

# LONG-TERM CARE FOR OLDER PEOPLE: ECONOMIC ISSUES

Raphael Wittenberg

Personal Social Services Research Unit, LSE

Centre for Health Services Economics & Organisation, Oxford

Myers JDC Brookdale Institute, Jerusalem

25 December 2013

# ACKNOWLEDGEMENTS

- Funders: Department of Health, UK Research Councils, AXA Research Fund and others
- Research Team:
  - LSE: Adelina Comas, Jose-Luis Fernandez, Bo Hu, Derek King, Juliette Malley, Linda Pickard
  - University of Oxford: Chris Eleftheriades
  - University of East Anglia: Ruth Hancock, Marcello Morciano
  - University of Newcastle: Carol Jagger

# OUTLINE OF PRESENTATION

- Long-term system in England
- Policy context
- Key economic issues
- Assessment and eligibility framework
- Financing long-term care
- Projections of future expenditure
- Conclusions

# LONG-TERM CARE

- Definitions of long-term care can vary between countries, complicating comparisons
- The UK Government in a recent major report defines it as 'care and support [which] enables people to do the everyday things that most of us take for granted: things like getting out of bed, dressed and into work...'
- It can include social care, long-term health care, supported housing, disability benefits

# ORGANISATIONAL STRUCTURE

- Central governments in the four UK countries are responsible for overall policy and funding of health and social care
- Local authorities are responsible for assessing needs, setting eligibility criteria and arranging and funding social services locally
- Clinical Commissioning Groups are responsible in England for arranging health services locally
- Social security disability benefits are the responsibility of the UK government

# MIXED ECONOMY OF SUPPLY

- Family, especially in case of older people spouses and adult children, provide most care
- Most formal social care is provided by the private sector and not-for-profit sector
- Local authorities contract with the independent providers who also contract direct with users purchasing their own care
- Local authorities' direct provision is now fairly limited in most areas

# MIXED ECONOMY OF FINANCE

- Unpaid informal carers: substantial opportunity costs of caring
- Central taxation: health care, part of social care (via block grants to local authorities) and disability benefit costs
- Local taxation: part of social care costs
- Users of services: user charges for social care and costs of privately purchased care

# FINANCING SYSTEM IN THE UK

- Health care free of charge at point of use throughout UK
- Nursing care in nursing homes 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



# ELIGIBILITY FOR SOCIAL CARE

- Assessment of care needs: local authorities set their own eligibility criteria within general government central guidance
- Financial assessment: central system for residential care charging across England but local system for home care charging subject to general central guidance

# RESIDENTIAL CARE

- 325,000 older people – some 3.5% of older population - in care homes
- Majority are female, aged 85+, used to live alone, cognitively impaired, high level of functional disability
- 170,000 funded by local authority, 25,000 by the NHS and 130,000 privately (estimates)

# HOME-BASED CARE

- Some 500,000 older people receive publicly funded community care, including 265,000 receiving home care or cash payments
- At least 150,000 receive privately funded home care, possibly more (estimate)
- There is considerable movement in and out of receipt of home 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

# CARING FOR OUR FUTURE

## JULY 2012 WHITE PAPER

- Quality of care
- Personalisation
- Prevention
- Support for carers
- Eligibility criteria
- Workforce
- Protection
- Integration
- Information
- Financing system

# OBJECTIVES OF THE WELFARE STATE

- Insurance of all against risks like illness and unemployment
- Redistribution toward those with greater needs - such as for medical care, disability, or family circumstances
- Smoothing out the level of income over the life cycle
- Stepping in where the family 'fails'....  
(Hills, 1997)

# KEY ECONOMIC ISSUES

- Managing risk
- Economic incentives and efficiency
- Equity
- Fiscal sustainability

# MANAGING RISK

- One of the key objectives of the welfare state is to pool risks of adverse events such as illness or unemployment
- The risk of needing long-term care in old age seems an obvious risk for the state to pool at least to some degree
- Pooling risks is usually more efficient than each individual taking their own risk
- There are however considerable challenges in insuring the risk of needing long-term care



# 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

# ECONOMIC EFFICIENCY

- Productive efficiency – needs assessment and financial assessment processes should be carried out at minimum cost
- Efficiency in product mix – the mix of care and support services available to users should be those they want to buy
- Efficiency in consumption – care and support should be directed to those who value the services most highly

# EQUITY

- Equity is one of the drivers of reform in long-term care policy, but equity of what?
  - Inputs
  - Access and capabilities
  - Outcomes
- Which inequalities are fair and which are unfair?
  - Age
  - Diagnosis
  - Geography

# 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

# SUSTAINABILITY

- If the care system is unsustainable, it is likely to be inequitable to future generations
- It is also likely to be inefficient, since people will be unable to plan for potential care needs
- Fiscal sustainability means that the framework should not create excessive cost pressures in broader public sector budgets
- Political sustainability means that the framework should be supported by key stakeholders and should be sufficiently forward-looking and flexible

# 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?*

# ASSESSMENT AND ELIGIBILITY: POLICY BACKGROUND

- The Government committed to “Introducing a national minimum eligibility threshold to ensure greater national consistency in access to care and support, and ensuring that no-one’s care is interrupted if they move” (HMG, 2012)
- It also committed to “develop and test options for a potential new assessment and eligibility framework, in consultation with people who use services, carers, academics, local authorities, social workers, and health and care professionals” (HMG, 2012)

# STUDY OF ASSESSMENT AND ELIGIBILITY FRAMEWORKS

- We examined the assessment and eligibility systems for social care in six countries
- The aim was to draw lessons from other countries to inform discussions on the development of a new framework for England
- We studied a range of issues including:
  - Use of standard instruments and algorithms
  - National standardisation or local flexibility
  - Role of unpaid informal care



# INSTRUMENTS AND ALGORITHMS

Broad range of instruments and algorithms, which vary in their degree of objectivity and comprehensiveness

- Objectivity: the extent to which the assessor’s professional judgement can influence decisions
- Comprehensiveness: breadth of information collected
- ‘Objectivity’ and comprehensiveness can support fairness objectives, but also come with costs

	Australia	England	New Zealand	Netherlands	Germany	France
Assessment Instruments	No national instrument	No national instrument	interRAI-HC and interRAI-LTCF	Detailed guidance using several instruments	Zeittabel	AGGIR
Eligibility and Resource Allocation Algorithms	No national algorithm	No national algorithm	No national algorithm	Detailed guidance	Duration-based, objective rules	AGGIR

# RULES USED FOR ELIGIBILITY CRITERIA

Significant variety in the formality/objectivity and comprehensiveness of rules used to make eligibility decisions and allocate public funding for long-term care

## England (FACS):

Substantial when –  
there is, or will be, only partial choice and control over the immediate environment;  
and/or  
abuse or neglect has occurred or will occur;  
and/or  
there is, or will be, an inability to carry out the majority of personal care or domestic routines; and/or  
involvement in many aspects of work, education or learning cannot or will not be sustained;

## Germany:

Care level 2 when for six months –  
The person needs assistance in at least two basic ADLs at least three times a day at various times and additional help in IADLs several times a week for at least three hours a day with two hours accounted for by personal care.

# SUMMARY POINTS ON INSTRUMENTS AND ALGORITHMS

- Assessment and eligibility instruments and algorithms influence the overall efficiency and equity properties of a given framework
- The objectivity and comprehensiveness of assessment instruments are important, but no single instrument has emerged across the countries in our sample
- Similarly, no algorithmic approach to eligibility and resource allocation has been adopted in more than one country

# FUNCTIONS THAT COULD BE NATIONAL OR LOCAL

- Role and scope of assessments
- Assessment processes
- Assessment instruments
- Eligibility criteria and thresholds
- Processes for determining eligibility
- Resource allocation systems
- Care management and reviews

# DEGREE OF NATIONAL UNIFORMITY

	<b>Assessment agency</b>	<b>Assessment instrument</b>	<b>Eligibility criteria</b>	<b>Resource allocation algorithm</b>
England	Local	Local	Local	Local
France	Local	National	National	Local
Germany	National	National	National	National
Netherlands	National	National	National	Local
Australia	Local	Local	Local	Local
New Zealand	Local	National	Local	Local

# IMPLICATIONS OF GREATER NATIONAL UNIFORMITY

- Greater national uniformity of processes might lead to greater efficiency in terms of lower assessment costs per person
- It might make the targeting of resources to needs less satisfactory, in which case maximising outcomes for given resources would not be best promoted by a system that left minimal scope for local discretion
- It should mean that (at least the perception of) variation in eligibility for services is reduced and that portability of assessments between areas is improved
- There is a trade-off between efficiency and equity objectives when deciding whether eligibility criteria and allocations should be determined on a nationally uniform basis

# IMPLICATIONS OF GREATER NATIONAL UNIFORMITY

- Greater national uniformity should in principle mean that where people live will have less impact on their assessed eligibility for care or on the level of funding they receive
- It will probably not mean that where people live will have no impact on their assessed eligibility and care packages, since an earlier study found variability even within English councils
- An important point is that, unless the funding responsibility for social care is transferred from local to central government, councils will still need to be able to flex care packages to contain costs within local budgets

# CARER ASSESSMENTS AND ELIGIBILITY

## CRITERIA FOR CARER SUPPORT

- England appears to be the only country among the six in which is giving unpaid carers a clear entitlement to an assessment of their own needs in their own right and an entitlement to care support in their own right
- Legislation before Parliament extends the right to a carer's assessment, provides an entitlement to public support and gives local authorities a duty to provide support to carers which will be equivalent to that for service users
- The other countries provide support specifically for carers flowing from the assessment of the person requiring care and support
- It should be recognised that services for the person needing care often benefit the person's unpaid carers



# INFORMAL CARE AND ASSESSMENT AND ELIGIBILITY FRAMEWORKS

- The role of unpaid carers raises a number of questions:
  - Are unpaid carers consulted in the assessment of those for whom they provide care?
  - What happens if there are conflicts between the interests of unpaid carers and their care recipients?
  - Can unpaid carers request an assessment of their own needs? How is their assessment linked to the assessment of the care recipient?
  - What publicly funded services or other support are available to assist carers?
  - What are the criteria for carers' eligibility for carer support services and are they similar to the eligibility criteria for disabled people?
  - Do the eligibility criteria and resource allocation decisions take account of input from unpaid carers such that those with carers receive less care or lower payments than those without carers?
- Our study concentrated on the last two of these

# ELIGIBILITY FOR CARER SUPPORT

- Setting eligibility criteria for carer support raises similar efficiency and equity issues as setting them for services for people needing care plus some additional issues
- There is the difficult question about achieving the most efficient and equitable balance between support for carers and support for those needing care
- Whether greater overall welfare could be achieved by a marginal shift of resources from services for frail older people to carer support is an empirical question
- Whether such a shift would improve equity is however a normative question, which depends in part on the relative weights attached to the welfare of carers and care recipients

# CARER-SIGHTED AND CARER-BLIND ELIGIBILITY FRAMEWORKS

- The English system is carer-sighted: disabled people with carers receive, other factors equal, less care than those without carers
- The German system does not take direct account of unpaid care when determining eligibility for benefits
- In France, the availability of informal care does not influence which of six needs groups a client falls into but *is* considered in determining the size and content of the care plan
- The Dutch eligibility framework distinguishes between the 'usual care' provided by others living in the same house as the client, and support provided by others living elsewhere: public support should not replace 'usual care'

# CARER-SIGHTED AND CARER-BLIND ELIGIBILITY FRAMEWORKS

- Whether a carer-blind system is more efficient at maximising societal welfare than a carer-sighted system is ultimately an empirical question
- If the system is carer-sighted there is a further empirical question about how much smaller care packages should be for those with unpaid carers in comparison with packages for those without carers
- Whether it is equitable to operate a carer-sighted system is by contrast a normative question
- If emphasis is placed on achieving equality of access to similar care packages, a carer-blind system may seem more equitable
- If greater emphasis is placed on achieving similar outcomes for all people needing care, however, a carer-sighted system may seem more equitable

# FINANCING LONG-TERM CARE

- We have conducted a range of studies on the financing of long-term care, including international comparative studies
- Our aim is to inform decisions by providing evidence on the costs, benefits and other impacts of different ways of financing care
- The key issue addressed by a series of reviews in the UK is the balance between public funding and private responsibility

# CURRENT MEANS-TESTED FUNDING SYSTEM IN ENGLAND

- Upper capital limit of £25,250, above which USER IS ineligible for local authority support
- Lower capital limit of £12,250, savings below which are completely ignored in the means test
- Tariff rate of £1 per week per £250 savings between the two capital limits
- Almost all income taken into account in means test for residential care
- Almost all income above a set threshold taken into account in means test for home-based care

# BALANCE OF RISK

How is the risk of care costs apportioned:

- Social insurance (Germany)
- General taxation (Austria, Denmark)
- Taxation and social insurance (Japan)
- Taxation and private insurance (France, Israel)
- 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*

# FREE PERSONAL CARE

- Recommended by Royal Commission (1999) and Labour Govt White Paper (2010)
- Wide pooling of risks of catastrophic costs
- No means test involved
- Estimated to increase public expenditure on social care for older people by some 40%
- Beneficiaries concentrated in top two quintiles of older population



# PRIVATE LONG-TERM CARE INSURANCE

- Around 10% of people aged 65 will have life-time care costs exceeding £100,000
- It is more efficient for risk averse people to purchase insurance than to save for long-term care costs
- Yet, unlike in other countries, private long-term care insurance is no longer available in the UK (except for immediate needs annuities): the market failed following low demand and high costs
- This market failure led the expert Dilnot Commission to recommend in 2011 a cap on life-time care costs

# GOVERNMENT PROPOSALS

- A cap of £72,000 is to be introduced in 2016 on life-time care costs, relating to care costs but not hotel costs in care homes
- The upper capital limit for residential care is to be raised in 2016 to £118,000, with no change in lower capital limit or tariff rate
- The proposals are still subject to approval by Parliament and the details are complex

# LIFE-TIME CAP ON CARE COSTS

- Recommended by Commission on Funding of Care and Support (2011)
- Wide pooling of risks of catastrophic costs, subject to user meeting an excess
- Estimated to increase public expenditure on social care for older people by around 25%
- Beneficiaries concentrated in top two quintiles of older population

# PSSRU AGGREGATE PROJECTIONS

## MODELS OF LONG-TERM CARE

These produce projections of:

- Numbers of disabled older/younger people
- Numbers of users of informal care, formal care services and disability benefits
- Public and (for older people) private expenditure on long-term care
- Workforce providing social care

# DYNAMIC MICROSIMULATION MODELS

This produces projections for older people of:

- Numbers of service users
- Public and private expenditure on long-term care and support
- Unmet need for care
- Care pathways and life-time costs
- Winners and losers from reforms

# 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

# BASE CASE ASSUMPTIONS FOR PROJECTIONS

- Number of people by age, gender and marital status changes in line with official projections
- Prevalence rates of disability by age and gender remain unchanged
- Unit costs are constant to 2015/6 and then rise by 2.0% per year in real terms
- Patterns of care – formal and informal – and the funding system remain unchanged

# DEMAND PRESSURES, OLDER PEOPLE IN ENGLAND, 2010 TO 2030

- The number of disabled older people is projected to rise by 59% between 2010 and 2030 (from 1.0 in 2010 to 1.6 million in 2030)
- This is sensitive to assumptions about future mortality and disability rates
- The number of older users of care services would need to rise by 63% between 2010 and 2030 to keep pace with demographic pressures
- A higher rise would be required if unpaid care by children did not rise in line with demand



## PROJECTED PUBLIC EXPENDITURE ON LONG-TERM CARE FOR OLDER PEOPLE, 2010 TO 2030

- Public expenditure in England on long-term health and social care for older people and on disability benefits used towards care costs is estimated to be £12 billion in 2010
- It is projected to more than double by 2030, to £25.5 billion in 2010 prices, to keep pace with demographic and economic pressures
- This would be a rise from around 0.95% of GDP in 2010 to 1.3% of GDP in 2030

# CONCLUSION

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

- Economic efficiency and 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