Project title:

Long Term Care and Insurance Markets

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Executive Summary

The aging of European and American societies that took place in the last decades raised concerns about the sustainability of the welfare state, and in particular of the public health care programs. One consequence of an aging society is an increasing demand for care due to limitations that elderly experience in daily activities, which can be hardly satisfied by the State or family networks alone. Policymakers concerned with the projected increase in publicly provided long term care services need insights into the extent to which family and friends can meet the demand for care, as well as an understanding on the potential development of private insurance markets to cover the risk of being in need of long term care services. The aim of the project is to take advantage of the availability of internationally comparable micro-data collected in United States and Europe to understand how LTC needs are satisfied by the State and family networks, and what is the actual and potential role of private insurance markets.

Project Description

1. *Project motivation, description of the research question and methodology (up to 4 pages including references)*

Motivation

All the developed societies around the world went through major demographic changes in the last decades. Improvement in medical science led to a never experienced before increase in life expectancy (in 1960 life expectancy at birth was around 70 years of age in most Western European countries and the US, it is now 79 or higher), which combined with low birth rates lead to a progressively ageing society.
The focus of the economic research on ageing has been for a long time on the design of new pension and more generally welfare systems given the strain on public budget generated by such a demographic transition (Lee, 2003). But the sustainability of pervasive welfare is not the only challenge posed by the demographic transition. One consequence of an aging society is an increase in the Long Term Care (hereafter, LTC) needs of the elderly due to infirmity (Comas-Herrera et al., 2006).
LTC may be provided in a nursing home or at home; by public institutions or by paid professionals (formal care), as well as by family or friends (informal care). Despite the potential strain to public finances the growing demand for LTC services could generate, this risk is mostly covered by the Public Health care programs. In Europe, public spending for LTC reaches its maximum in Sweden (2.74% of GDP, 2004 data), while private spending doesn't go above 0.44% of GDP (Spain, 2004). Policymakers concerned with the projected increase in the demand for publicly provided LTC need insights into the extent to which family or friends can meet the demand for care and may alleviate the burden on the State. Moreover, the declining fertility coupled with the increasing aggregated demand for LTC services may lead to a reduction of per capita LTC services provided either from the public sector or informally by family members, which generates an excess demand for LTC that could boost the private LTC insurance market, still largely underdeveloped in many European countries.

Research Question

The aim of the project is to assess the future prospects for a private LTC insurance market. A precise assessment of the potential dimension of a formal private insurance market for LTC risk requires a careful analysis of future trends in its informal counterpart: things are not as easy as asserting that declining fertility rates certainly lead to a reduction in informal care provision. The general argument about the effect of ageing on the demand for LTC we just mentioned is that longer life expectancy implies longer periods of disability and thus necessarily requires a higher provision of formal and/or informal care (Bone et al, 1995). However, there are at least two potentially offsetting effects linked to the well known "compression of morbidity hypothesis". This hypothesis states that while there is a biological upper bound to human life span, it is possible to increase the age at first infirmity and thus reduce the period of disability (Fries, 1980). This syllogism started a still-open discussion in the public health literature on both the validity of the hypothesis and its implications in terms of resources allocation to different health care programs. The

first offsetting effect is that compression of morbidity may slow down the increase in the demand for LTC. The second one is that the reduction in disability rates may expand the non-market supply for care since elderly people who have no demand for care may in fact become suppliers of informal care (Lakdawalla and Philipson, 2002). Determining whether older people give and/or receive care from their family and social network is a central task for designing social policy that promote intergenerational solidarity.

Moreover, it is crucial to understand how individuals allocate their time to labour, leisure and care: caring is a time–consuming activity which is not necessarily compatible with a full time occupation, thus policies aimed to reduce unemployment as well as the secular changes in female labour force participation may have a negative impact on LTC (Pezzin and Steinberg-Shone, 1999).

As we mentioned, understanding the precise dynamic of LTC services provision by the State and by informal caregivers is a prerequisite to assess the development potential of a private insurance market: Brown and Finkelstein (2008) analyse the United States' LTC insurance market and stress the crowding out effect of Medicaid public programme on the private market. As regards France, Courbage and Roudaut (2008) underline the fact that demand for private LTC insurance is driven by the urge to reduce the burden on informal care givers. Empirical evidence in the literature is anyway still not conclusive: the main limitations are first that public, private and informal providers are rarely considered simultaneously, second that there is the need for a more comprehensive international comparison. Public LTC insurance coverage, private market dimension, attitudes towards informal care varies widely across countries, limiting the validity of the aforementioned studies to the countries they refer to. We plan to close these gaps using appropriate internationally comparable data and dealing with the simultaneous provision of LTC services by family members, the State and private professionals.

Methodology

We plan to take advantage of the stark cross-country differences in the institutional settings of publicly provided LTC as well as in cultural traits and intergenerational relations to investigate the relation between formal and informal LTC insurance markets using SHARE microdata.

SHARE is a detailed individual survey targeted to the elderly population run in different countries to assess the effect of ageing on different aspects of individual behaviour and social life. This is a new asset for social sciences: cross country comparisons are usually made at the aggregate level, while it is crucial to evaluate the impact of policies and welfare regimes implemented in different countries on individual choices. An important feature of these datasets is that they cover a broad range of sciences: there are detailed health-related questions, income and wealth sections, information on social interactions and networking and so on. This allows researchers to relate objective health measures to well being and satisfaction, to social relations and to economic outcome measures like wealth and labour market participation (Börsch-Supan et al, 2008 provides an overview of the research potentials of SHARE data).

As regards informal LTC insurance coverage, most of the existing literature focuses on children as informal care providers as opposed to state provided care. Exploiting SHARE will allow us to add to this literature by examining the importance of LTC from different types of informal providers. Moreover, the interdisciplinary nature of the data provides the information required to dig further in the relation between compression of morbidity and LTC provision, to specify the role of family networks in informal care provision choices

and to link this to labour market participation of younger generation. Finally, the dataset provides detailed information about portfolio choices, insurance coverage (not limited to but including LTC) and saving behaviour of present and future LTC receivers. We will use this information to evaluate the future development of private LTC insurance markets and the potential displacement of private pension plan holdings.

References

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2. Expected timing of the projected results

The project is split in three parts, which will lead to four papers:

1. Complete picture of informal care

The first step of the project is to fully understand who are the informal care providers in charge of the caring activity. This task has been is carried out by Giacomo Pasini and Adriaan Kalwij helped by Mingquin Wu.

Next to it, we are investigating the relation between informal care given by parents to grandchildren and the care received by the same parents later in life when experiencing limitations in daily life. This work will lead to a paper by Giacvomo Pasini, Agar Brugiavini and other two collegues of Ca' Foscari University of Venice, Raluca Buia and Francesca Zantomio.

2. Identifying the decision maker about care provision

The second stage of the project will be to understand who is the decision maker in the household about LTC provision, namely the parents in need of care or the children who are

potential care providers. The objective is to understand whether it is a joint decision of the (enlarged) household or if it does make a difference who is taking the decision. This paper will be coauthored by giacomo Pasini, Adriaan Kalwij and Eric Bonsang.

3. Demand for private LTC insurance

The last step is to understand what are the prospects for a LTC private insurance market in European countries. The paper will be coauthored by Agar Brugiavini, Mario Padula, Vincenzo Rebba and Giacomo Pasini.

3. Financial plan: summary

Salary	6,500
Data Collection	0
Equipments	3,000
Direct Compensation	0
Other	8,000
Total	17,500

4. Financial plan: further information

Resources devoted to equipment will be used to buy a workstation and laptop to be used at University of Venice, where three of the team members are. While data are available to the scientific community free of charge, a licence for the STATA software needed to conduct the analysis on the aforementioned workstation will be bought.
Further on, 8,000 euros will be allocated to travelling costs for team members either to organize team meetings during the project, or to participate to conferences to disseminate the results of the project. 6,500 euros will be used to hire a part time Research Assistant.

Information concerning other funding for the same project.

The project is not directly entitled to other funds. Nevertheless it benefits from the involvement of most of the team members in the research projects which lead to the production of SHARE data, funded under the European 6th and 7th Framework programmes, as well as several national funding.

The Principal Investigator
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