The Challenges of Public Financing and Organisation of Long-Term Care*

Joan Costa-Font,† Edward C. Norton‡ and Luigi Siciliani§

†London School of Economics; CESifo
(j.costa-font@lse.ac.uk)
‡University of Michigan; National Bureau of Economic Research (NBER)
(ecnorton@umich.edu)
§University of York
(luigi.siciliani@york.ac.uk)

I. Introduction

Long-term care is at the core of a new wave of reforms of publicly financed health care and social care programmes. The population of developed nations is ageing rapidly, with a growing fraction of the population above age 85 – the ages at which demands for long-term care are highest. This is the

*Keywords: long-term care, health systems, caregiving.

JEL classification number: I18.

case in many European countries and in the United States as well as in a number of Asian countries such as Japan and Korea. Without reform, the public financing of long-term care is expected to keep expanding for reasons beyond the ageing of the world's population. There is increased female labour market participation, reducing the supply of informal caregivers.[1] There is growing dependence on long-term care to provide post-acute care following a hospital stay. Households want greater public funding because of the high cost, which also affects household savings. The challenge for governments is to figure out how best to fund and organise the public long-term care system to ensure that the provisions are efficient and equitable.

This special issue includes six papers that contribute to our understanding of how best to design the public funding and organisation of long-term care systems. Specifically, this issue draws on studies containing empirical evidence and clear policy lessons from several countries (England, Germany, the Netherlands, Spain and the United States). The issue can be divided in three sections. Section II examines how long-term care should be funded. Section III investigates how public funding of long-term care affects savings and access. Section IV examines the organisation of health and long-term care, and specifically the role of provider incentives in the organisation of service delivery and hospital discharges of patients to social care. Section V concludes.

II. How should long-term care be funded?

The first two papers in the special issue examine the financing of long-term care and address two important policy questions. The first one refers to the sustainability of public long-term care financing. *Bram Wouterse and Bert Smid* examine the case of one of the older long-term care systems in Europe, that of the Netherlands. Specifically, they consider four financing alternatives: the introduction of a pay-as-you-go system, a savings fund, a pensioner tax, and a system based on cohort-specific savings. They show that public financing instruments leading to higher redistribution tend to be more costly. More generally, the paper illustrates the type of equity and efficiency trade-offs that typically should be considered in deciding how best to finance long-term care.

Next, the issue considers the indirect costs of a system based on the subsidisation of informal care. *Johannes Geyer, Peter Haan and Thorben Korfhage* revisit the extent to which public subsidisation of informal care is indeed a less costly alternative. They specifically examine the effect on family caregivers who give up work to provide informal care in Germany. They find that informal caregiving

[1] Costa-Font, Courbage and Swartz, 2015.

leads to sizeable indirect fiscal effects related to forgone tax revenues. Their estimates suggest that forgone tax revenues from reduced labour market participation are about 7.2 per cent of the average fiscal costs of long-term care. Hence, the paper suggests that projections of long-term care financing should consider such additional costs to the taxpayer.

III. What are the effects of public long-term care funding?

The public funding of long-term care might have a non-neutral effect on a household's behaviour and, more generally, on access to long-term care for individuals in need. The third contribution in this special issue empirically tests the commonly held view that a system that publicly finances long-term care can alter traditional precautionary saving motivations. *Joan Costa-Font and Cristina Vilaplana-Prieto* draw on the introduction in Spain of a universal long-term care funding scheme that replaced a previously means-tested system in 2007 and which funds both cash support and in-kind care. Importantly, they find a reduction in personal savings that is driven primarily by a reduction of precautionary savings among younger old-aged individuals who receive cash benefits (unconditional caregiving allowance) only. They find no effects when services are provided in kind. Specifically, they estimate a savings decline ranging between 13 and 39 per cent of the cash allowance. The policy implications suggest that conditional rather than unconditional cash allowances should be employed in designing public long-term care systems.

The fourth paper discusses the effect of public funding on equity in the access to long-term care, drawing on evidence from European countries. *Vincenzo Carrieri, Cinzia Di Novi and Cristina Elisa Orso* examine the distribution of the provision of home care services across three macro areas in Europe. They find evidence of higher inequities in the use of unskilled home care in areas where public financing of long-term care is relatively low ('Southern Europe') than in areas where the public–private mix of financing is more balanced ('Continental Europe'). Hence, their results are consistent with the view that limited public funding of long-term care can give rise to larger inequalities in access to such care.

IV. How important are the incentives in the organisation of health and long-term care providers?

A final section of the special issue examines the incentives in the organisation of long-term care systems. Specifically, the last two contributions consider the incentives for long-term care providers to deliver long-term care efficiently and for health care providers not to delay discharges from hospital. The organisation of long-term care providers typically involves both for-profit and not-for-profit agents, and it is important to understand whether the strategies of both types of providers are comparable in terms of efficiency. *Hyunjee Kim and Edward C. Norton* explore whether for-profit home health agencies respond differently from non-profit agencies to financial incentives embedded in the Medicare prospective payment system in the United States. This question is important because some state government regulations encourage for-profit agencies, and certain Medicare policies can be manipulated to increase profits without commensurate improvement in quality. The authors find that for-profit agencies were more responsive to financial incentives, and therefore contributed disproportionately to the increase in Medicare home health spending under the prospective payment system.

James Gaughan, Hugh Gravelle and Luigi Siciliani investigate whether delayed discharges of patients from hospital, commonly known as bed-blocking, vary by hospital type. They find that hospitals in England with Foundation Trust status, which gives them greater financial autonomy and flexibility, have fewer delayed discharges. Mental Health Trusts have more delayed discharges than Acute Trusts but a smaller proportion of them are attributed to the National Health Service (NHS), possibly indicating a relative lack of adequate community care for mental health patients.

V. Conclusion

The design of the funding and organisation of long-term care systems is a policy-relevant issue in most western countries. This special issue has shown that there are trade-offs in the design of financing instruments that governments can employ and in the hidden costs of subsidising informal care; that public funding can affect saving behaviour (under cash subsidies) and the equity of access to services; and the importance both of for-profit motives in service delivery and of the degree of hospital autonomy in incentivising early discharges.

We hope that the lessons from these six important and timely studies help governments improve their policies towards long-term care financing and organisation.

References

Carrieri, V., Di Novi, C. and Orso, C. E. (2017), 'Home sweet home? Public financing and inequalities in the use of home care services in Europe', *Fiscal Studies*, vol. 38, pp. x–y (this issue).

Costa-Font, J., Courbage, C. and Swartz, K. (2015), 'Financing long-term care: ex-ante, ex-post or both?', *Health Economics*, vol. 24, pp. 45–57.

— and Vilaplana-Prieto, C. (2017), 'Does the expansion of public long-term care funding affect saving behaviour?', *Fiscal Studies*, vol. 38, pp. x–y (this issue).

Gaughan, J., Gravelle, H. and Siciliani, L. (2017), 'Delayed discharges and hospital type: evidence from the English NHS', *Fiscal Studies*, vol. 38, pp. x–y (this issue).

Geyer, J., Haan, P. and Korfhage, T. (2017), 'Indirect fiscal effects of long-term care insurance', *Fiscal Studies*, vol. 38, pp. x–y (this issue).

Kim, H. and Norton, E. C. (2017), 'How home health agencies' ownership affects practice patterns', *Fiscal Studies*, vol. 38, pp. x–y (this issue).

Wouterse, B. and Smid, B. (2017), 'How to finance the rising costs of long-term care: four alternatives for the Netherlands', *Fiscal Studies*, vol. 38, pp. x–y (this issue).