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Sustainable Financing of Long–Term Care (LTC)

––What Can We Learn From International Experiences

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Key messages

- Long-term care (LTC) financing is one of interlinked key elements for an inclusive, efficient, and sustainable LTC system
- Formal LTC financing arrangements (tax-based financing, LTCI, private financing) vary significantly across OECD countries because of different culture, social compact, and market conditions
- Most developing countries rely on the default healthcare (costly) and the traditional welfare model to target the destitute; some countries have started to set up ear-marked funds (Thailand) or pilot the LTCI (China) to expand its coverage or develop strategic policy for the LTC sector (Malaysia)
- With population aging, both developed and developing countries are exploring innovative options to address the challenges of financing the provision of the LTC services in a sustainable way

Outline

- Sources and types of LTC financing
- LTC financing arrangements in OECD countries
- LTC financing arrangements in developing countries
- Concluding remarks

LTC financing policy

Sources of LTC financing

- Individual (out of pocket payment), family and social resources
- Private financing
  - Commercial and private investment
  - Commercial and private insurance schemes
- Public financing
  - Public investment
  - Tax-based financing model
  - LTC insurance (LTCI)

Types of LTC financing

- Financing LTC services & quality
- Capital investment in LTC infrastructure and facilities
- Financing the government stewardship (standards, regulations and governance)

The LTC financing policy design—Public financing

Why does the LTC financing need the government interventions?

- Rights and interests of the elderly (dignity)
- Equity
- Public goods and public services
- Missing market

Concerns of the LTC financing policy design

- Incentive structure and mechanisms
- Crowding-in vs crowding-out effects to private investment and informal care provision
- Efficiency, effectiveness and sustainability of public financing

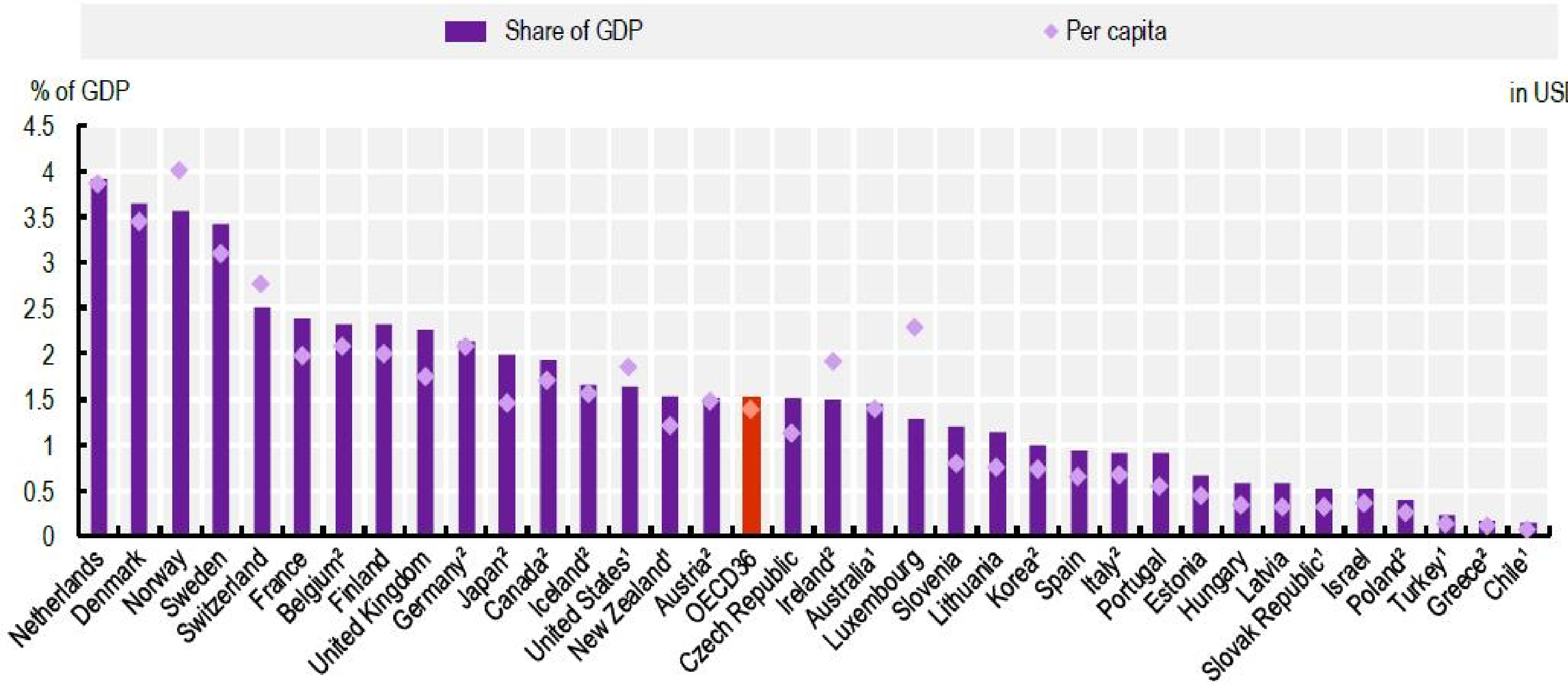
LTC financing arrangements in OECD countries

- OECD countries have formal LTC financing arrangements, but they vary across countries because of different culture, social compact, and market conditions

- On average, around 1.5% of GDP is allocated to LTC across OECD countries, in which the Netherlands and Scandinavian countries have the highest rates (around 3.5%), Japan (2.0%), the US (1.6%), Australia (1.4%), and the Republic of Korea (1.0%)

- Government and LTCI cover the bulk of the costs of LTC provision; and the majority of spending on LTC is in residential facilities

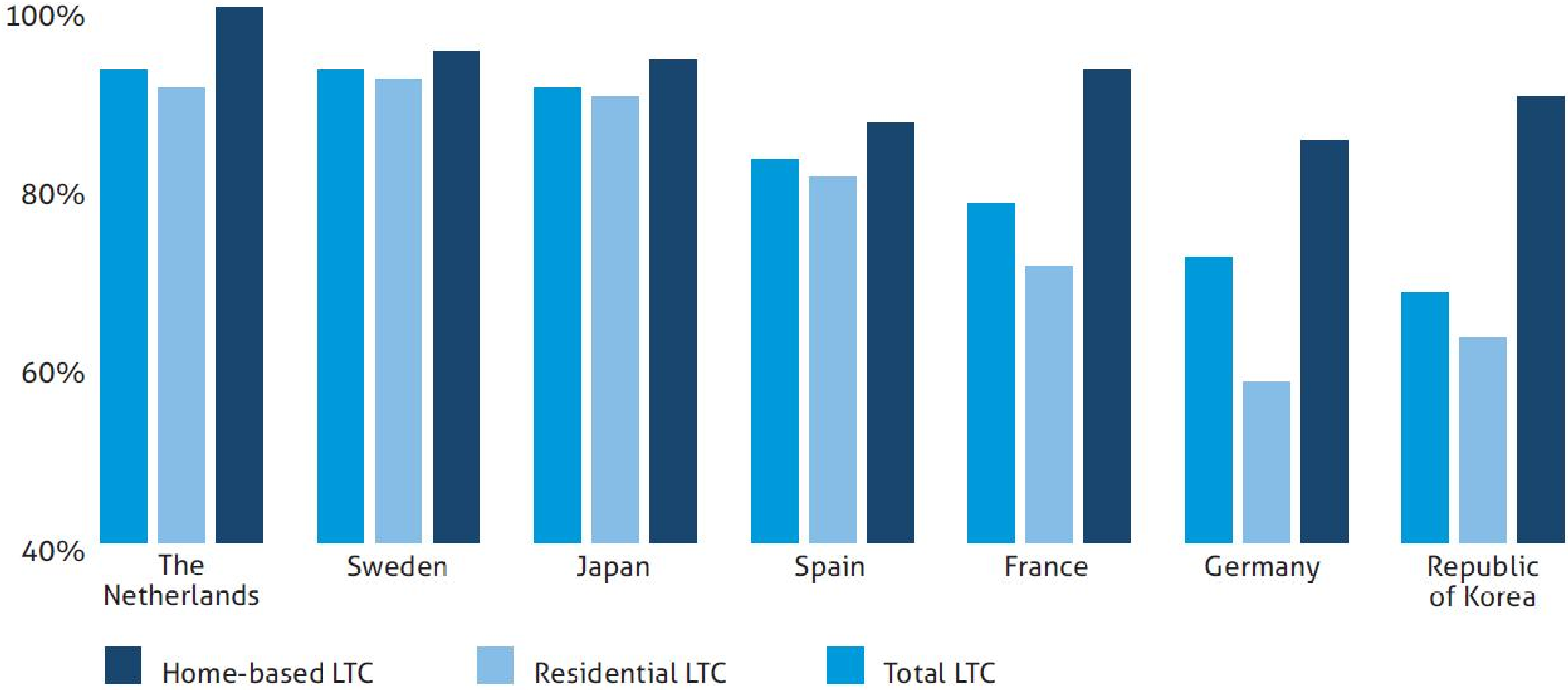
Total LTC expenditure as share of GDP and per capita, 2018 (or nearest year)



1. Estimated by the OECD Secretariat. 2. Countries not reporting spending for LTC (social). In many countries this component is therefore missing from total LTC but in some countries it is partly included under LTC (health). Colombia became an OECD member after the 2020 data collection and is missing from the chart.

Source: OECD Health Statistics 2020, https://doi.org/10.1787/health-data-en; Mueller, Bourke and Morgan. (2020[1]) "Assessing the comparability of Long-Term Care spending estimates under the Joint Health Accounts Questionnaire", https://www.oecd.org/health/health-systems/LTC-Spending-Estimates-under-the-Joint-Health-Accounts-Questionnaire.pdf.

Share of spending for different LTC services financed through public schemes, selected countries, 2018 (or nearest year)



Notes: Germany, Japan and the Republic of Korea do not report social spending.

Source: adapted from OECD (2020).

Source of LTC funding in selected OECD countries, 2018

Country	Source of funding	Public spending on LTC (% of GDP)	Total spending on LTC (% GDP)	Out-of-pocket spending on LTC (% of total spending on LTC)
Australia	Tax, user payments	Not available	1.4	22.3
France	Tax	1.9	2.4	24.8
Germany	LTCI contributions, taxes, co-payments/out-of-pocket payments	1.5	2.1	23.0
Japan	50% premiums (people >40 years); 50% public (half from central, 25% each from prefectural and municipal governments)	1.8	2.0	8.0
Republic of Korea	LTCI contribution (main), taxes, and copayment.	0.7	1.0	31.5
The Netherlands	Insurance premiums, general taxation, co-payments	3.7	3.9	6.7
Spain	Tax, regional grants	0.8	0.9	16.2
Sweden	84% municipal taxes; 12% national grants	3.2	3.4	6.9
United States	Medicaid: general revenue, state general funds, health care provider taxes levied by the state. Medicare: general revenues, payroll taxes and beneficiary premiums.	Not available	1.6	Not available

Source: OECD Health Statistics (2021).

The US

Public financing programs

- Medicaid: Pay for the largest share of long–term care services based on the amount of assistance you need with ADL, but conditional on that your income level must meet minimum state eligibility requirements
- Medicare: Only pays for long–term care if you require skilled services or rehabilitative care:
  - In a nursing home for a maximum of 100 days and the average Medicare covered stay is much shorter (22 days).
  - At home if you are also receiving skilled home health or other skilled in–home services. Generally, long–term care services are provided only for a short period of time.
  - Does not pay for non–skilled assistance with Activities of Daily Living (ADL), which make up the majority of long–term care services
  - You will have to pay for long–term care services that are not covered by a public or private insurance program

Private financing programs

- Private LTCI
- Reverse mortgage
- Life insurance options
- Annuities (immediate or deferred LTC annuities)

LTC financing arrangements in developing countries

- **Out-of-pocket spending dominates**, with access to services depending on ability to pay for large majority of people in developing countries

- Most developing countries have a **default financing approach for LTC through healthcare system,** which is costly and inefficient, and rely on the traditional welfare model to provide LTC protection for the targeted destitute people

- Some countries have tarted to set up ear-marked funds (Thailand, China) or pilot the LTCI to support the coverage expansion; and Private LTCI is non-existent in most developing countries or for the very well-off only

- LTC reform is a learning by doing process. Some countries have shifted the focuses from **supply side financing to demand side financing (China)** and started to strengthen policy coordination and develop strategic policy (Malaysia) for the LTC sector

China: the traditional welfare approach

- Out-of-pocket spending dominates; and private access to services depends on ability to pay
- Public funding: Means-tested and limited to basic support for welfare recipients—known as “Three-No’s” and Wubao
- Supply-side subsidies to service providers (e.g., residential care facilities for new bed construction and operating costs)
- Demand-side subsidies to service users—limited availability of vouchers and cash allowances for qualified elders (e.g., those aged 80+, the needy)
- Sources of public funding: Fragmented and discretionary, mostly from the Public Welfare Lottery Fund
- Total public spending on LTC: About 0.04% of national GDP
- Most spending on infrastructure developments (facilities, beds, community centers, etc.)

China: a learning-by-doing process through national pilots to refine its policy agenda

National pilots since 2016

- Home and community-based aged care: Five waves coving 203 cities with support from the earmarked central funds
- Coordination and integration between aged care and health care: Two waves have been carried out covering 90 cities/districts
- **LTCI: Two waves in 29/45 cities**

More were introduced later

- Rural welfare home reforms: commissioning
- Internet plus aged care
- Comprehensive reform for the aged care system
- Municipality and service operator partnership (PPP)
- Government purchase of aged care services
- Basic package of LTC services
- Mobilize social resources (Timebank, NGO, volunteerism)

Concluding remarks

- With population aging, both developed and developing countries are exploring innovative options to address the challenges of financing the provision of the LTC services in a sustainable way

- A systematic, and elderly–centered approach is crucial for the LTC financing policy design and implementation

- The LTC financing policy design should consider interacting with the LTC system and health system for developing an inclusive, efficient, and sustainable LTC system

- For developing countries, it is a learning by doing process; and both policy coordination and capacity building are important to strengthen the governance capacity to regulate the LTC sector

Thank you