European Study of Long-Term Care Expenditure

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The PSSRU has participated in a European study of long-term care expenditure in collaboration with research units in Germany, Spain and Italy. This collaborative study was funded by the European Commission. The key objective was to investigate the sensitivity of projections of long-term care for older people to assumptions on trends in the key drivers of demand for care.

The European Union’s Economic Policy Committee (EPC) had conducted a study of the impact of ageing on health and long-term care expenditure (Economic Policy Committee, 2001). This was in the context of concerns about the future affordability of long-term care in view of demographic trends, potentially declining family support for frail older people, and potentially rising expectations among older people. It was part of a wider EU analysis of the fiscal sustainability of public expenditures on pensions, health, long-term care and other services.

This new comparative study of long-term care expenditure investigated the key factors that are likely to affect future expenditure on long-term care services in Germany, Spain, Italy and the United Kingdom. The approach involved investigating how sensitive long-term care projections are to assumptions made about future trends in different factors, using comparable projection models. The main factors investigated include demographic changes, trends in functional dependency, future availability of informal care, the structure of formal care services and patterns of provision, and the future unit costs of services.

The study posed a variety of challenges. The first of these was how to produce comparable analyses for four countries with different patterns of long-term care and different funding arrangements. Germany has introduced a social insurance scheme for long-term care, which provides specified benefits for people assessed as meeting national eligibility criteria. The United Kingdom (UK) funds long-term care from a combination of central and local taxation and user charges levied under a means test. (In Scotland personal care and nursing care have been free since July 2002. In England, Wales and Northern Ireland there continues to be a means test for personal care but not for nursing care.) Spain and Italy have decentralised arrangements for formal care and greater reliance on informal care.

A second challenge was how to produce comparable analyses for countries with different data and different existing projections models. A substantial part of the study was devoted to making the long-term care projection models available in each of the four countries as comparable as possible. The main adjustments to the models were to their coverage, to ensure that all the models covered the same population group and included both public and private long-term care services.

A further challenge was how to develop a common set of base case scenarios on trends in the key drivers of demand for long-term care. There are two main reasons for using a common core set of assumptions. The first is to provide a plausible central projection that can be used to compare the likely impact of demographic and other pressures between countries. The second is to have a core set of projections that can act as a reference case against which the effect of changes in the different assumptions can be investigated. The key base case assumptions are set out in the box.
The four models project that, under these base case assumptions, the proportion of Gross Domestic Product (GDP) spent on formal long-term care services for older people would more than double between 2000 and 2050. The chart shows that the highest increase in expenditure as a proportion of GDP would be in Germany, followed by Spain, Italy and the United Kingdom.

It should be stressed that these projections are projections on the set of assumptions described: they are not forecasts. They take no account of possible policy changes or of the potential impact of rising expectations. They are rooted in current patterns of care and current policies.

The key aim of this study was to investigate how these base case projections varied under alternative assumptions about the key drivers of demand. This meant that a further challenge was to develop a set of comparable scenarios that could be investigated for all four countries. The range of scenarios is outlined in the box.

The sensitivity analysis showed that projections of long-term care expenditure are sensitive to assumptions about future mortality and dependency rates. They are also highly sensitive to assumptions about future real rises in the unit costs of care (such as the cost of an hour’s home care). They are sensitive to scenarios involving a relative decline in informal care where this results in greater use of residential care. They are somewhat less sensitive to assumptions about changes in the patterns of formal care.

A final challenge was to draw implications for policy from these projections that would be relevant for European Union countries. One key implication is that policy makers need to recognise that there is a wide degree of uncertainty about future demand for long-term care services.

### References
