# Growth projections for public spending on long-term care exceed agreed cost containment targets

**A new study produced by the Office of Austria's Fiscal Advisory Council[1] implies that the growing cost of long-term care may exceed agreed cost containment targets (in the absence of offsetting measures). In 2021, the cost overrun could range from EUR 8 million to as much as EUR 685 million – depending on the underlying scenarios. The Fiscal Advisory Council forecasts general government net spending on long-term care to keep rising in the long run, from 1.3% of GDP (2015) to GDP ratios between 1.4% and 1.9% (by 2030) and ultimately to a range of 1.9% to 3.6% (by 2060).**

**The focus of the study is on evaluating the fiscal side of sustainability and the effectiveness of cost containment efforts. The study does not address options for reforming the long-term care delivery system or future funding models, which will be an issue sooner or later given the high relevance of the topic.**

With a view to sustaining budget funding for health care, long-term care and social care in Austria, the fiscal sharing rules agreed between the federal, regional and local levels of government for 2017–2021 envisage a EUR 300 million adjustment for inflation of **earmarked subsidies from the long-term care fund** and of **supplemental annual funding** for regional and local government budgets. At the same time, a **cost containment path was agreed for spending on long-term care for the elderly**, capping the increase in **gross spending at the regional and local government level** at EUR 4.5 billion (2021), up from EUR 3.6 billion (2016). However, according to projections of the Office of the Fiscal Advisory Council, local and regional government spending on long-term care will rise between EUR 4.5 billion and EUR 5.2 billion in 2021 (depending on the underlying scenarios) in the absence of cost-cutting measures. In 2021, the long-term care cost overrun could therefore range from EUR 8 million to EUR 685 million.

The **federal government** contributes slightly more than **half of the public funding** for long-term care (for the elderly), which is under **regional government** jurisdiction and subject to **local government co-financing** (2016: federal government: 51%; regional and local governments: 49%). The Fiscal Advisory Council expects the funding share of the regional and local governments to rise to at least 52% by year-end 2021 (federal government: 48%). In this context, transfers to the long-term care fund are set to edge up gradually, from EUR 350 million (with the federal government contributing two-thirds and the local and regional governments one-third) in 2016 and 2017, to EUR 417 million by 2021, subject to annual inflation adjustments of 4.5%. However, the **long-term care fund** will cease to exist in its current form at the end of 2021, which calls for a **sustainable funding solution after 2021**.

In **2015**, **general government gross spending** on long-term care for the elderly totaled EUR 5.6 billion or 1.6% of GDP. Social care spending (2015: EUR 100 billion or 29.4% of GDP) comprises regional and local government spending on in-home and institutional long-term care services (EUR 3.4 billion), federal long-term care benefits (EUR 2.0 billion), benefits for long-term care leave and replacement benefits (bridging benefits) as well as subsidies for 24/7 long-term care (in sum EUR 0.2 billion). **Net general government long-term care spending for the elderly** totaled EUR 4.3 billion or 1.3% of GDP (total gross spending minus private contributions and reimbursements from recipients of long-term care amounting to EUR 1.3 billion). As long-term care is closely linked with health care, overall costs are

1 Grossmann, B. and P. Schuster (2017). Langzeitpflege in Österreich: Determinanten der staatlichen Kostenentwicklung. Study commissioned by the Austrian Fiscal Advisory Council, Vienna. The opinions expressed by the authors of this study do not necessarily reflect those of the Austrian Fiscal Advisory Council (see www.fiskalrat.at/en).

likely to be higher when health care costs are included. Yet, there are no comprehensive statistics that cover all components of the public long-term care delivery system.

The **future need for long-term care** is essentially determined by **demographics**, which will be characterized by a marked **rise in the share of elderly persons** in Austria's overall population. In 2015, the 80+ age group – the age group most likely to have an increased need for long-term and home care support – accounted for 5.0% of the total population. This share stands to rise to 6.6% by 2030, and to 11.0% by 2060. The number of people in the 80+ group is projected to grow 1.5 times by 2030, and more than 2.5 times by 2060.

The Fiscal Advisory Council forecasts **general government spending on long-term care for the elderly** to keep rising, from 1.3% of GDP (2015) to GDP ratios ranging from 1.4% to 1.9% by **2030**, and further to a range of 1.9% to 3.6% by **2060**, depending on the underlying scenarios. The individual projection scenarios are driven by diverging assumptions about mortality and the propensity to seek formal public long-term care as well as the indexation of unit costs. The choice of underlying population forecast (EUROPOP2013 vs. EUROPOP2015 or Statistics Austria 2016) has only a minor impact on the results.

Demographics and societal trends are decreasing the **potential for informal long-term care**, which has typically been provided by women in the past. For one thing, the female labor participation rate is projected to increase from 65.3% (2015) to 67.4% (2030). Moreover, the relative population share of women aged 40 to 59 is going to shrink. And, finally, the number of one-person households is on the rise, due to population aging, increasing divorce rates and the decline in intergenerational living. Against this backdrop, professional in-home care services as well as institutional long-term and home care support are gaining importance.

The average annual **growth rates of long-term care costs** are projected to lie between 4.4% and 6.2% in the period from 2015 to 2030, depending on the underlying scenarios. While spending on **long-term care benefits**, dampened by below-average inflation adjustments, is projected to grow at average rates of 2.5% to 5.2% per year, regional and local governments are facing a visibly sharper rise in **net spending on (formal) long-term care services** (of between 5.8% and 7.8% per year). Spending on subsidized **24/7 long-term care** – which was considered to be a substitute for institutional long-term care in the study – is expected to rise at above-average rates ranging from 4.2% to 7.0% per year.

**Spending on in-home and institutional long-term care differs widely across Austria's provinces**. The available public data explain the differences only to some extent (for instance with regard to different staff-to-resident ratios in institutional care in different provinces). There is a lack of comparable regional detailed data, above all regarding qualitative features and their costs. Gross spending per resident day (taking into account the relative need for nursing), which – unlike per capita spending – reflects the average time spent in institutional care, ranged from EUR 74 (Tyrol) to EUR 238 (Vienna) in 2015, hence averaging EUR 127. Tyrol is, however, somewhat of an outlier, as the data on resident days include unsubsidized residents. These gaps highlight a need for **comparative studies across Austria's provinces**, which would at the same time serve to collect information on **best practices**.

The new study shows an intricate system of intergovernmental financial flows in the long-term care sector, which is a typical reflection of the **complexity of Austria's public funding system** and of a core problem of the existing federal structures. The net burden for regional and local governments arising from long-term care services in the amount of EUR 2.1 billion (2015) compares with cofinanced transfers of EUR 6.8 billion for long-term care.

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