Annex I

EVALUATION OF DIFFERENT LTC FUNDING APPROACHES

(source : Funding Health Care : Options for Europe, European Observatory on Health Care System Series, Open University Press, World Health Organization. 2002 : 238-245)

Criteria for evaluation : efficiency, equity, social solidarity, affordability

Approach	Efficiency	Equity	Affordability
Private savings	***Inefficient*** - not everyone needs LTC, everyone does not have to save enough to meet the average cost of care let alone the maximum likely lifetime cost.	***Not equal*** - Not likely to provide equal resources for equal needs. They redistribute resources across the life cycle but do not redistribute from those with lesser needs for LTC to those with greater needs.	
Private insurance	***Not very efficient, given the characteristics of LTC*** - face difficulties to fulfil the 5 conditions for efficiency (Barr 1998). - Not popular (high premium for the aged, but the young would not consider buying due to competing priorities) Though ***more efficient than private savings*** - since risk pooling is involved	***More equal than private savings*** - redistribute from those with lesser care needs to those with greater - could promote choice, independence & dignity -	Only a minority of the population could reasonably afford LTC insurance unless it is purchased early in life (or possibly by releasing home equity).

Annex I

Public sector support for private insurance	■ But the question is : whether a funded private-sector insurance system with a substantial continuing public-sector role is preferable to a public-sector, potentially unfunded, social insurance system.		■ Subsidies for insurance premiums & partnership arrangements to reduce costs to enrollees : a) offer tax relief on premiums b) Offer a subsidy on the basis that those purchasing LTC insurance were 'contracting out' of the LTC part of the welfare state. c) Reduce the cost of private LTC insurance by effectively taking part of the risk, e.g. partnership schemes offering benefits of a specified minimum amount are treated more favorably under the assets test should they later exhaust their insurance benefits and seek public funding for their care. d) Make LTC insurance compulsory. e) Pay premiums for those who cannot afford it, provided that the scheme is compulsory.
Public-sector funding schemes ■ **A safety net for poor people with**	***Danger of inefficiency*** : - If there is universal coverage of some interrelated services and a safety net for others, there is a risk of perverse incentives and scope for cost-shifting between agencies funding different services and also between public	***More equal*** - more redistribution from the rich to the poor, and towards those with higher LTC risks	

a strict means test **OR** ■ **Universal arrangement for the whole population without any means-test.**	agencies and individuals. - ***The more that budgets and responsibilities are brought together and the more forms of care that are covered by these budgets, the less likely are perverse incentives.*** - The presence of a means-test has implications for incentives both to save and to make lifetime gifts of assets. There are disincentives to save above the means-test capital limit for those able to do so, and there is an incentive to give assets to children of other relatives.		
Mixed private- and public-sector approach ■ Combine social insurance with private funding a) make public funding available for home care without a means test and a means test for residential care, since most elderly people have little spare income or capital when living at home, but capital from the home is released when they move to residential care. - The problem is that the biggest risk for the individual is that of needing residential care over an extended period, and much of the controversy about the means test relates to how housing assets are treated when applying a means test for residential care. b) State to fund home care and the first few months of residential care without a means test but to retain a means test for longer periods of residential care. - Facilitate returning home after a short period of rehabilitation in residential care, but once stay is permanent, capital might be released to pay for care. c) Public funding for long stays in residential care, and savings or private insurance need cover only a limited period of residential care. - since fewer long-stay residents rather than short-stay residents are discharged into home care,			

the main effect would be to benefit the heirs of those needing residential care over an extended period. ■ Covering most health care by one (universal) system while covering long-term nursing care in institutions by another (means-tested) system is bound to create tensions both in public reaction and allocation of services, regardless of mechanisms that might be promoted to help with later costs. ■ **Shifting any service outside a universal system is never going to be popular**	

**** this is an unedited document and some of the sentences are directly quoted from the source.***