Financing of Long Term Care

Philip Choi

(Resource Group on Financing of Elderly Services)

Symposium on Long Term Care

The HK Council of Social Service

October 4, 2002

Why should we discuss Long Term Care Financing?

- Ageing population →peak in 2031 where baby boomers enter into old age.
- Economic downturn
- Increasing healthcare deficit

→ Current LTC System Sustainable?

Financing Long Term Care involves the funding and the payment of LTC services

FUNDING

Models of Funding LTC

- There are at least 5 broad approaches to funding LTC, differing in the balance between private and public funding and in the nature and extent of risk-pooling

a) private savings

- special savings accounts
- use of housing equity

b) private insurance

- the <u>voluntary purchase</u> of private insurance
  could be free-standing LTC insurance or linked with pensions or life insurance

c) private insurance with public-sector support

- such as subsidy, tax concession or partnership arrangements;

d) public-sector tax-based support

- funded from general tax revenue with services or cash provided based on need and possibly also on income and assets

e) social insurance

- funded through a hypothecated contribution
- entitlements provided in kind (services) or in cash provided
- based on needs and contributions.

Approaches	Who bear the Risk?	What Govt. can do?
a) Private savings	Individuals & their families bear the full risk	•Regulates private-sector financial products •Provides information
b) Private insurance	Groups of individuals enrollees in the insurance scheme	•Regulates private-sector financial products •Provides information
c) Private insurance with public support	Groups of individuals enrollees in the insurance scheme •But part of the risk might be transferred to the public sector	•Provides subsidy •Regulates private-sector financial products •Provides information

Approaches	Who bear the Risk?	What Govt. can do?
d) Public sector tax-based support	Taxpayers	•Directly provides service/cash •Directly provides insurance
e) Social insurance	Contribution payers, e.g. all workers if contributions are based on a payroll tax •Some costs may be passed on, e.g. costs of payroll tax may be partly passed on to consumers	•Directly provides insurance

Examples of funding LTC in 5 developed countries

- ***Austria, Germany, The Netherlands, Israel, Japan***
  - All of the 5 countries provide LTC service by statutory program (social insurance approach) based on personal entitlement.

- **Ways of funding the entitlements :**
  - a special payment or premium (social insurance)
  - general taxation
  - co-payment for the use of services
  - combination of the above

1. **Special payment or premium (Social insurance)**
   - In all the 5 countries except Austria, employees and employers contribute to financing LTC, and the contribution is a fixed % of taxable income

2. **General taxation**
   - In all of the 5 countries except Germany, the federal government participate in financing the system through general taxation, though the role of general taxation differs from one country to another.

3. **Co-payment for the use of services**
   - Services are financed through co-payments.
   - Some countries require co-payments for all services (the Netherlands, Japan), while others (Austria, Germany) require co-payments only for institutional services.

4. **Combination of the above**

Questions

- **Based on the above information, what is the preferred funding approach for HK ?**

PAYMENT

Service provision : in kind or in cash

3 basic forms of provision :

- **services in kind**;
- **unrestricted cash allowance**, allowing the beneficiary to use the funds freely;
- **restricted cash allowances**, i.e. to purchase services. The beneficiary has to submit receipts for services or have checks co-signed by the service providers.
  - if it is not allowed to use for paying family members, it is closer to the provision in-kind.
  - If it is allowed to do so, it is closer to the provision of unrestricted cash allowance.

- Most of the countries choose in-kind services, but there is a trend towards providing cash allowances in recent years, at least at part of the service package.

- The amount of cash allowance is usually lower than the monetary value of the in-kind services. In Germany, the cash value is 45 – 53% of that of services, depending on the client’s disability level.

- **Strengths** of cash allowance :
  - Allow the recipients to choose the package of services that, in their view, provides them the greatest benefit, whereas care arranged by a third party might fit the older person’s perceived needs less well.
- **Drawback** when applies in LTC :
  - Some older people may not have the ability or the information to make informed choices, especially users of LTC services with some cognitive impairment, and they may not be able to call on a family member, care professional or independent advocate to arrange their care.

- **Possible solution :**

  More and more countries are introducing Care management and brokerage arrangements together with cash payment.

- The cash versus care argument also depends on whether or not taxpayers or insurance fund contributors, who directly or indirectly fund the services used by many older people, are concerned about how the resources are spent.

Pre-requisite of voucher payment

- Clear information easily accessible by elderly and carers
- Case management
- Service accreditation and monitoring
- Carers/appointees must have genuine concern over the care of the elderly
- Carers/Elderly must have ability to choose and monitor the services

Areas of concern

- It is important to define each of these options, e.g. if cash allowance, whether it is restricted or unrestricted. If restricted, what kind of services are allowed, how about paying relatives ?
- In-kind services can be provided with more or less allowance of consumer choice and autonomy

- It is important to coordinate access to fragmented service delivery systems, as well as providing information and counseling to the clients and their families

- The caregivers of the elderly must have a personal interest in the quality of the care the elderly received and must function at an adequate level to make informed and responsible choice.

Questions

What is the preferred option for HK ?

To assess the advantages of the alternative forms of benefits, the key questions are :

- Which benefits are preferred by clients and why ?
- How do those choosing cash allowances spend them ?
- What would help recipients of cash allowances and their families use them efficiently ?

- Does the provision of cash allowances improve the level and accessibility of services (has the recipient’s freedom of choice of providers increased) ?
- What are the implications of provision of cash allowances for the quality of services ?
- What are the implications of provision of cash allowances for public expenditures ?

References

- Long-Term Care Laws in Five Developed Countries : A Review, J. Brodsky, J. Habib, I. Mizrahi, WHO. Sept, 2000
- Discussion paper on LTC financing, The HK Council of Social Service, Resource Group on Financing of Elderly Services, Sept, 2002.

The End