

THE HONG KONG COUNCIL OF SOCIAL SERVICE

Specialized Committee on Elderly Service

“CASH Subsidy instead of Service in KIND” ?

I. Background

The Director of Social Welfare had mentioned to study the feasibility of direct payment to the client (older person) as an alternative to paying the service provider in April, 2002, as reported by the local newspaper. (Appendix I).

In this context, a Resource Group on Financing Subvented Elderly Services was set up under the Specialized Committee to research on this subject and to spark off the discussion. The group had reviewed several papers on the payment methods of Long Term Care in several developed countries and the implementation of voucher systems¹ in welfare services and education in various countries.

II. Payment in CASH or in KIND²

Basically, there are 2 (or 3) kinds of payment for services : in kind or in cash. Traditionally, governments tend to provide services to eligible clients through provision in kind, i.e. eligible clients can obtain the kinds of services they needed. A report by the WHO, in which six countries are being researched, found that there is a recent trend towards providing cash allowances in these countries (WHO, 2000).

a) Payment in Kind

- Eligible clients can obtain the kinds of services they needed provided by various service providers, usually public or subsidized.

b) Payment in Cash

- Payment in cash can be in the form of **unrestricted cash allowance** or **restricted cash allowances**. The former allows the beneficiary to use the funds freely while latter confine the client to purchase designated kinds of services.
- **A voucher, defined as “a subsidy that grants limited purchasing power to an individual to choose among a restricted set of goods and services” is, in essence, a restricted form of cash allowances.**
- A voucher can be in the form either of an expenditure or a tax subsidy.

¹ At present, most of the experiences in vouchers are found in education systems, but some examples are found in welfare services, like the short-break vouchers for Carers in UK and child-care voucher in U.S.

² For more details, please refer to the discussion paper “Long Term Care Financing”.

- In the 6 countries mentioned in the WHO report, the amount of cash allowance is usually lower than the monetary value of the in-kind services.

III. Arguments for and against Cash Allowance³

Cash Allowance	For	Against
Both Restricted & Unrestricted	<ul style="list-style-type: none"> • Empower recipients by increasing their autonomy and freedom of choice of services and service providers • Clients are freely to choose from the public and private markets • Service providers will have the strongest incentive to respond to demands since failure to do so leads to losses or school closure. • Generate competition among service providers and thereby improves services 	<ul style="list-style-type: none"> • Some older persons 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. • Considerable choice & flexibility can actually be built into in-kind services • Greater inequality and segregation as clients with better socio-economic background will demand exclusive services while the needs of difficult or disadvantaged groups are ignored
Unrestricted Only (allows to pay the family members or relatives)	<ul style="list-style-type: none"> • Facilitate flexible care planning and enable recipients to schedule personal assistance as they please and to choose and directly contrast with service providers (including informal carers). • Gives families a stronger incentive to continue caring for the older person, since this is regarded as an opportunity to express appreciation for the efforts of unpaid helpers, or acknowledges lost employment income of the carers. • Justification for lower benefits : assume that the clients purchase services from non-organized providers or family members, and therefore obtain services at a 	<ul style="list-style-type: none"> • If cash allowances were offered, there would be a rush of applications for benefits. Total costs will be high due to high participation rates Some of the care are previously provided by informal carers • Quality of care will be poor because of the lack of adequate supervision over service provision • May result in abuse of the funds by the family members or relatives. • Use of funds is difficult to regulate • Feminists argued that cash allowance would merely become part of the household income while female family carers continued to provide bulk of the care.

³ For more details, please refer to the discussion paper “Arguments for and against Voucher system”.

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IV. Areas of concerns

4.1 System to ensure accessibility

- ◆ Providing financial assistance, whether in cash or in kind, is not sufficient to assure that the older person will be able to access to the most appropriate services. 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 should also have a personal interest in the quality of the care the elderly receives and must function at an adequate level to make informed and responsible choice.
- ◆ More and more countries are introducing care management and brokerage arrangements together with cash payment.

4.2 Administrative system

- ◆ For a voucher (or cash allowance) system to work, we need to have a complex system for smoothly processing hundreds or thousands of vouchers.
- ◆ The government has to decide who gets the voucher, what service is provided, and so forth.
- ◆ This also means preparing individual authorizations in almost infinite variation, receiving payment requests from an uncounted number of providers, and then issuing hundreds or thousands of checks a month -- all in specific amounts depending on the amount and type of care provided and the older person's required co-payment, if any.

4.3 Impact on public expenditure

- ◆ In traditional grant and contract systems, the number and size of grants contracts awarded control aggregate service costs. The unit subsidies are set through the government's agency-by-agency negotiation of rates. Very often, such arrangement provides far fewer slots than are needed by eligible clients. Rationing is thus accomplished by allowing waiting lists to develop. Total costs are also kept down by lower take up rates by clients, mostly those who are unhappy with the choices they are given.
- ◆ Unlike the deals with the agencies, the eligibility criteria have to be clear and transparent. Therefore, voucher systems make it politically more difficult to provide fewer services than there are eligible clients. Besides, since vouchers give older persons and their family members more choice of providers, they are more likely to use the benefits, including payments for services that were once provided free by friends and relatives.

- ◆ This makes controlling per-client costs even more important in voucher systems. The government, however, cannot negotiate directly with providers, because it is the older person, not the government, who selects the provider from a broad range of potential providers (with substantially different cost and price structures).
- ◆ In this context, governments using vouchers tend to control the costs by instituting (1) calibrated reimbursement schedules that are meant to cap payment levels depending on the type of care, and (2) co-payment requirements that are meant to create price-sensitive shoppers.
- ◆ In addition, vouchers may make subsidies more explicit, demand might rise and more eligible individuals might apply, thereby adding to the total costs. The improved accessibility of services will also lead to higher demand and greater costs.

4.4 Vouchers versus Cash Allowance

- ◆ If vouchers are used to help the low-income families, stigma is inevitably associated with vouchers. In this respect, cash assistance will be better. It prevents the provider -- and other families -- from knowing that the family is receiving government aid. That also tends to prevent the provider from overcharging subsidized clients or engaging in cross-subsidization.
- ◆ However, cash allowance also has certain set-backs. Knowing that the older persons are receiving their assistance in cash may make some providers unwilling to serve them for fear they will not pay their bills. Left unsaid is the fear that the clients or their family members may misuse the money.

4.5 Refundable Vouchers?

- ◆ Refundability may be the only way to create cost consciousness among recipient whose incomes are too low to impose a co-payment of any meaningful size. Recipients who can pocket the difference between a lower-cost provider and the dollar value of the voucher have a strong incentive to be cost conscious.
- ◆ However, tax-payers' resistance to refundable vouchers would, nevertheless, probably be substantial.

4.6 Resistance from taxpayers on unrestricted cash allowance

- ◆ taxpayers might be concerned about how the resources are spent, e.g. they might prefer to know that their contributions have been spent on care and not on other goods and services.
- ◆ This could be alleviated in principle by offering cash dedicated to purchase LTC services only (voucher schemes).

V. The preferred option for HK

Several critical questions have to be answered :

1. Which benefits are preferred by clients and why ?
2. If payment in cash is chosen, whether it is restricted or unrestricted has to be defined.
 - If restricted, what kind of services are allowed, how about paying relatives ? Will it become another form of “Carer allowance” ?
3. What would help recipients of cash allowances and their families use them efficiently ?
 - Should there be a case management system ?
4. What are the implications of provision of cash allowances for the quality of services ?
 - Do the older persons and their family members have the ability to monitor the quality of the services ? How to prevent abuse ?
5. What are the implications of provision of cash allowances for public expenditures ?
 - Should the payment be reimbursed ? Should there be co-payment ? Will co-payment hinders the low income group from getting the services they need ?

VI. Conclusion

Introduction of voucher system of payment in cash signifies a change in citizens' behaviour. It seems to provide an incentive for the older persons and their family members to make decisions for services without central or government planning, and trusts them to make the right choices for themselves -- especially if they are made moderately cost-conscious through co-payments, refundable vouchers or cash payments.

In essence, the government handed over the monitoring role to the older persons and their families. In the past, the government has to negotiate contracts with the service providers and to monitor their quality. With the introduction of payment in cash or vouchers, their roles are passed on to the clients. Whether these people are ready to take up such roles and whether they have the ability to do so requires more discussion.

If such system is adopted, several pre-requisites will be required to empower the older persons and their family members' abilities to make the right choice and effectively

monitor the services :

- a) A well-coordinated Long Term Care system in which service accessibility is fair;
- b) Comprehensive and readily available information system about the various kinds of services;
- c) Case management system to assist those without carers or those cognitively impaired to make the right choice;
- d) Service accreditation system to monitor the quality of services.

Simultaneously, there should be a sophisticated administrative system to define and process the cash payments and to monitor the usage and prevent abuse.

References :

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