

The Economics and Fiscal Sustainability of Long-Term Care for Older People

Raphael Wittenberg, Adelina Comas-Herrera, Derek King, Juliette Malley & Linda Pickard (PSSRU)
Ruth Hancock & Marcello Morciano (UEA)
Carol Jagger (Newcastle) & Ruth Matthews (Leicester)

LSE Health and Social Care Ageing Seminar
9 June 2011

Acknowledgements

This presentation draws on research funded by the Department of Health, the UK Research Councils and the AXA Research Fund

The research was conducted in collaboration with colleagues at the London School of Economics, London School of Hygiene and Tropical Medicine, University of East Anglia, Universities of Leicester and Newcastle, Pensions Policy Institute, Nuffield Trust and University of Barcelona

Outline of Presentation

Policy context

Key economic issues

Drivers of demand for care

Projections of future expenditure

Conclusions

Long-Term Care Policy Context

Concern over future affordability of long-term care for older people

- highly labour-intensive
- potentially rising expectations
- increasing numbers living to late old age
- uncertainty over numbers who will need care

Debate over the last decade about the appropriate balance between public and private funding

Long-Term Care Financing System in the UK

Health care free of charge at point of use throughout UK

Nursing care in nursing homes now also free throughout the UK

Personal care free in Scotland but subject to user charges in rest of the UK

Hotel costs in care homes and domestic help subject to charges throughout UK

Disability (cash) benefits are not subject to means test, throughout the UK

Policy Agenda under the Coalition Government

The Government's Coalition Agreement included a commitments to establish a commission on long-term care which will consider a range of ideas, including both a voluntary insurance scheme to protect the assets of those who go into residential care and a partnership scheme.

The Dilnot Commission on the Funding of Care and Support is expected to report next month. This is due to be followed by a White Paper in December and legislation next year.

Some Key Economic Issues

Balance of risk

Economic incentives and efficiency

Equity

Fiscal sustainability

Balance of Risk

How is the risk of long-term care costs apportioned:

- Social insurance (Germany, Holland)
- General taxation (Austria, Denmark)
- Taxation and social insurance (Japan)
- Taxation and private insurance (France)
- Tax funded safety net and users (USA, England)

The balance between public and private funding has been at the core of the debate in the UK and elsewhere

Economic Incentives and Efficiency

The way long-term care is funded may affect incentives:

- To work and to save
- To provide unpaid care for family and friends
- To prefer some types of care to others
- To purchase private insurance if available

Equity

Redistribution from lower care needs
to higher care needs

Redistribution from wealthier people
to poorer people

Dependent on provision of informal care
for parents or payment toward parents' care

Dependent on past contributions

Fiscal sustainability

The European Commission (2009) project that public expenditure will rise:

- Long-term care from **1.2%** of GDP in 2007 to **2.4%** of GDP in 2060
- Health care from **6.7%** of GDP in 2007 to **8.2%** of GDP in 2060
- Pensions from **10.2%** of GDP in 2007 to **12.6%** of GDP in 2060

How are these rises to be funded?

Drivers of Demand for Care

Life expectancy and mortality rates

Disability rates - compression or expansion of morbidity and disability

Household composition and informal care

Unit costs of care such as the cost of an hour's home care

Public expectations about long-term care

Methodology for Producing Projections

Use of two linked models:

- Caresim, University of East Anglia, model of resources of older people and charging for care
- Personal Social Services Research Unit at LSE model of long-term care for older people

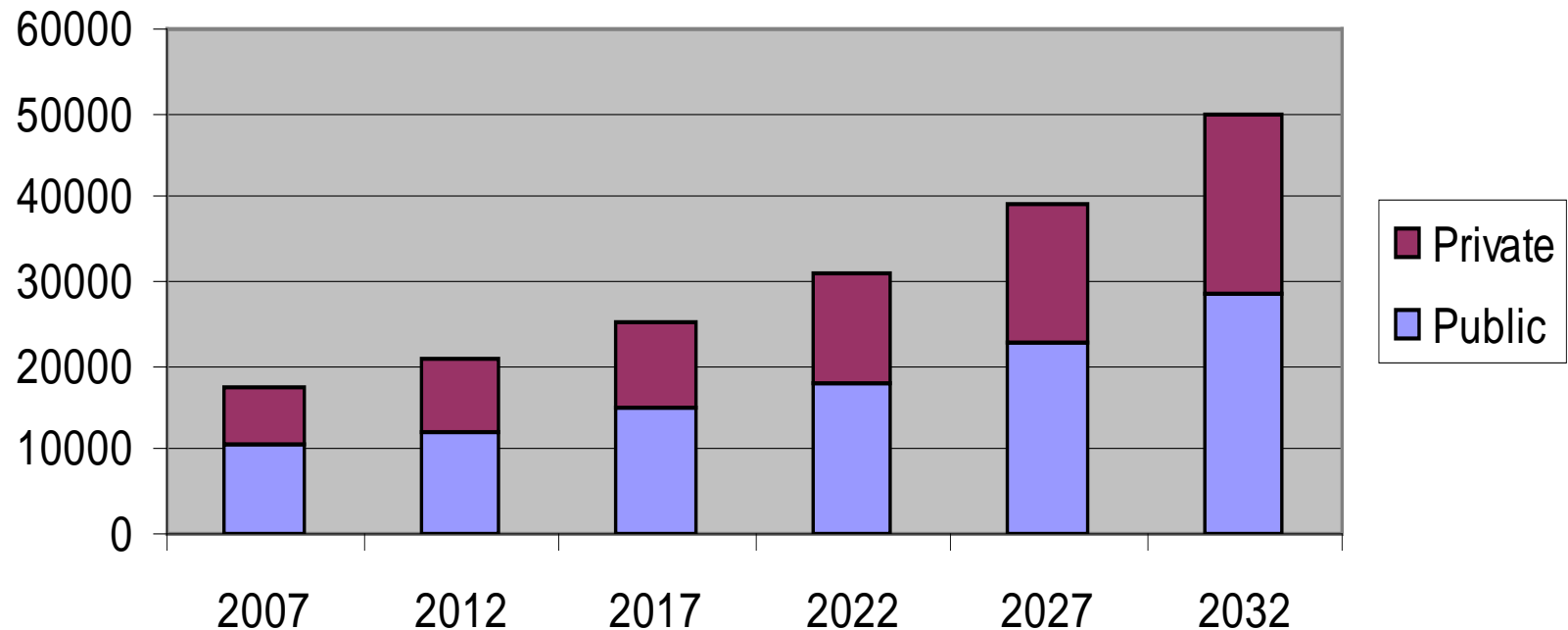
Innovative combination of macro and microsimulation models

Base case assumptions

- Number of people by age and gender in future years changes in line with Government Actuary's Department (GAD) 2006-based population projections
- Marital status changes in line with GAD 2006-based marital status and cohabitation projections
- Prevalence rates of disability by age and gender remain unchanged, based on 2001/02 General Household Survey (GHS)
- Unit costs rise by 2% per year in real terms (but constant for non-staff, non-capital costs)
- Patterns of care – formal and informal - remain unchanged
- Long-term care system remains unchanged, as the current system for England

Base case expenditure projections

Projected Expenditure on Long Term Care (£m 2007 prices)



Life expectancy variants

Three life expectancy variants investigated:

Central life expectancy scenario (CLE): ONS principal population projection;

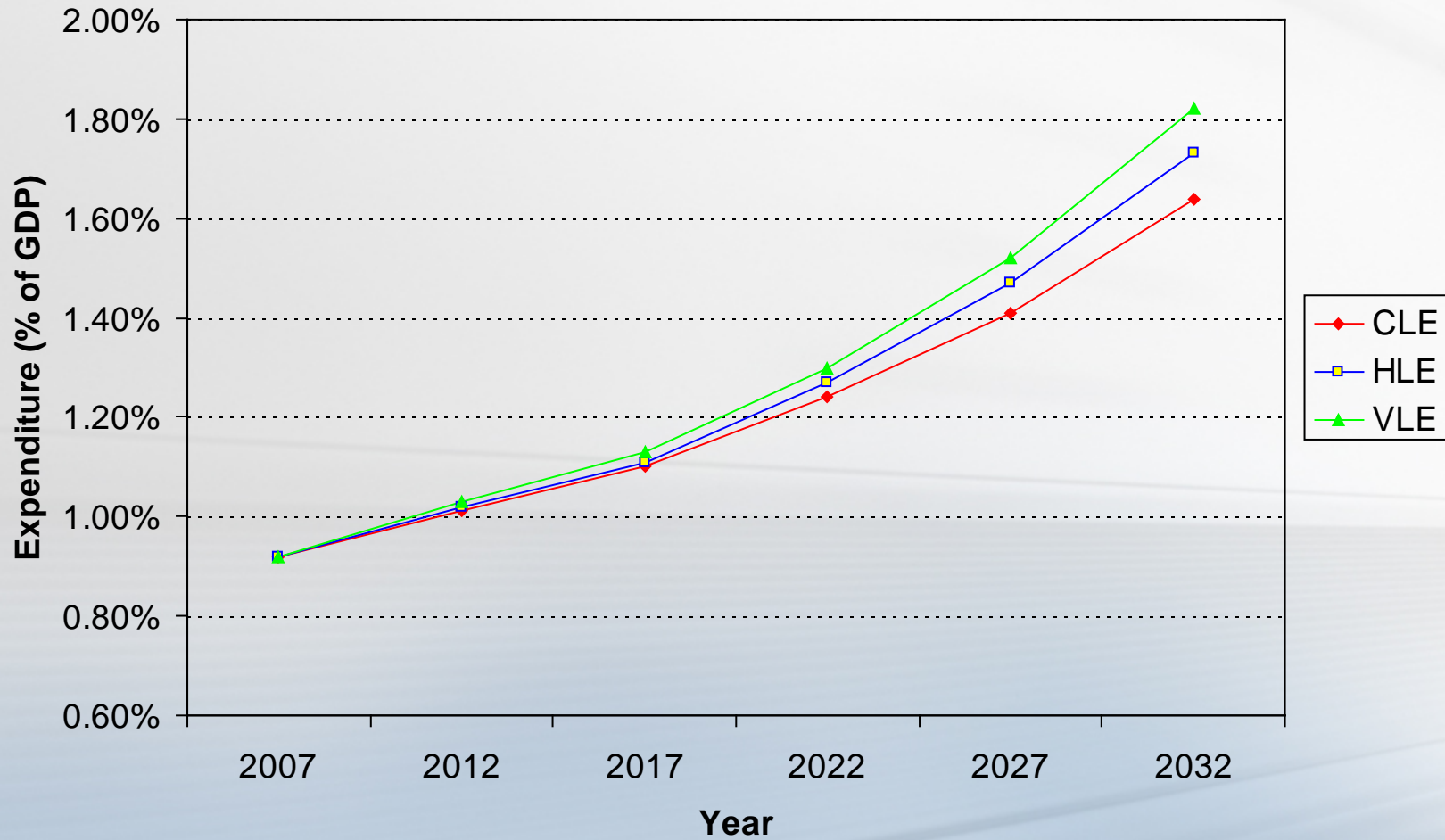
High life expectancy scenario (HLE): ONS variant scenario

Very high life expectancy scenario (VHLE): Mike Murphy's variant scenario

Impact of Variant Population Projections On Long-Term Care for Older People

	CLE	HLE	VHLE
Older population increase 2007-2032	64%	70%	75%
Disabled older pop increase 2007-2032	75%	83%	92%
Total expenditure 2032 £bn (2007 prices)	£50bn	£53bn	£56bn
Total expenditure 2032 % GDP	2.70%	2.85%	3.00%

Projected Public Expenditure on Long-term Care under Different Life Expectancy Variants, % GDP



Disability scenarios

A simple base case scenario: constant age-specific prevalence rates of disability

An alternative scenario: constant age-specific prevalence rates of chronic conditions

The former assumes, implicitly, declines in the prevalence, disabling consequences or duration of chronic illnesses

Unless there is strong evidence of such declines, constant prevalence of disability is an optimistic assumption

Impact of Disability Scenarios

	Constant rate of Disability	Constant rate of Chronic disease
Unable to perform ADLs increase 2007-2032	79%	109%
Care home residents increase 2007-2032	84%	124%
Total expenditure 2032 £bn (2007 prices)	£50bn	£56bn
Total expenditure 2032 % GDP	2.70%	3.05%

Conclusions

The financing of long-term care for raises economic issues on:

- Economic incentives
- Equity including intergenerational equity
- Balance of risk between public and private funding
- Sustainability of public expenditures

Decisions require value judgements but should be informed by evidence on the impacts of different approaches.