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Thank you very much and now for a very different subject, as they say.

My topic is the funding of long-term care, and I should say that I work at the Personal Social Services Research Unit, which is part of the London School of Economics. I would like to say thank you to the organisers of this conference, for inviting me to attend and speak. I would like to thank the AXA Research Fund, and the other funders of the research I will be presenting, and also to thank my colleagues, co-researchers on this work at the London School of Economics, and other universities in the United Kingdom and elsewhere.

After this introduction, I will be talking about the individual level risks associated with long-term care, some issues about private insurance for long-term care, and then about state policies and social insurance, and some concluding remarks.

In this area, terminology has a tendency to differ between countries, so just to clarify; by long-term care here I mean those services which aim to help disabled people, young and old, to maintain independence, particularly through help with personal care tasks like feeding, dressing, and so on. It covers a range of services, but in particular, it also covers unpaid help by family and friends, which is actually the vast majority of long-term care. This is an important point to keep in mind. It covers care in people's own homes, in care homes, hostels which go by different terminology in different countries. However, I think you will understand what I am referring to.

The scale of disability and long-term care needs is very extensive. The World Health Organisation estimate that about 15% of the world's population, one billion people, have some degree of disability, but I think, more relevant to long-term care, something like 3% of the total world population have severe disability. That is 10% of the older 60+ population, and it is mainly about long-term care for older people that I will be speaking. To give an idea of the finances involved, the European Union countries spend roughly 1.8% of Gross Domestic Product (GDP) on long-term care services, and that is only the formal services. The informal care by family and friends is not counted as part of GDP, and yet really ought to be regarded as going on top of that figure.

Our topic is major risks. What are the risks here? Colleagues have already made clear that longevity is not the risk. We all, I think, hope to live to a ripe old age. At the individual level, as you can imagine, one of the risks is that we ourselves will become disabled in late old age, and require care; but we also need to bear in mind the risk that close relatives - a spouse or particularly disabled parents - will need our care. There is a risk of needing to provide care, with all of the implications that that may have, and a risk that we may need care.

Societies clearly face the fiscal sustainability risk relating to funding care. The costs of care are surely likely to rise faster than the capacity of economies, as I will show. Flowing from that, these are some of the policy issues which countries, and supranational organisations as well, will face. How do we fund the projected rise in long-term care? What is the position on fiscal sustainability? This is a very important issue, particularly in the light of recent developments in the world's economies over the last five years. What is the most equitable way of funding? How do we most equitably distribute the risk between the individual and the State? How much reliance do we place on unpaid, informal care in the future? There are two issues here: how much should we place on informal care as an ethical issue, a value judgement, and how much can we do so, in a world of greater geographical mobility, and other demands on people's resources?

Just to give you some idea, here are some English estimates. I have not seen equivalent figures for other countries. Colleagues have estimated that in England 80% of people aged 65 will, towards the end of their lives, need some long-term care, and only 20% will not do so. More crucially, 10% will face a risk of really high costs, some EUR 120,000 or



more. Moreover, given these figures, a really high proportion of us will, at some time, be providing care for a parent or a parent-in-law.

Faced with these risks for the individual, one would expect that perhaps one could buy in the marketplace private, voluntary-purchase, long-term care insurance. After all, that is what we would do with a similar risk of catastrophic loss in respect of our homes, our cars, and so on. But, can we do so? It varies between countries. In the United States, about 10% of the older population have long-term care insurance, but the market there, as I understand it, has been diminishing, with a number of leading players leaving the market, and others having to put up their premiums, most recently the premiums for women particularly.

In the UK, if you wanted to buy long-term care insurance, you could not. The market was in operation for about ten years, with very little take-up, and then the providers left the market. The widest eligibility that I am aware of, in terms of numbers, is actually here in France, where I believe there are about 3 million people enrolled in private long-term care insurance. In absolute numbers the highest coverage is in France, but in proportionate terms it is in Israel, where I believe about half of the population has private long-term care insurance.

What are the barriers to insurance? There are a number of them, and I will just concentrate on some. One of them appears to be a market failure of information. Are people aware of the extent of the risk that they may need long-term care in their old age? Research suggests not. Moreover, and at least as importantly, are people aware of the limitations of social public insurance-like schemes? Research in England suggests not, and my understanding is that research in the US also suggests that people mistakenly believe that care is free, when it is not. Moreover, the cost of this insurance is very high, and its affordability is therefore limited. Demand is never going to be huge.

I would like to turn particularly to the issue of uncertainty about future care needs. My distinguished colleague at the LSE, Nick Barr, regards this as being the main difficulty with long-term care insurance from the supply side. Insurance is good at handling risk, where the risk is statistically known. Where there is sheer uncertainty, so that one does not know how to price the product, that is a different matter. As I am going to show, work by the Organisation for Economic Co-operation and Development (OECD) and others suggests we are in the realm of uncertainty. We do not actually know what the size of the risk will be in the future.

There are a number of mitigating strategies that can be pursued, and in particular, and I will come back to this, the possibility that the risk could be shared between the private and the public sectors. Other strategies have also been suggested, such as linking long-term care insurance to other products or, as happens I believe in France, it is sold to groups earlier in life, rather than to individuals at retirement age.

There are some possible measures that States could take to promote the voluntary purchase of private insurance. Clearly, better information would help to tackle the informational problems, and that could come from the financial services sector, or from the State, or both. Regulation is also an issue, and it is being debated quite a bit in the UK. There can be shared risk. There are schemes in some of the 50 US States - for example, New York - where people who buy insurance privately, giving them cover for a limited period, in effect buy into eligibility for free publicly funded care if they need care beyond the limited period.

An alternative suggestion, which has been put on the table recently in England by the Dilnot Commission, is a different type of sharing, whereby the individual is responsible, if they can afford it, for their long-term care costs up to some limit. After that the State pays, if they survive long enough to need substantial lifetime cost of care. That then opens the way, in principle, for the private financial services sector to offer products where their liabilities and risks are much more limited, because everybody knows that when you pass a threshold, the State will pay.

The extreme possibility, clearly, is compulsory purchase of insurance or, more realistically perhaps, automatic opt-in. We have this now for certain pension schemes in the UK, where employees are automatically incorporated in the scheme, unless they explicitly choose not to be. That too has been suggested for long-term care by analogy with pensions.

Against this background, there is clearly concern across the developed world, and beyond, about the future affordability of long-term care. We can be sure that it is highly labour-intensive: by its very nature it is personal care. Its costs are likely to rise, not in line with general prices in the economy, but in line with average earnings.

There is a strong belief, I think, - we will find out whether it is right or not - that the baby-boom generations will have higher expectations than those now in late old age. We know that more people will be living into old age, not only because of falling mortality rates, but also because of the baby booms that have affected much of Europe, post world war and into the 1960s. However, at the same time, there is the uncertainty that I have mentioned. We do not actually know for sure how many people will need care. This is, I think, the root of the debate in many countries over the last 20 years at least, about how best to fund long-term care.

I have mentioned the uncertainty about future need for care. There is evidence from recent OECD studies of very different rates of change in disability in recent years. Against this background, we do not know whether there will be a so-called compression or expansion of morbidity and disability. This is the main source of the uncertainty. We now turn from the OECD to the EU projections of aging related public expenditure which they produce every two years. The EU projects that public expenditure on long-term care, relative to GDP, will roughly double over a 50-year period. To that, one has to add the projected growth in health and pension expenditure, producing a total of four percentage points of GDP over roughly the coming fifty years. This varies between countries. Different countries have chosen a different balance of risk, and different funding schemes, and there have been reforms in various countries in recent years, which unfortunately I do not have time to go into here.

There are a range of policy measures that could be taken, and I want now to concentrate on two possible approaches. One would clearly be to try to prevent the rise in disability by finding policies and interventions that reduce disability in late old age. Do we have evidence of measures that could do so? Sadly, this is very limited. Another would be to support family carers, so that they can continue to care. Do we have evidence about how best to do so cost-effectively? Again, this is sadly limited.

A few words in conclusion. There is a considerable major risk facing the individual, and societies, as I have indicated. It is clear, that public expenditure on care will need to rise faster than GDP, faster than countries' economies. Therefore countries will need to consider how best to handle these risks. I believe there is a requirement for further research and studies on this issue, about the long-term care risks and how best to handle them. There is a need for further policy debate on these issues, and perhaps particularly, there is a need for evidence from research, not only to be produced, but also to feed into the policy discussions at local, national, and supranational level.

Many thanks.