

Fiscal challenges for the long-term care system in Austria

Philip Schuster

Office of the Austrian Fiscal Advisory Council

October 6, 2017

Disclaimer: Opinions expressed in this talk do not necessarily reflect the official views of the Austrian Fiscal Advisory Council.

Content

- ❑ **Status quo of public long-term care (LTC) in Austria**
 - Focus on long-term care for **elderly** only
 - How is LTC system organized in Austria?
 - Data on current public expenditure for LTC
- ❑ **Determinants of the evolution of public LTC costs**
- ❑ **Own projection of Austrian public LTC expenditure 2015 to 2060**
 - Method and assumptions
 - Results
- ❑ **Conclusions**

The talk is based on the study: “*Langzeitpflege in Österreich: Determinanten der staatlichen Kostenentwicklung*” (“*Long term care in Austria: Determinants of public expenditure*”)

<https://www.fiskalrat.at/en/publications/other-studies.html>

Status quo: Long-term care in Austria

Long-term care in Austria (I)

- About **80 %** of all care services are provided **informally**
- Financing of LTC is **in principle** based on **contributions of recipients** based on actual costs (→ no public insurance)
 - Every person who is in need of LTC receives public **cash benefits**
 - For public LTC services: government has **access to recipients' income** (pensions, LTC cash benefits, etc. except of an allowance)
 - **access to recipients' assets** has been abolished recently
 - **remaining costs are borne publicly (by provinces & municipalities)**
- **LTC in responsibility of provinces**
 - Agreement of provincial and federal governments (15a B-VG): minimum standards, etc.
 - Until 2021 federal government agreed to additional transfers to provinces & municipalities (LTC fund)

Long-term care in Austria (II)

❑ LTC cash benefits (provided by federal government)

- Based on degree of care dependence
- Independent of whether formal/informal care

❑ LTC in-kind services (in responsibility of provinces).

Types:

- Mobile care services (91.613 persons, end of 2015)
- Stationary care (54.687)
- Partly stationary care (4.822)
- Short-time stationary care (1.983)
- Alternative living arrangements (10.358)
- Case and care management (23.012)

equal to ~ 4% of the Austrian population

❑ LTC leave and part time for relatives (provided by federal government)

❑ Subsidization of 24/7 home care (fed. gov.: 60%, provinces: 40%)

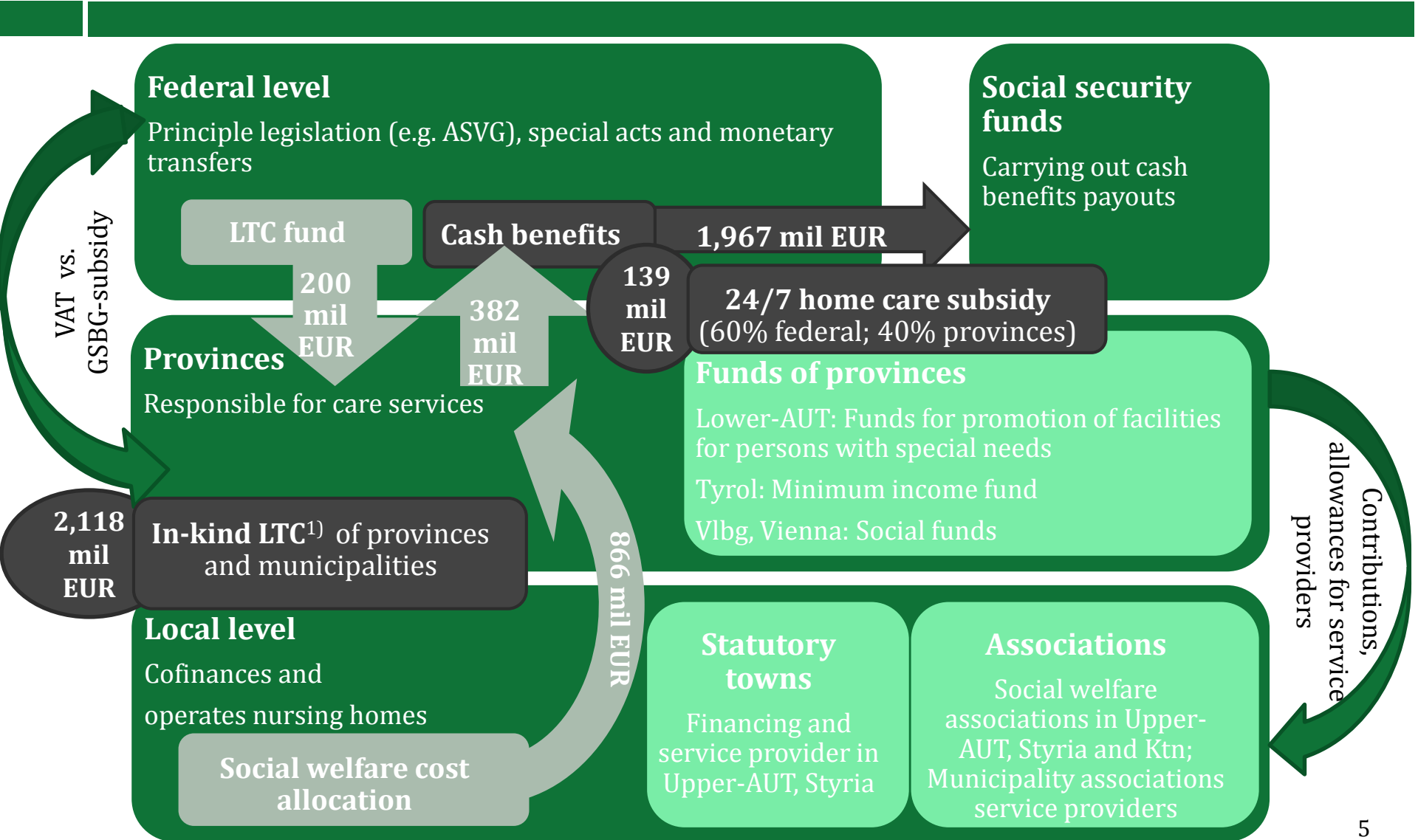
Public expenditure for long-term care

in mil EUR	2011	2012	2013	2014	2015
LTC cash benefits (old-age only, federal level)	1,939	2,105	1,980	1,992	2,021
24/7 home care subsidy (60% fed./40% prov.)	74	89	105	123	139
Tide-over allowances (federal level)	8	9	10	12	16
LTC in-kind services (provinces and municipalities)	2,876	3,042	3,144	3,313	3,421
Total public LTC expenditure (gross)	4,896	5,244	5,239	5,440	5,596
<i>in % of GDP</i>	1.6	1.7	1.6	1.6	1.6
- own contributions of LTC recipients to LTC in-kind services	1,186	1,233	1,264	1,288	1,303
Total public LTC expenditure (net)	3,710	4,011	3,975	4,152	4,294
<i>in % of GDP</i>	1.2	1.3	1.2	1.3	1.3

Sources: Statistics Austria (Provincial LTC statistics, ESSPROS), Ministry of Social Affairs, Main Association of Austrian Social Security Institutions and own calculations. Note: Table without intergovernmental transfers (e.g. LTC funds).

- ❑ **Data on total public LTC expenditure** can only be computed by **combining several data sources**.
- ❑ **System of Health Accounts (SHA) only** covers a **part** of total public LTC expenditure
- ❑ **European system of integrated social protection statistics (ESSPROS)** w/o administration costs
- ❑ **ESA (COFOG)** does not allow isolation of LTC expenditure

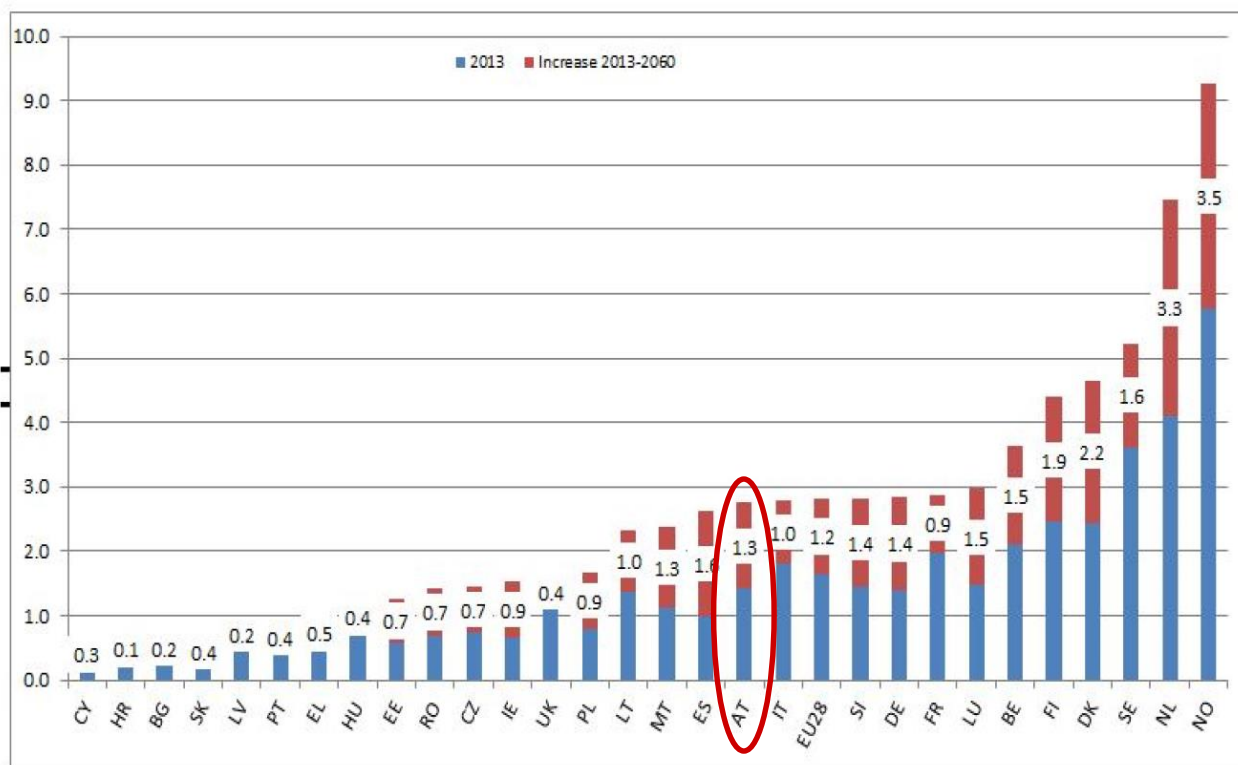
6.8 bil EUR of transfers related to LTC in 2015



1) Without own contributions of recipients.

Evolution of public LTC expenditure according to Ageing Report 2015

Public expenditure on LTC as % of GDP 2013 to 2060



Source: European Commission, 2015 Ageing Report.

- **LTC expenditure in AT in EU-comparison:**
 - **Below average** 2013 (AT: 1.4%; EU-28: 1.6% of GDP)
 - (Ageing Report includes all LTC cash benefits, not only for elderly)
 - **Strong increase** until 2060 predicted (2013: 1.4%; 2060 2.7% des BIP)

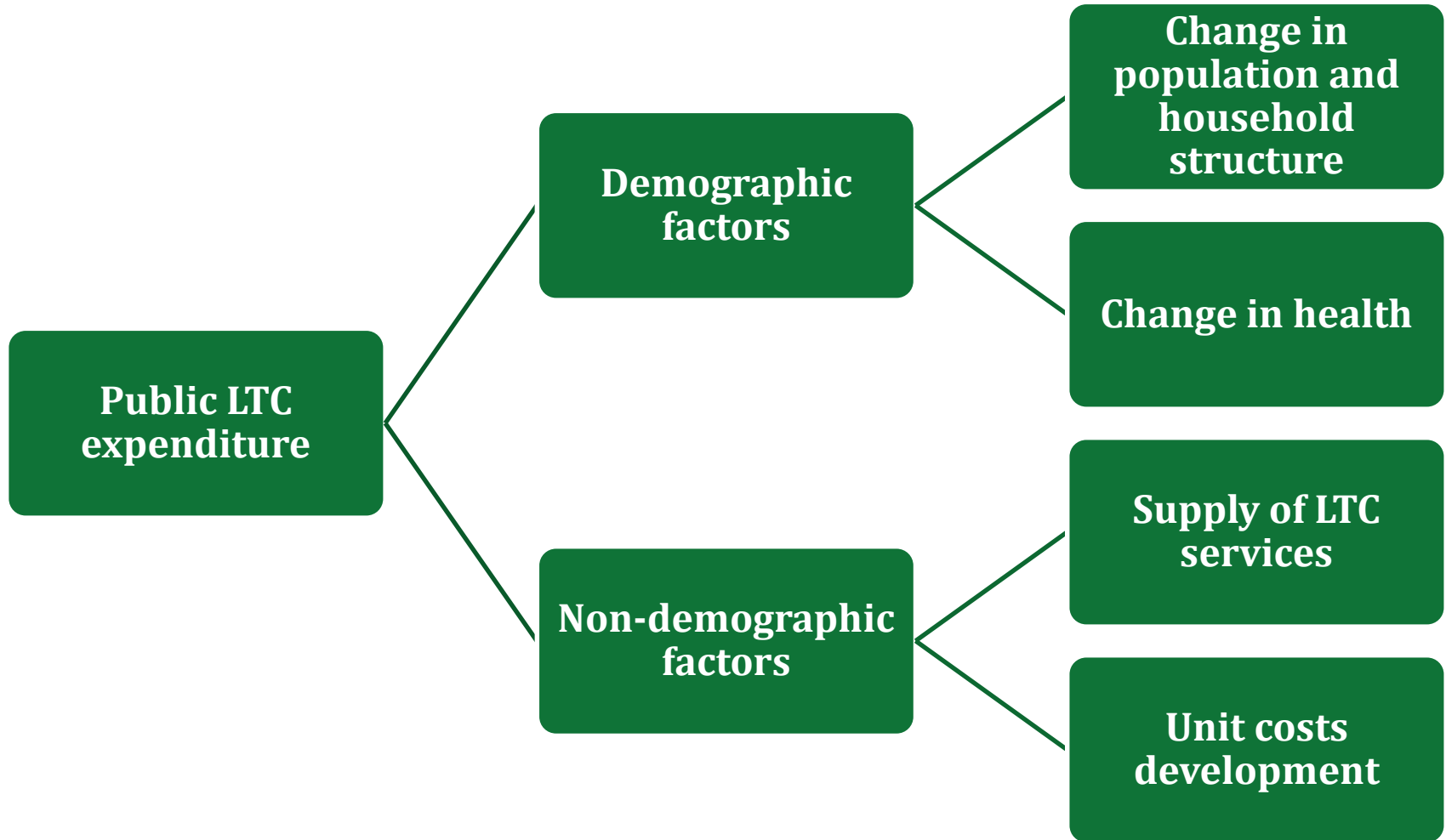
- **In comparison to total social expenditure (2015 in AT):**
 - Social expenditure: 100 bil EUR (or 29.4% of GDP)
 - LTC expenditure (for the elderly): 4.3 bil EUR (or 1.3% of GDP)

FISKALRAT

Austria ■

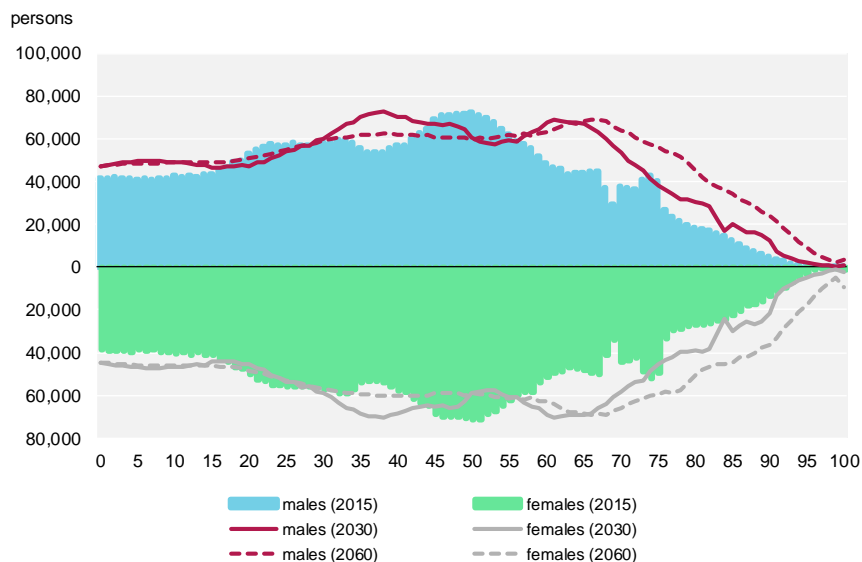
Determinants of the evolution of public LTC expenditure

■ Determinants of the evolution of public LTC expenditure



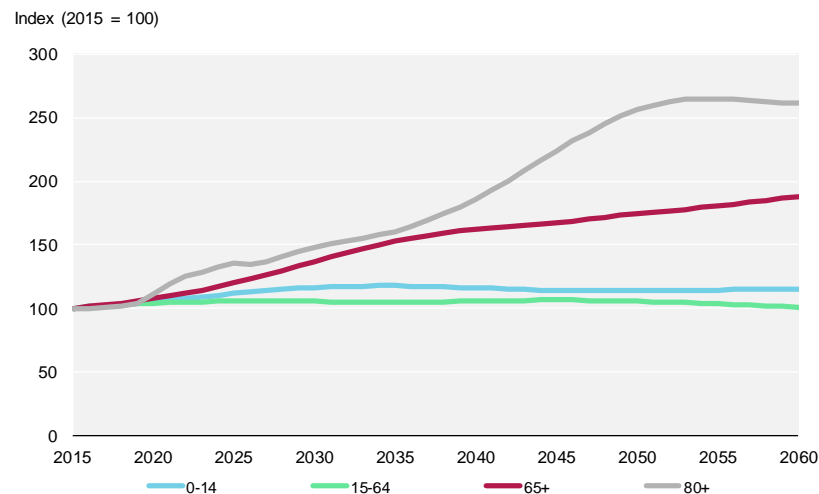
Demography and the supply and demand for LTC

Austrian age pyramid 2015 vs. 2060



Source: Eurostat (EUROPOP2015).

Evolution of population by age group



Source: Eurostat (EUROPOP2015).

□ Potential demand for LTC:

- Share of 80+ persons in total population: 5.0% (2015); 6.6% (2030) und 11.0% (2060)
- Absolute number of 80+ increases by factor 1.5 (2030); 2.5 (2060)

□ Potential supply of LTC :

- Share of working age persons (15-64): 67.2% (2015); 62.8% (2030) und 57.1% (2060)
- Absolute number of working age persons almost constant: 2015=100, 2030=105, 2060=101

Informal care: development of determinants 2015 to 2050

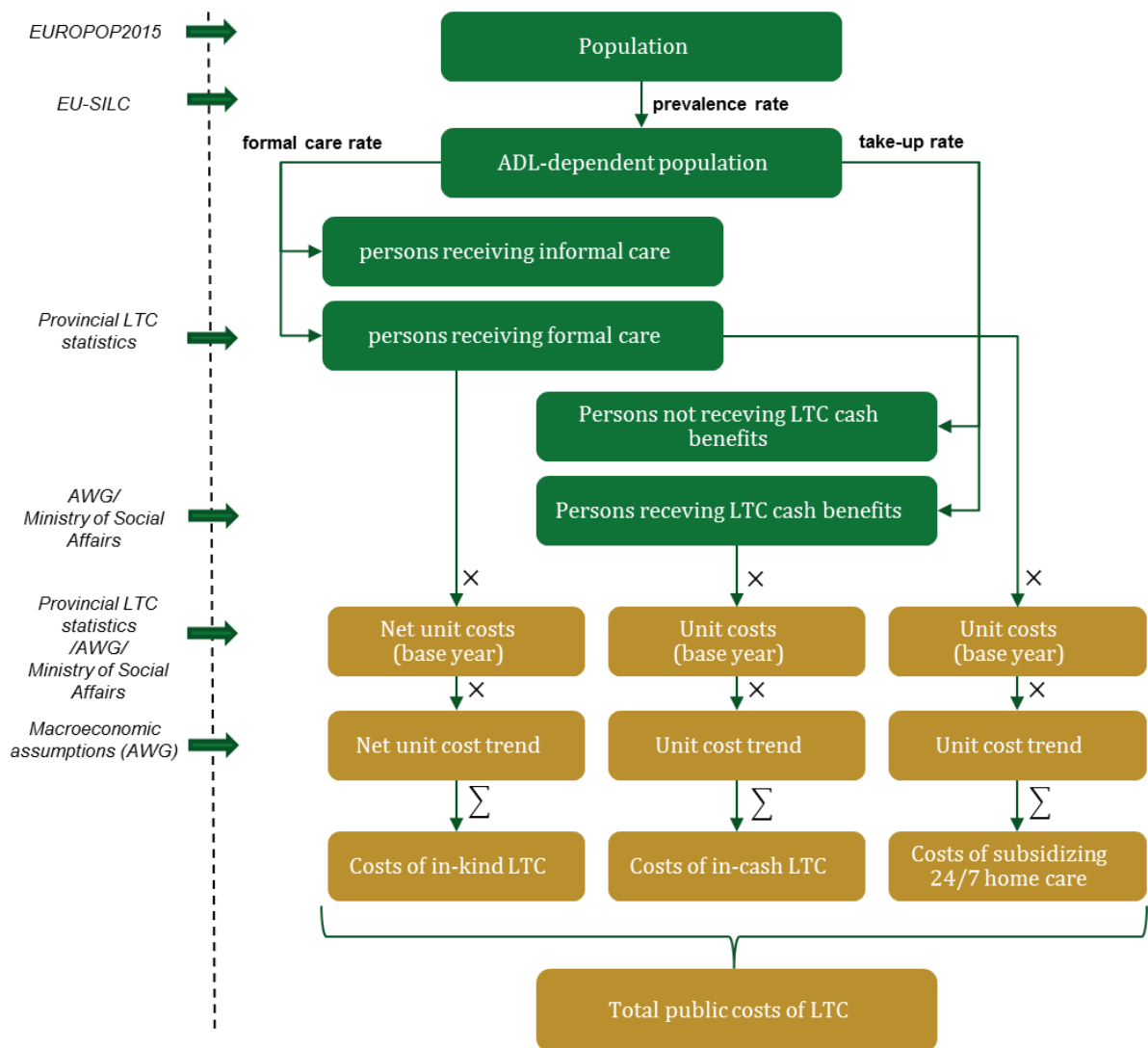
Year	Population			Persons by household size			Labor market participation females
	total	males and females over 70	females from 40 to 59	single	multi-person	institutional	
absolute							in %
2015	8,629,519	1,159,615	1,300,353	1,413,285	7,083,963	132,271	65.3
2020	8,981,218	1,255,857	1,293,974	1,515,345	7,353,721	141,749	65.8
2025	9,238,123	1,359,010	1,265,439	1,594,569	7,513,261	151,073	66.3
2030	9,417,982	1,526,255	1,237,037	1,656,898	7,613,016	162,172	67.4
2050	9,767,122	2,087,866	1,216,106	1,867,301	7,685,194	218,665	72.8
in % of population							
2015	.	13.4	15.1	16.4	82.1	1.5	.
2020	.	14.0	14.4	16.9	81.9	1.6	.
2025	.	14.7	13.7	17.3	81.3	1.6	.
2030	.	16.2	13.1	17.6	80.8	1.7	.
2050	.	21.4	12.5	19.1	78.7	2.2	.

Source: STAT (population, labor force and household forecast 2016).

- ❑ Increasing **labor market participation of women** from 65.3% (2015) to 72.8% (2050)
- ❑ Decline in share of **women aged 40 to 59** by 2.6 PP (who predominately provide informal care) while share of **persons 70+** increases by 8 PP
- ❑ **Increase in number of single households** (2015: 1.4 mil; 2050: 1.9 mil)

**Own projection of Austrian public LTC costs
2015 to 2060**

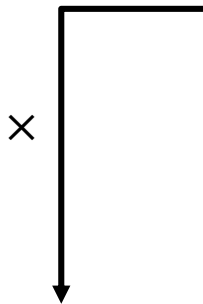
Sketch of projection method



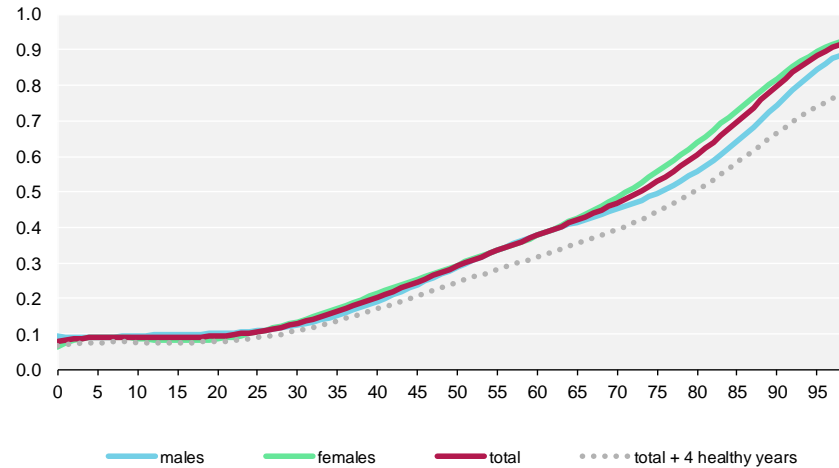
- **Method** similar to Ageing Report 2015/WIFO (2014, 2015, 2017) and Comas-Herrera et al. (2003)
- **Base year:** 2015
- **Population:** own population model which replicates most recent EUROPOP forecast
- **Macroeconomic assumptions:**
 - up to 2020: medium-term forecast WIFO
 - after 2021: real GDP per working age person as in Ageing Report, growth of deflator by 2% p.a.

Age dependent prevalence, formal care and cash benefits take-up rates

Probability to receive in-kind LTC



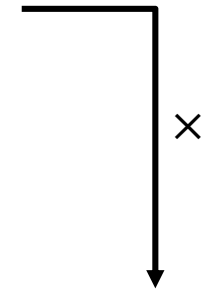
Prevalence rate (ADL* dependency) by age



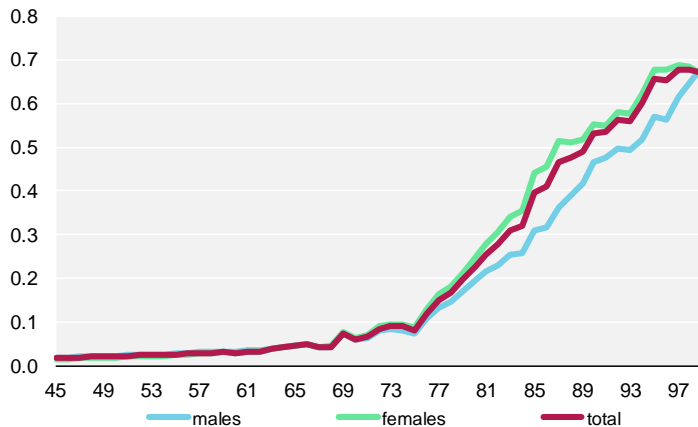
Source: own calculations. +4 years in life-expectancy in 2060.

*ADL = „activities of daily life“

Probability to receive LTC cash benefits

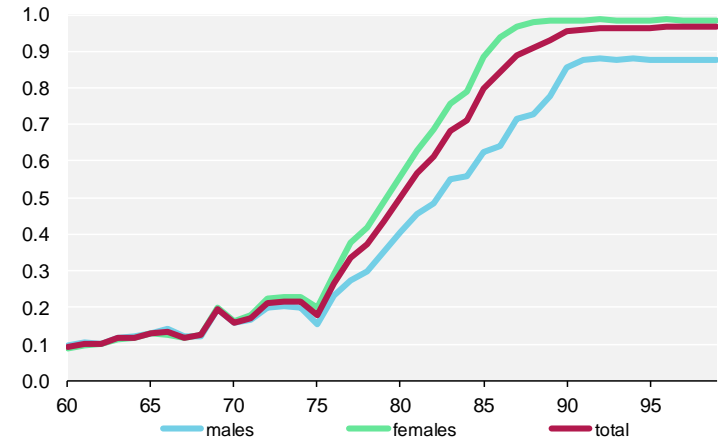


Average share of formal LTC in ADL-dependent population



Source: own calculations.

Take-up rates of cash benefits by age



Source: own calculations.

Simulated scenarios

Scenarios	FISK_AWG	FISK_S1	FISK_S2	FISK_LEB_ERW+
Population forecast	EUROPOP2015	EUROPOP2015	EUROPOP2015	EUROPOP2015 + 2 years life expect. (linear until 2060)
Prevalence	constant age/sex dependent rates	+ 4 healthy years (linear until 2060)	+ 2 healthy years (linear until 2060)	constant age/sex dependent rates
Formal care	constant age/sex dependent rates	constant age/sex dependent rates	+0.2% per year	constant age/sex dependent rates
Unit costs in-kind LTC	nom. GDP/hour	nom. GDP/hour	nom. GDP/hour + 0.3% pro Jahr	nom. GDP/hour
Unit costs LTC cash benefits	nom. GDP/capita	historical	Inflation	nom. GDP/capita

← Choice of population forecast (Europop13, Europop15, Statistik Austria 2016) plays rather small role for results

- **Prevalence:** +2 healthy years (share of healthy years constant), +4 healthy years (“compression of morbidity“)
- **Formal care:** +0.2 PP per year as in WIFO (2014, 2017): smaller household size, increasing female labor market participation
- **Unit costs in-kind LTC:** extra +0.3 PP per year (average 2011-2015)
- **Historical indexation of LTC cash benefits:** ca. 2.8% every 5 years

Results of LTC projections

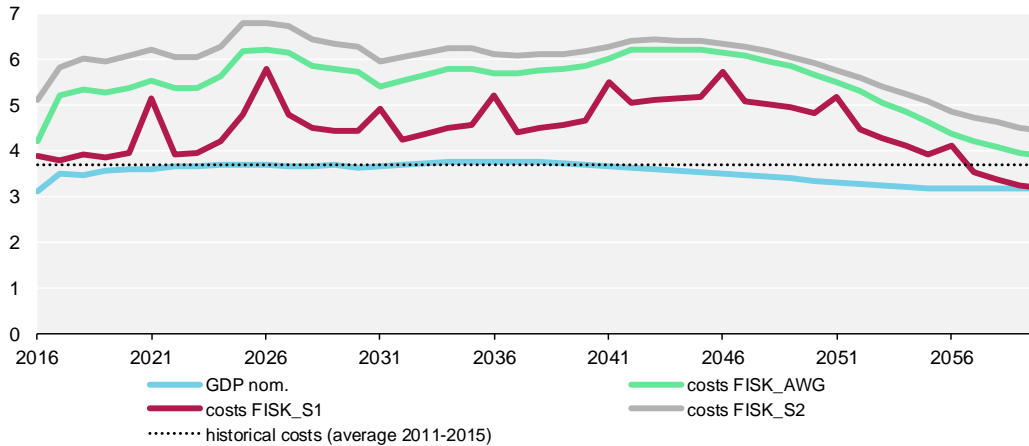
Cost in % of GDP		2015	2020	2030	2040	2050	2060	Change 2015-2060
Scenario	Cost type							
FISK_AWG	LTC in-kind	0.62	0.68	0.85	1.05	1.37	1.62	1.00
	LTC cash benefits	0.61	0.64	0.77	0.90	1.12	1.22	0.62
	24/7-home care subsidy	0.04	0.06	0.07	0.08	0.10	0.12	0.08
	Total	1.27	1.37	1.68	2.03	2.59	2.96	1.69
FISK_S1	LTC in-kind	0.62	0.68	0.86	1.05	1.36	1.58	0.95
	LTC cash benefits	0.61	0.57	0.52	0.45	0.41	0.33	-0.28
	24/7-home care subsidy	0.04	0.05	0.04	0.04	0.04	0.03	-0.01
	Total	1.27	1.30	1.42	1.54	1.81	1.94	0.67
FISK_S2	LTC in-kind	0.62	0.76	1.13	1.59	2.23	2.84	2.22
	LTC cash benefits	0.61	0.61	0.65	0.66	0.71	0.67	0.07
	24/7-home care subsidy	0.04	0.06	0.06	0.07	0.08	0.08	0.04
	Total	1.27	1.42	1.85	2.32	3.02	3.59	2.32
FISK_LEB_ERW+	LTC in-kind	0.62	0.68	0.86	1.08	1.44	1.75	1.13
	LTC cash benefits	0.61	0.64	0.77	0.92	1.16	1.29	0.68
	24/7-home care subsidy	0.04	0.06	0.07	0.08	0.11	0.12	0.08
	Total	1.27	1.37	1.70	2.08	2.70	3.16	1.89

Source: own calculations.

Evolution of public LTC costs

Public LTC costs

yearly change in %



Source: own calculations.

- Yearly growth of total public LTC costs (nearly) every year above growth of past years:

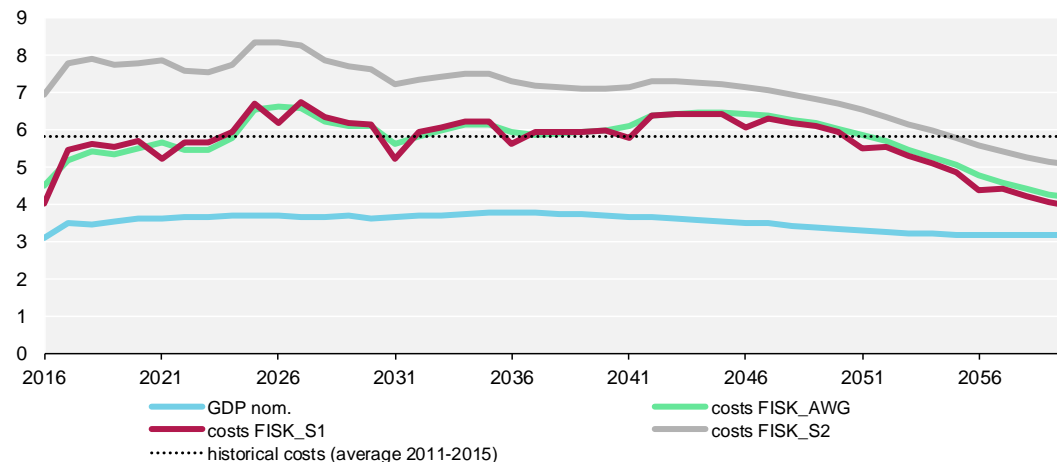
- Between +4.4 and +6.2% p.a. (2016-2030) vs. +3.7% p.a. (2011-2015)

- In particular **public LTC (net) costs for in-kind services** expected to grow strongly

- In-kind LTC costs: +5.8 bis +7.8% p.a. (2016-2030)
- LTC cash benefits (incl. 24/7 home care subsidy): +2.5 bis 5.2% p.a. (2016-2030)

LTC (net) costs for in-kind services of provinces

yearly change in %

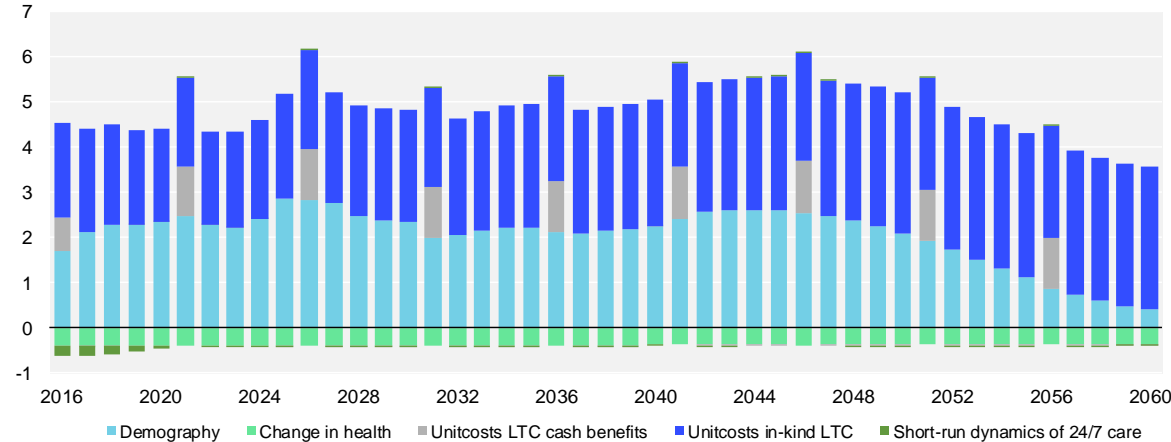


Source: own calculations.

Break-down of yearly public LTC cost growth

Break-down of yearly public LTC cost growth (FISK_S1)

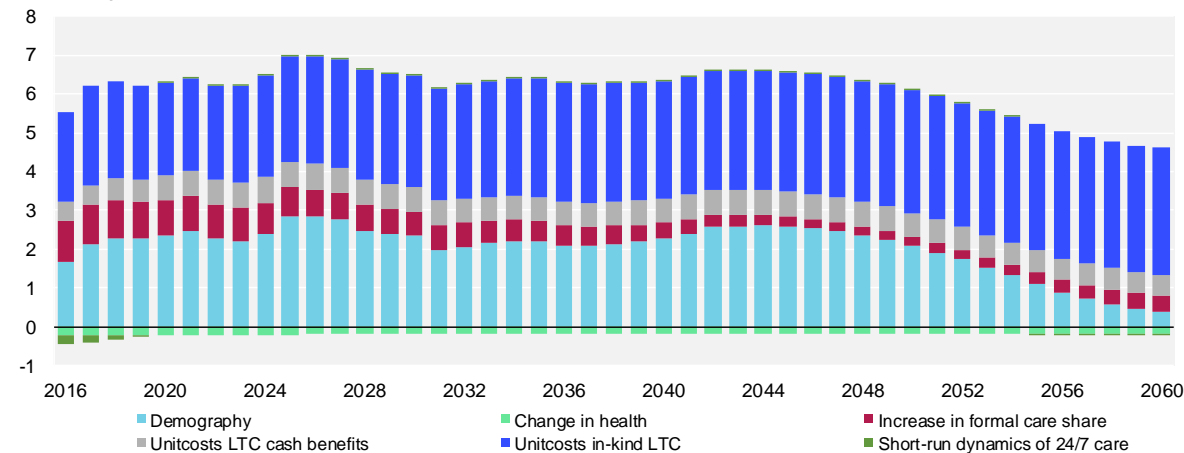
in percentage points



Source: own calculations.

Break-down of yearly public LTC cost growth (FISK_S2)

in percentage points



Source: own calculations.

□ **Average yearly growth (S1: 2016-2030) of +4.4% p.a.** can be broken down into:

- Demography: +2.4 PP p.a.
- Change in health: -0.4 PP p.a.
- Unit costs in-kind LTC: +2.2 PP p.a.
- Unit costs LTC cash benefits: +0.2 PP p.a.

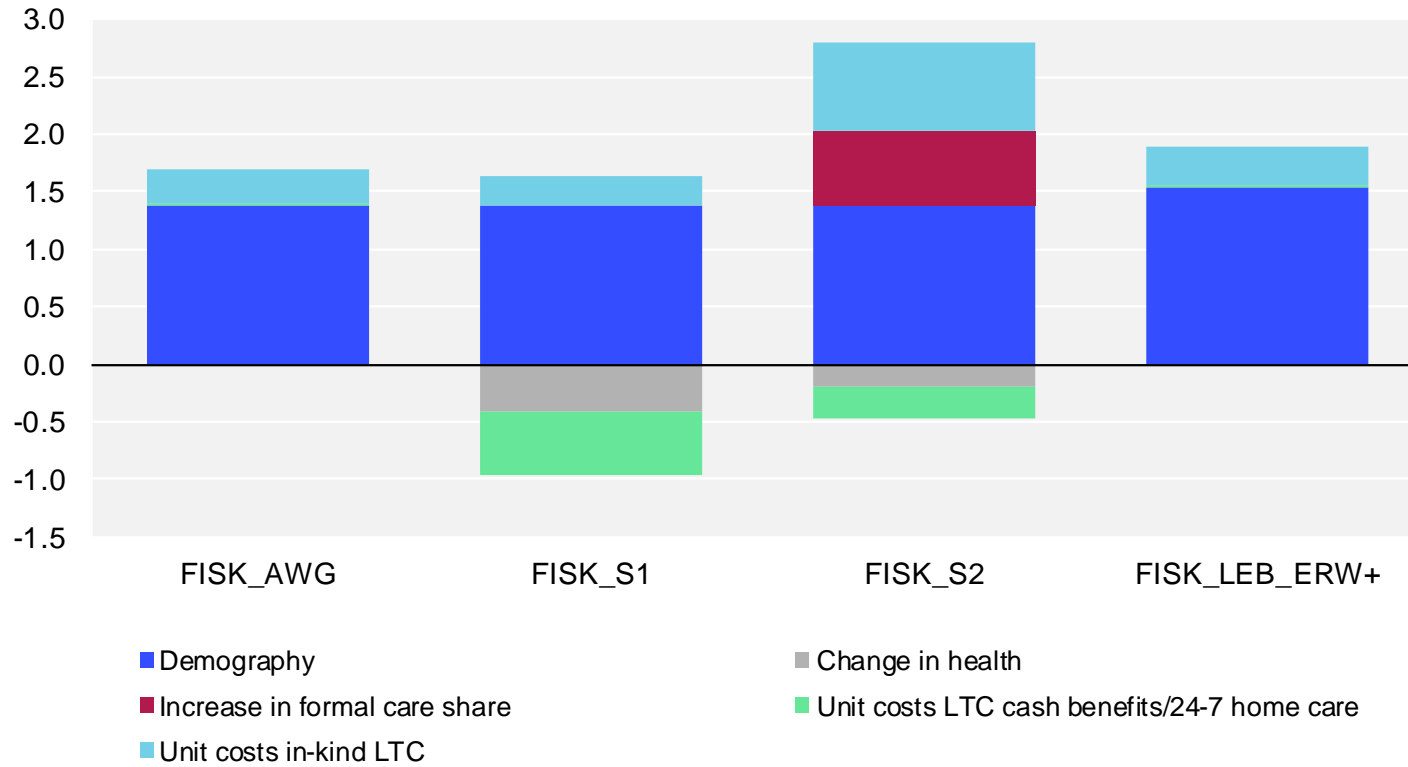
□ **Average yearly growth (S2: 2016-2030) of +6.1% p.a.** can be broken down into:

- Demography: +2.4 PP p.a.
- Change in health: -0.2 PP p.a.
- Increase in formal care share: +0.8 PP p.a.
- Unit costs in-kind LTC: +2.6 PP p.a.
- Unit costs LTC cash benefits: +0.6 PP p.a.

FISK ■ Break-down of accumulated increase in public LTC costs

Break-down of public LTC cost increase 2060 vs. 2015

in % of GDP 2060



Source: own calculations.

Conclusions

Conclusions (I)

- ❑ **Public long-term care expenditure** expected to more than double (as share of GDP) by 2060; dynamic particularly strong in 2025-2030 and 2040-2045
- ❑ Still, public LTC comprises a **comparably small part of total social expenditure** (2015: LTC 1.3% of GDP vs. total social expenditure 29.4% of GDP)
- ❑ **Demography** and **unit cost development** are **key drivers** for evolution of public LTC expenditure:
 - \emptyset -growth of **total public until 2030**: 4.3% (FISK_S1) and 6.1% (FISK_S2)
 - Growth contribution of **demography**: 2.3 PP (FISK_S1) and 2.3 PP (FISK_S2)
 - Growth contribution of **unit costs** : 2.2 PP (FISK_S1) and 2.6 PP (FISK_S2)
- ❑ In particular assumptions concerning **unit cost** development should deserve deeper analysis
 - Technology
 - Potential **shortage of future labor supply** for LTC jobs (role of migration?) meets **increasing labor demand** → consequences for sectoral wage development?

Conclusions (II)

- **The current system** is characterized by many **intergovernmental transfers and contributing parties** (difficult to govern, potential inefficiencies)
- **In the no-policy change case** the financial burden is increasingly shifted from the federal government to the provinces and municipalities
 - Costs for in-kind LTC services (provided by provinces) expected to grow considerably faster than LTC cash benefits (provided by federal government)
 - discontinuation of LTC fund in 2021
- Comparison of **unit costs between different provinces** reveals **considerable differences**. Why? Data problem or different efficiency?
- Related **data collection** improved substantially but **still way to go**
 - Comparability of different provinces
 - Single source providing all public LTC related figures

Thank you for your attention!

Contact:

Philip Schuster

Office of the Austrian Fiscal Advisory Council

e-mail: philip.schuster@oenb.at

phone: (+43 +1) 40420 - 7475

Bernhard Grossmann

Office of the Austrian Fiscal Advisory Council

e-mail: bernhard.grossmann@oenb.at

phone: (+43 +1) 40420 - 7473