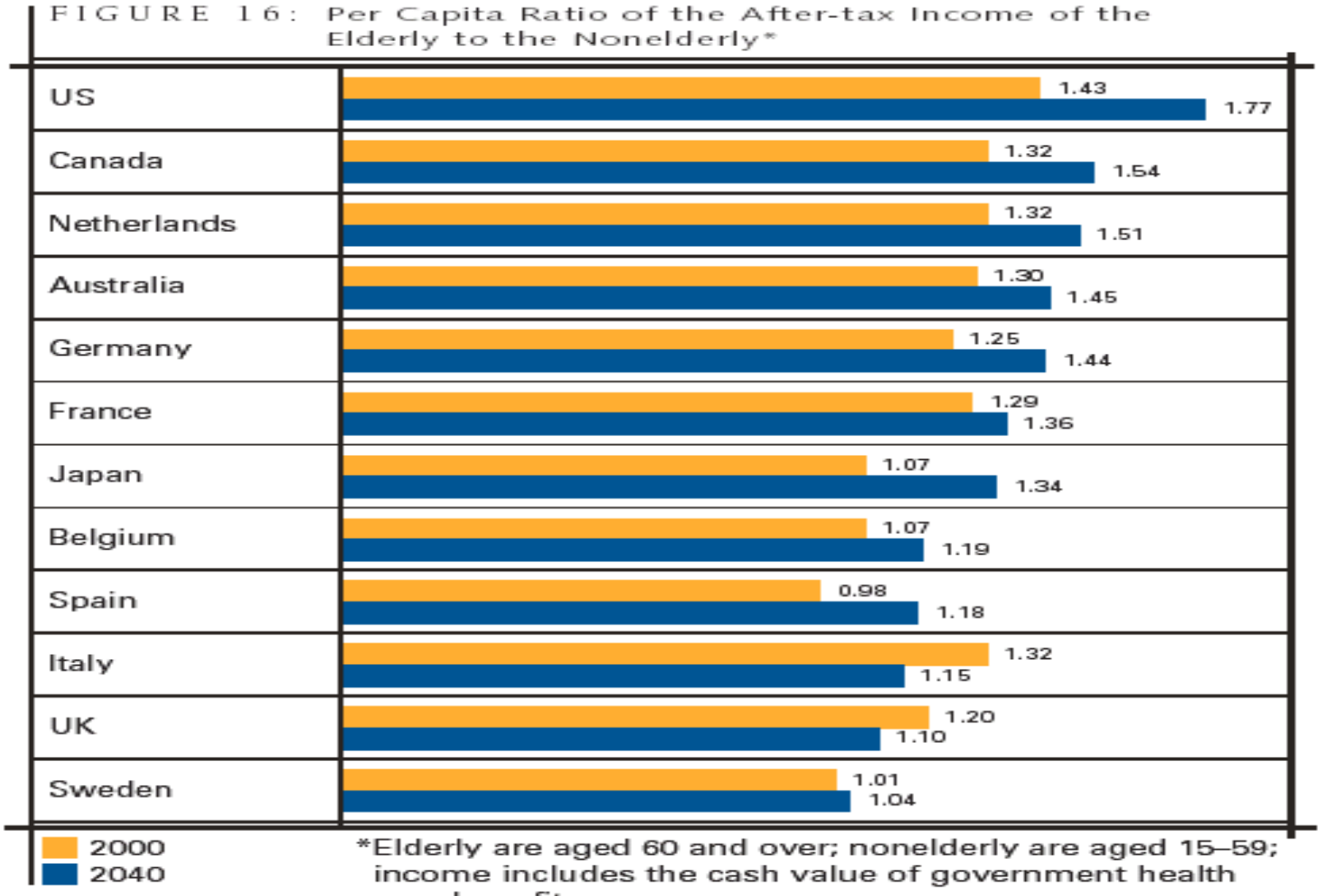
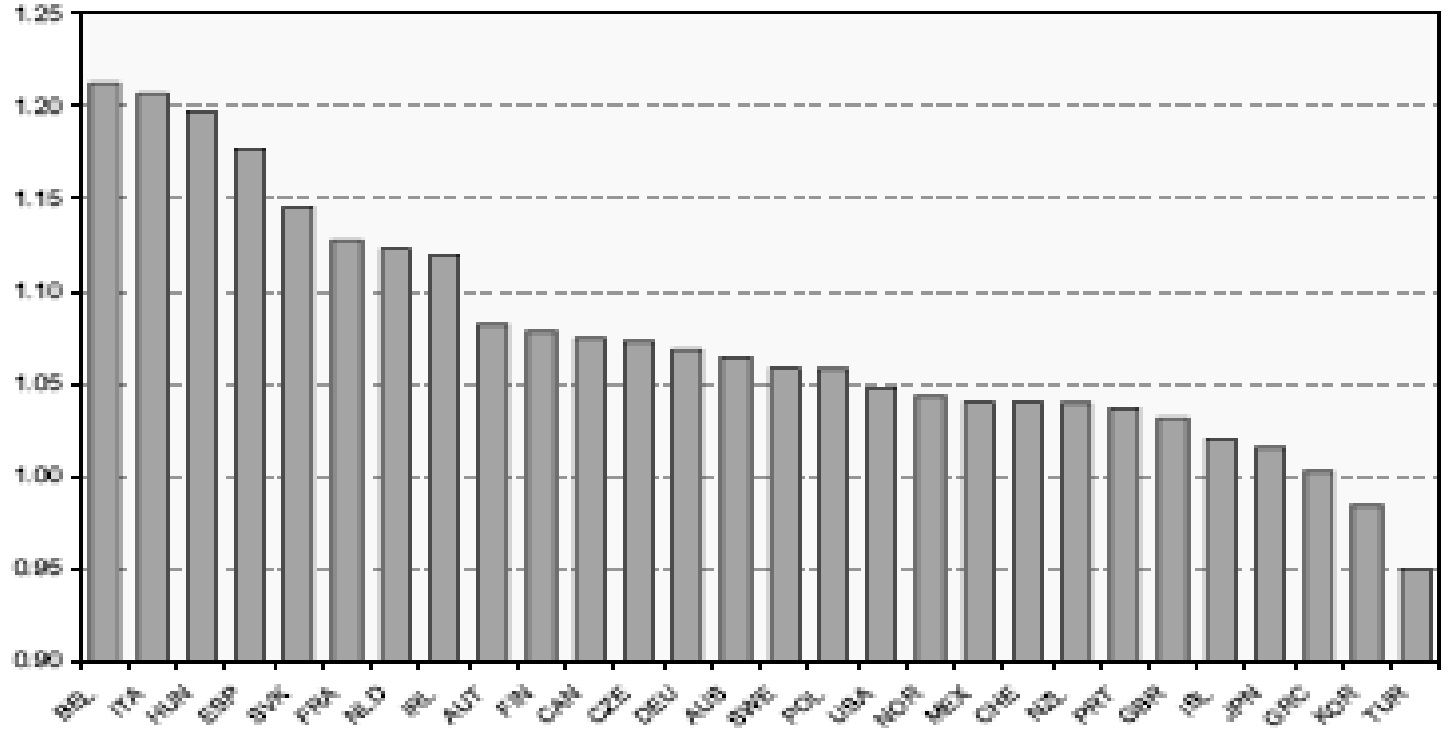


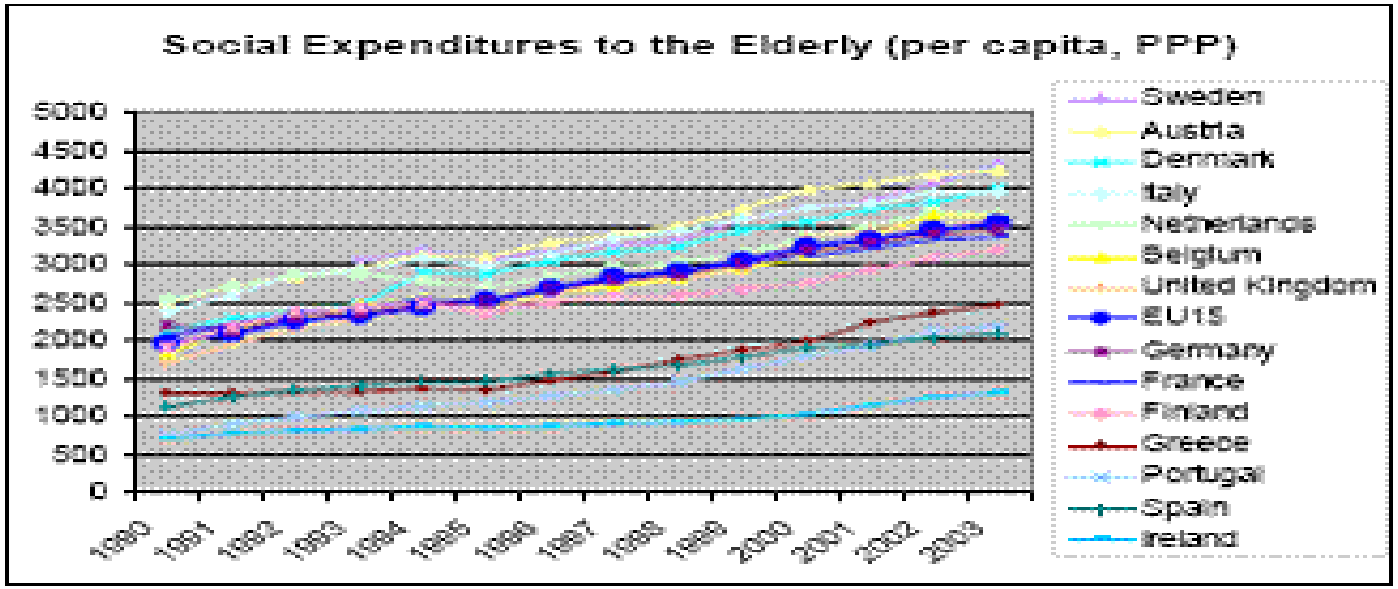
# THE EVIDENCE: EDUCATION AND AGE COHORT (55-64 YEARS) (2000)

**Figure 5.8 Relative level of education of employed workers 55-64 years of age[1], 2000**



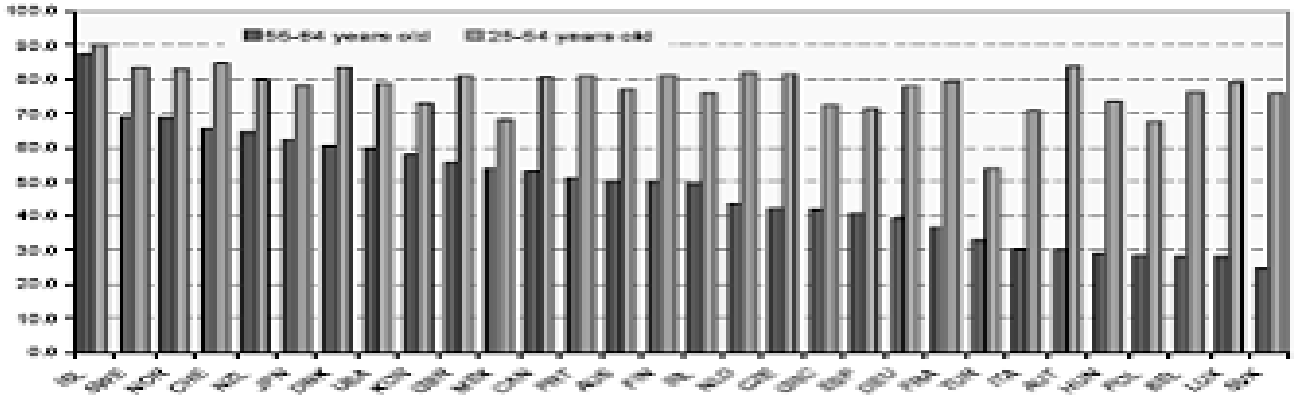

1. Ratio between the average education level of employed workers 55-64 years old and the average level of education of the population in the same age group.
Source: OECD Education database.

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



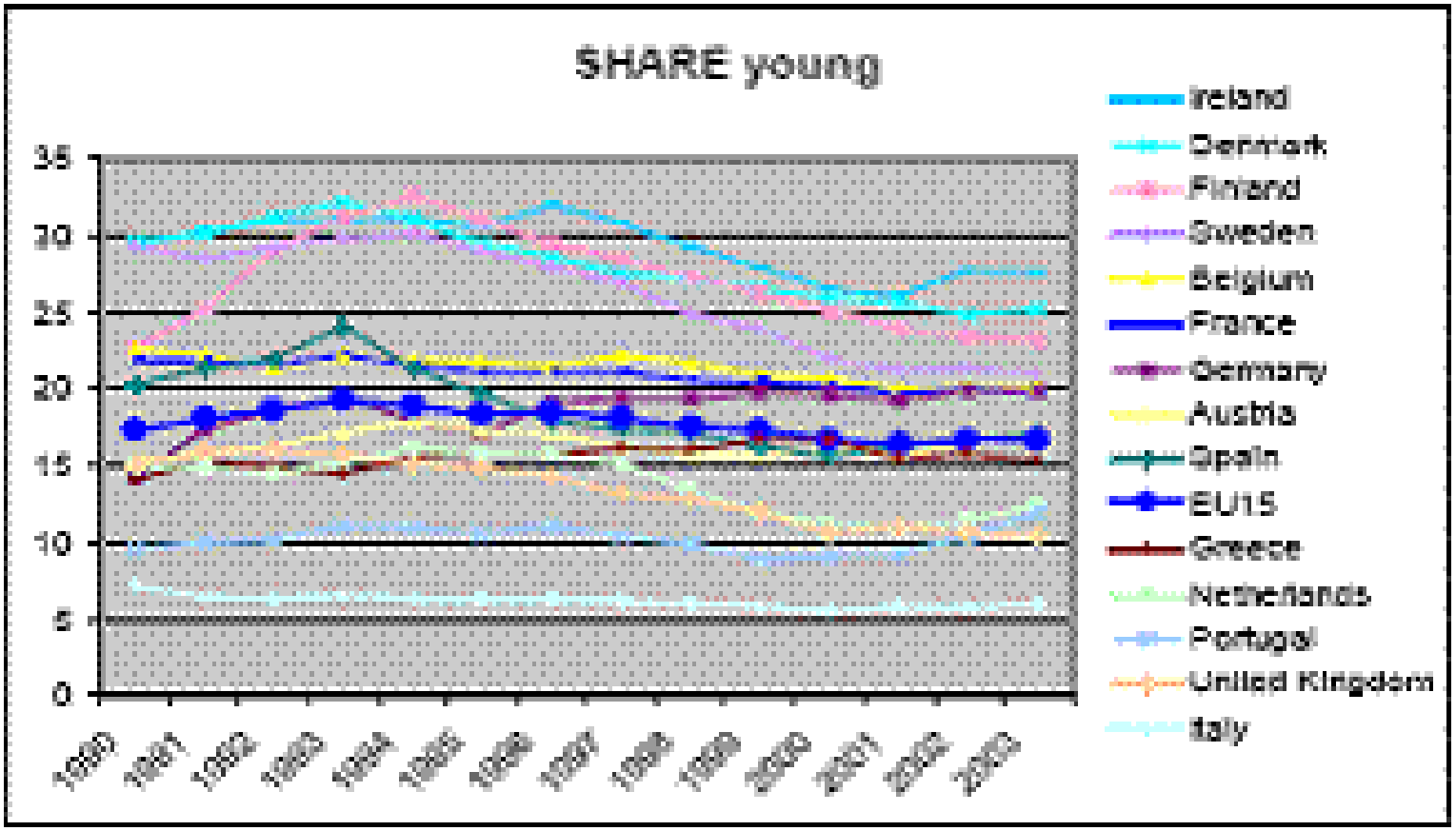

Source: Eurostat Data Archive 2005

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.