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Layout & Distribution: Valéria Kozakova

# Challenges of Financing and Provisioning of Long-Term Care in Eastern Europe

Johannes Koettl

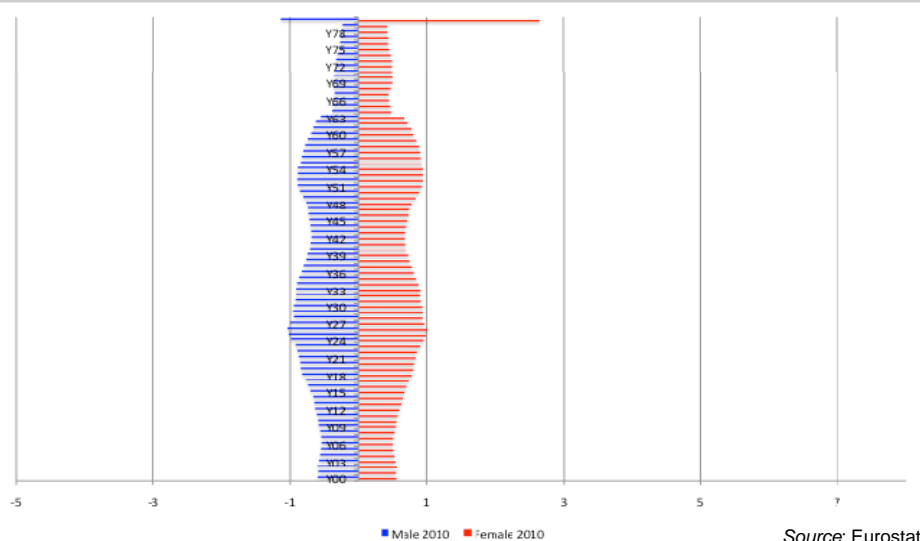
## Key messages

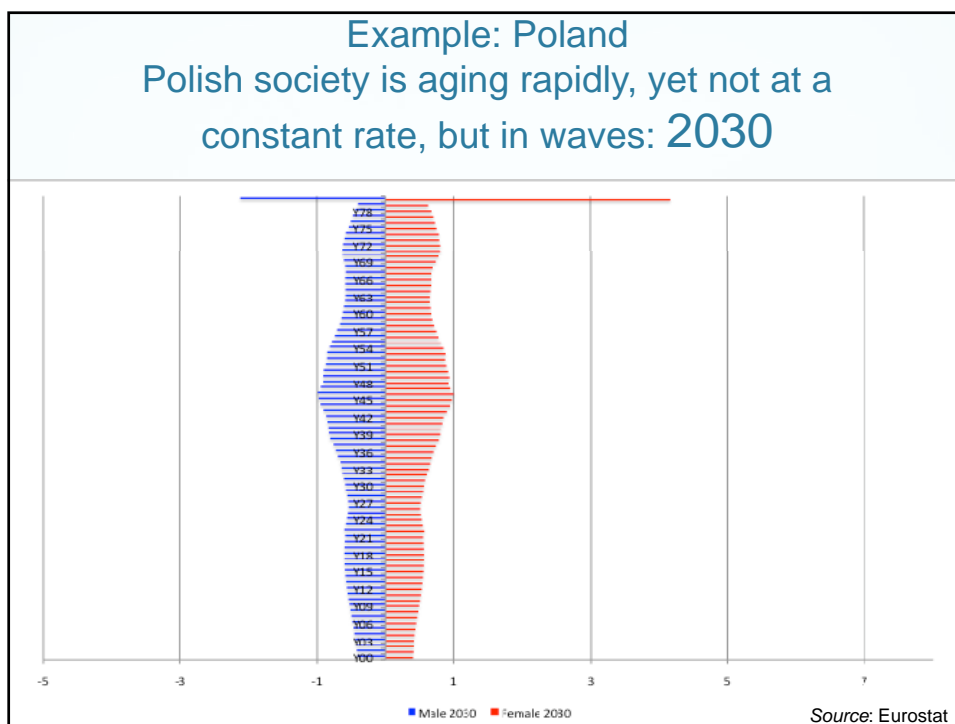
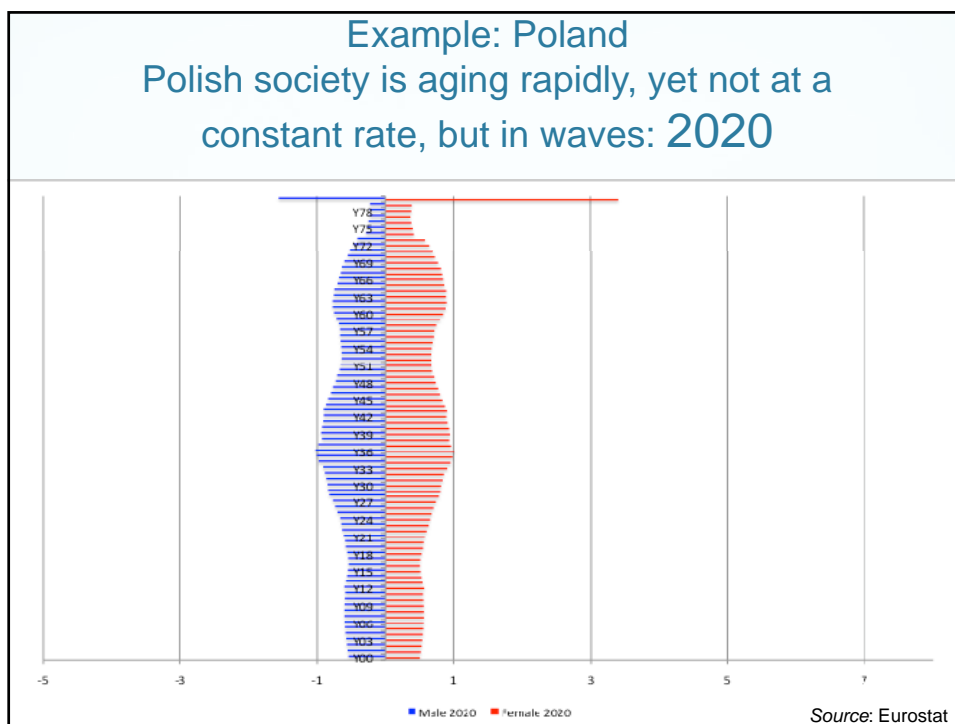
1. LTC sector has to prepare for future demographic “shocks”
2. Substantial fiscal pressure after 2020
3. Urgent need to mobilize financing for future LTC spending now

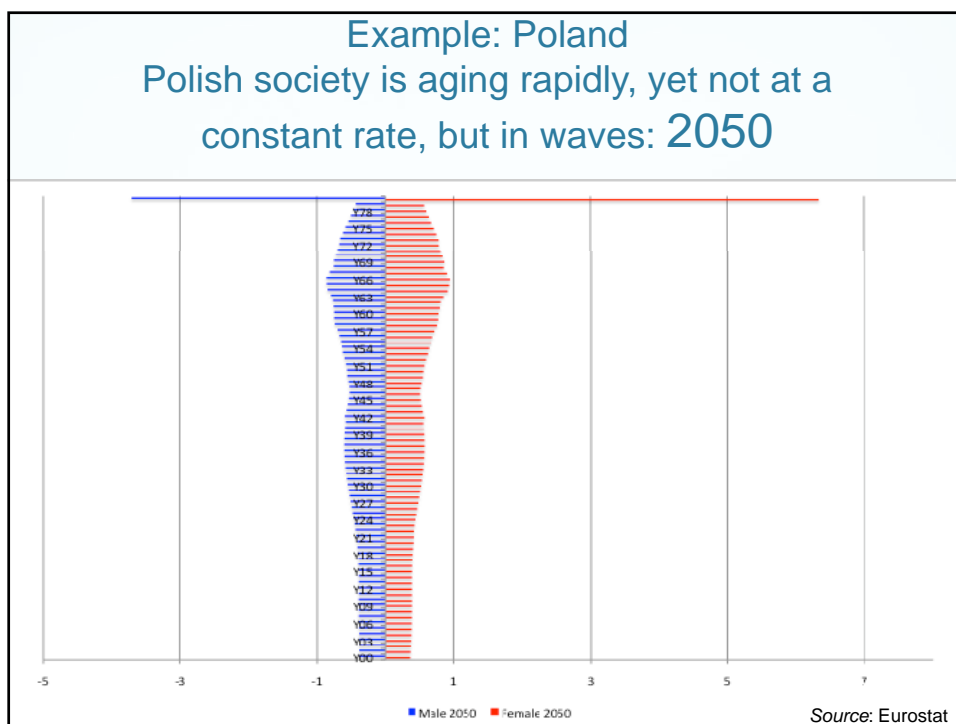
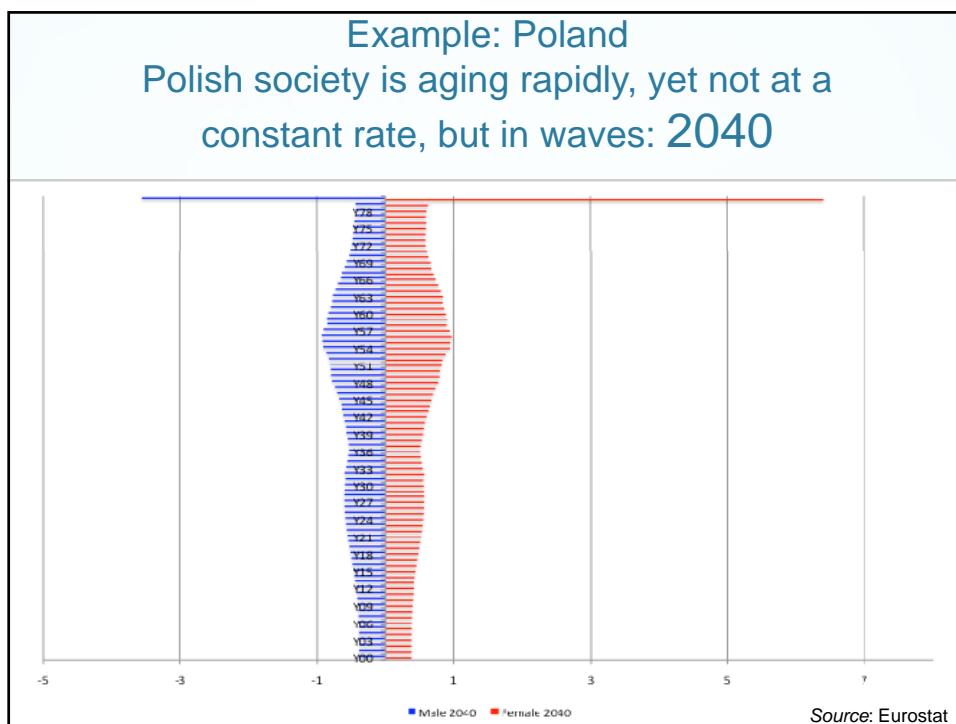
## 1. Prepare for demographic shocks

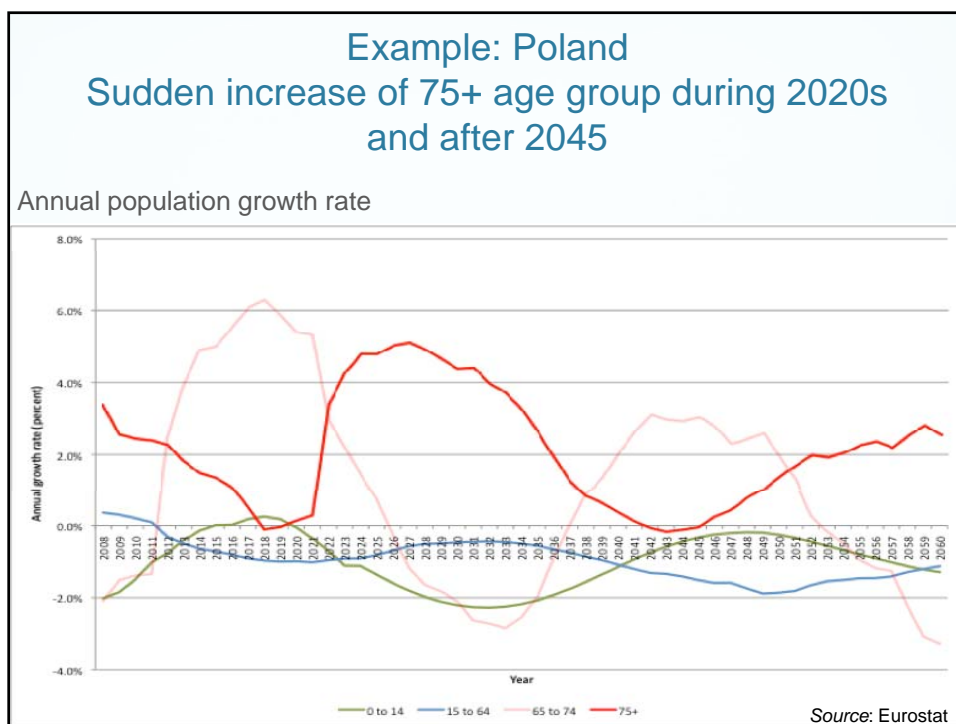
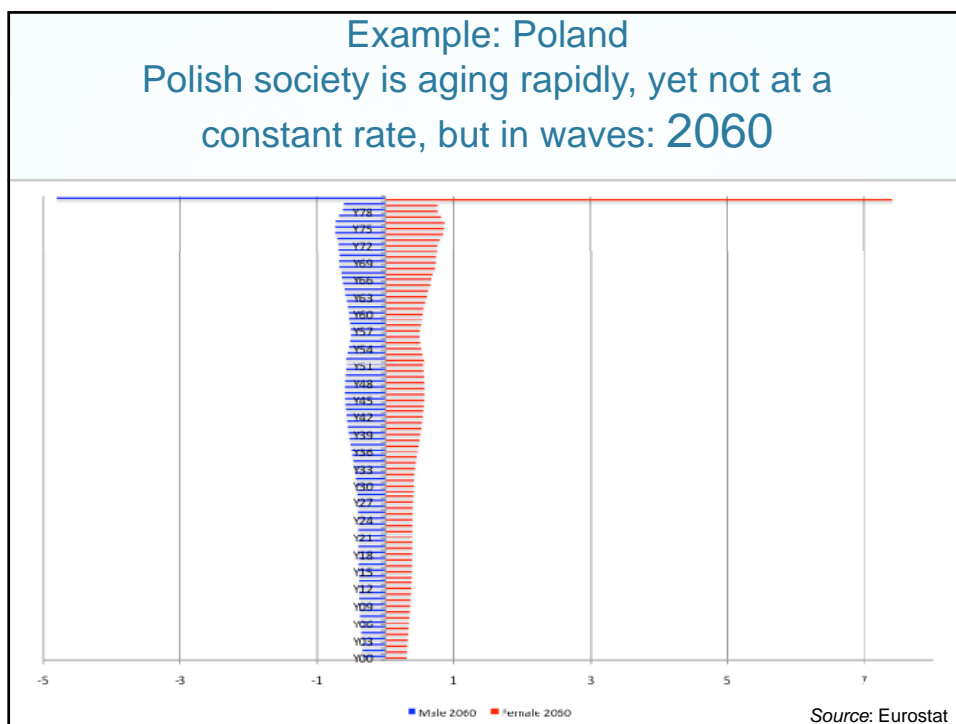
- Example of Poland: population is aging rapidly, yet not at a constant rate, but in waves
  - These waves will lead to sudden increases in the number of dependent people
  - There will be much less non-hampered people, and more and more dependent people
- ⇒ Who will then *care* for the dependent?
- There will be much less young people, and more and more old people
- ⇒ Who will then *pay* the care for the dependent?

### Example: Poland Polish society is aging rapidly, yet not at a constant rate, but in waves: 2010









### Dependency level is highest among older age groups...

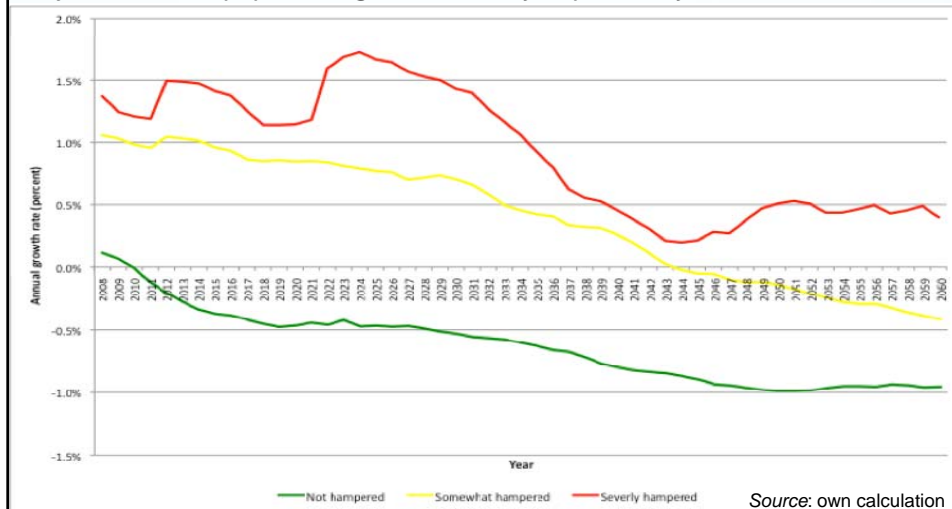
Dependency level by age group for Poland

Dependency level	Year	Age group								
		15+	15 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 to 74	75 to 84	85+
Not hampered	2006	78.8	94.1	93.3	89.3	77.9	65.4	54.6	36.8	31.3
	2007	77.1	93.8	92.6	88.2	77.4	63.9	48.5	33.4	21.9
Somewhat hampered	2006	15	4.9	5.2	8.2	16.9	25.7	31.5	36.5	28.8
	2007	16.1	5.1	5.7	9.2	17.3	27.3	34.7	37.4	33.1
Severely hampered	2006	6.2	1.0	1.5	2.5	5.2	8.9	13.9	26.7	39.9
	2007	6.9	1.1	1.7	2.7	5.3	8.7	16.8	29.2	45.0

Source: SILC

### ...so demographic waves will lead to sudden increases in the number of dependent people...

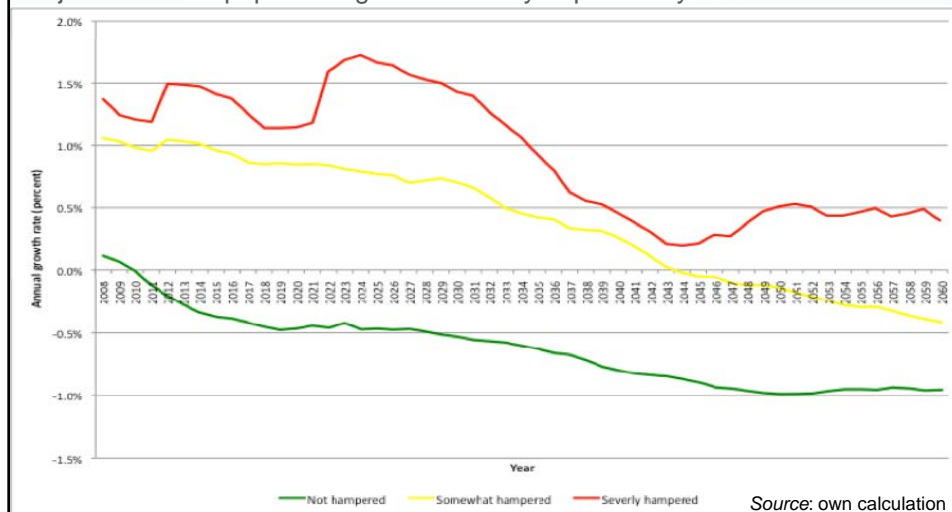
Projected annual population growth rates by dependency level in Poland



Source: own calculation

...while the non-hampered population is constantly decreasing (green line)

Projected annual population growth rates by dependency level in Poland

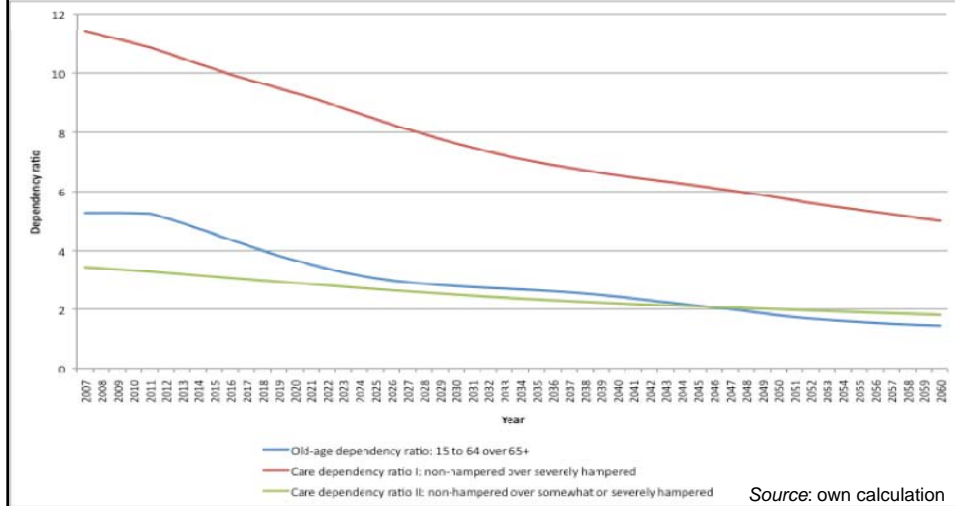


## Who will care and who will pay?

- There will be much less non-hampered people, and more and more dependent people  
⇒ Who will then *care* for the dependent?
- There will be much less people in working age, and more and more retired people  
⇒ Who will then *pay* the care for the dependent?

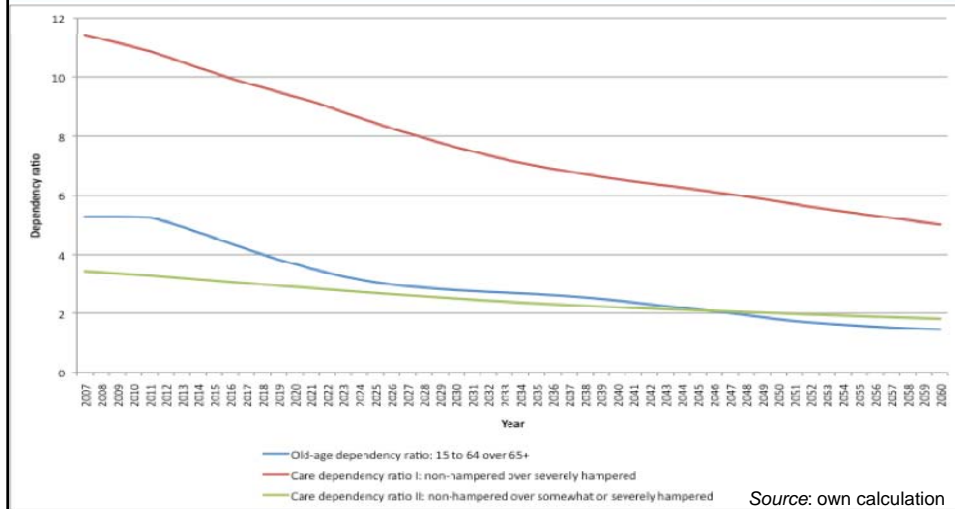
Today: 11 non-hampered per severely dependent  
 2060: 5 non-hampered per severely dependent

Projected inverse dependency ratios for Poland



Today: 5 aged 15-64 per 65+  
 2060: less than 2

Projected inverse dependency ratios for Poland



## Key messages

1. LTC sector has to prepare for future demographic “shocks”
  - ⇒ Sudden increases of dependent population
  - ⇒ Deterioration of dependency ratios
  - ⇒ Who will provide care and who will pay?
2. Substantial fiscal pressure after 2020
3. Urgent need to mobilize financing for future LTC spending now

## 2. Substantial fiscal pressure after 2020

- If policies stay as they are:
  - Relative “flat” spending during 2010s (and around 2040)
  - Sharp increase in spending during “shock” years (2020s and after 2050)
- What means “if policies stay as they are”?
  - Return to strong GDP growth
    - ⇒ Likely to happen, but what if not?
  - Expenditures per beneficiary (costs) stay constant in real terms
    - ⇒ Very unlikely
  - Share of population who demand formal services stays constant
    - ⇒ Unlikely

## Public expenditures per beneficiary increase strongly...

Public expenditures per beneficiary by benefit type and sector in Poland (current PLZ, 2005 to 2008)

	2005	2006	2007	2008	
<b>Cash benefits</b>		1,867	1,963	1,915	1,958
<b>In-patient benefits</b>		22,482	24,244	24,647	28,791
<i>In health sector</i>		35,607	37,792	35,340	46,002
<i>In social sector</i>		19,872	21,443	21,895	24,361
<b>Cash and in-patient benefits</b>		2,499	2,635	2,609	2,767
<b>Out-patient benefits</b>	n.a.	n.a.	1,567	1,731	
<b>Total</b>			2,214	2,377	

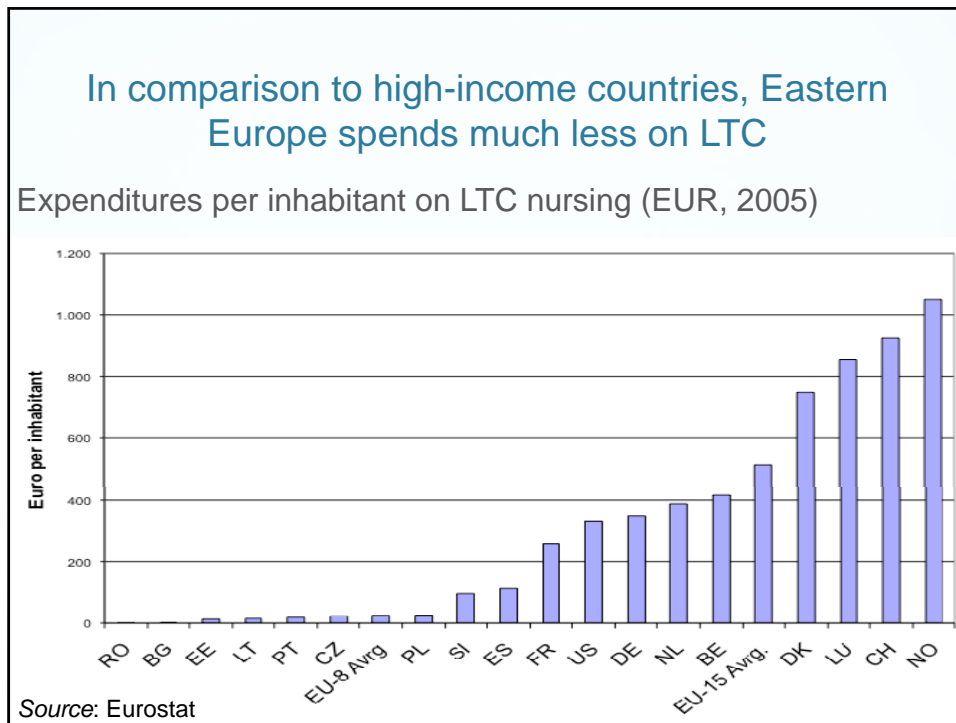
Source: Wieckowska (2009) and own calculations

## ...on average more than 8% annually for in-patient LTC

Annual real growth rates of public expenditures per beneficiary by benefit type and sector in Poland (percent, 2006 to 2008)

	2006	2007	2008	Total	Average annual
<b>Cash benefits</b>	5.15%	-2.44%	2.24%	4.88%	1.60%
<b>In-patient benefits</b>	7.83%	1.67%	16.81%	28.06%	8.59%
<i>In health sector</i>	6.14%	-6.49%	30.17%	29.19%	8.91%
<i>In social sector</i>	7.91%	2.11%	11.26%	22.59%	7.02%
<b>Cash and in-patient benefits</b>	5.46%	-0.98%	6.04%	10.73%	3.46%
<b>Out-patient benefits</b>	n.a.	n.a.	10.46%	10.46%	10.46%
<b>Total</b>			7.39%	7.39%	7.39%

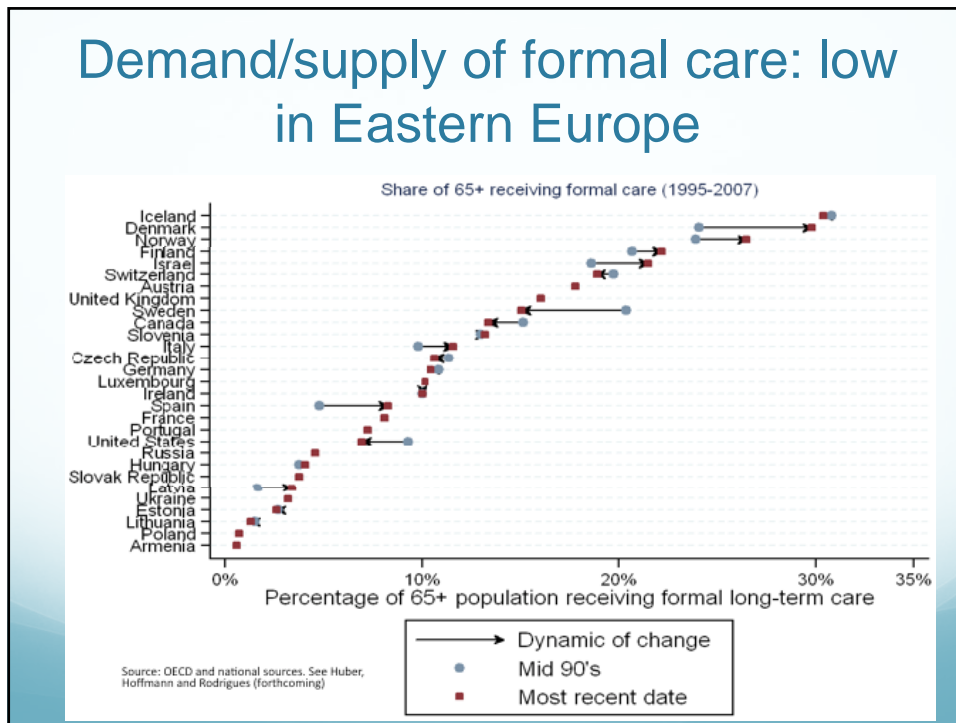
Source: Wieckowska (2009) and own calculations



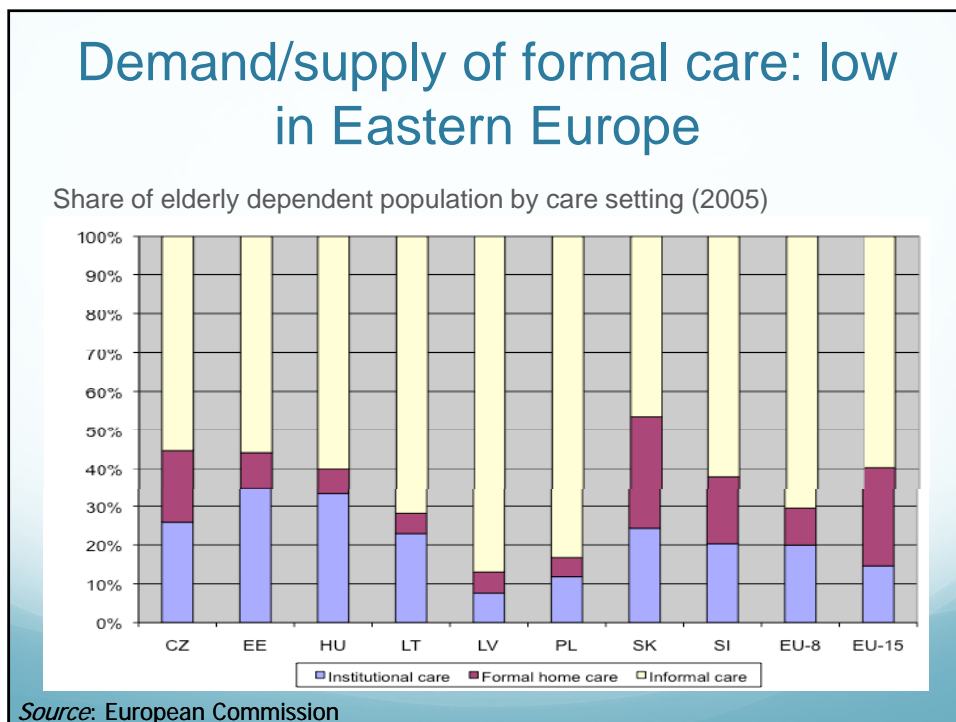
## 2. Substantial fiscal pressure after 2020

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  - Sharp increase in spending during “shock” years during 2020s and after 2050
  
- What means “if policies stay as they are”?
  - Return to strong GDP growth
    - ⇒ Likely to happen, but what if not?
  - Expenditures per beneficiary (costs) stay constant in real terms
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  - Share of population who demand formal services stays constant
    - ⇒ Unlikely

## Demand/supply of formal care: low in Eastern Europe

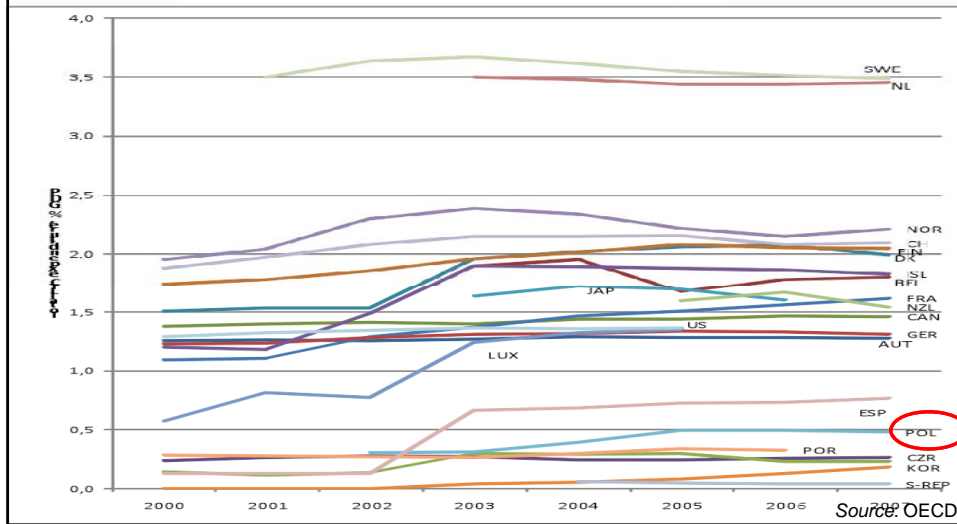


## Demand/supply of formal care: low in Eastern Europe



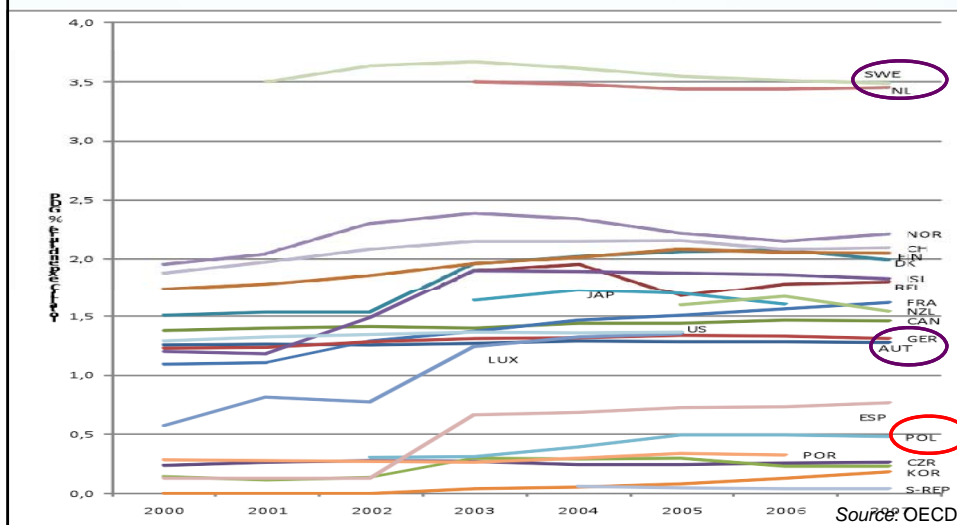
## Eastern Europe more likely to converge to high-income countries?

Total LTC expenditure (OECD health accounts, % GDP)



## And if so, which ones? Austria and Germany, or the Netherlands and Sweden?

Total LTC expenditure in health sector (% GDP)

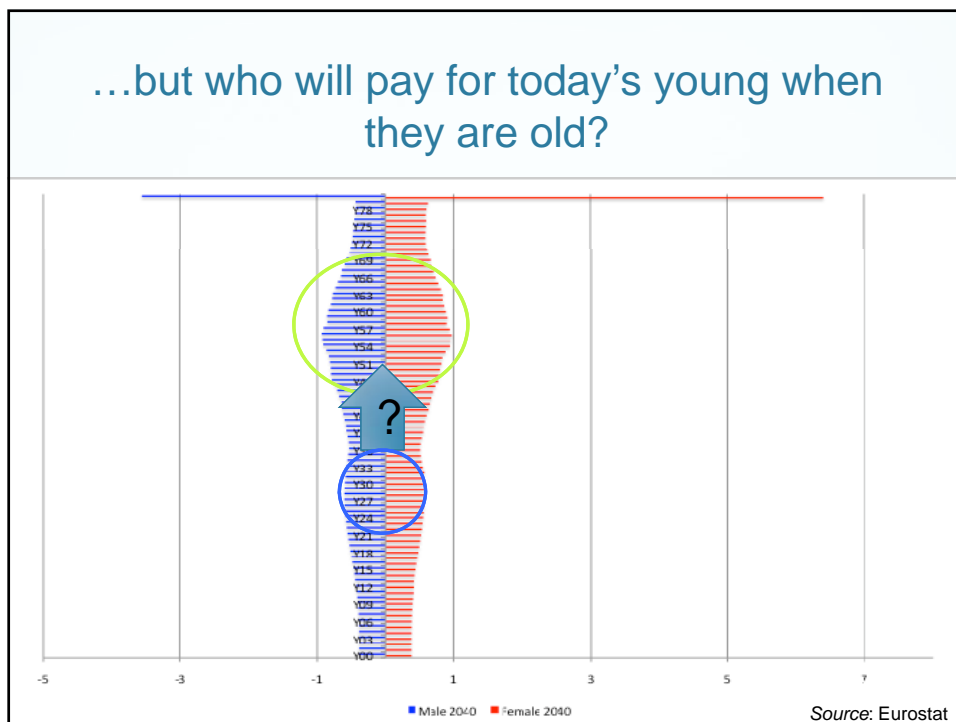
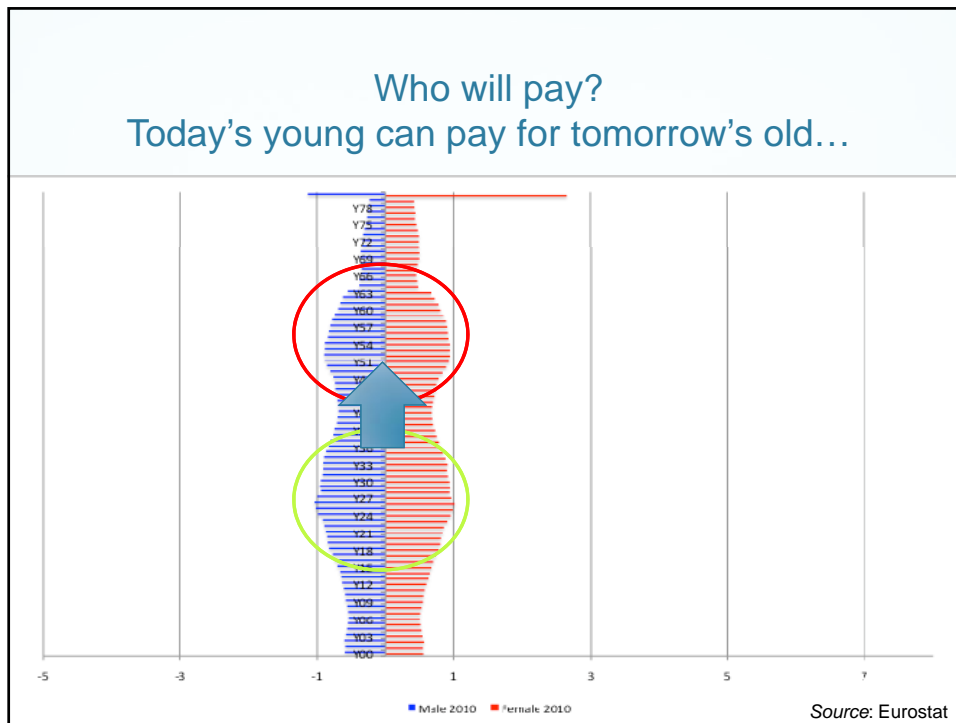


## Key messages

1. Polish LTC sector has to prepare for future demographic “shocks”
2. Substantial fiscal pressure after 2020
  - ⇒ Strong GDP growth during 2010s
  - ⇒ Fiscal tightening after 2020
  - ⇒ Cost and demand increase likely to significantly increase spending to much higher levels
3. Urgent need to mobilize financing for future LTC spending now

## 3. Mobilize financing now

- Risk-pooling is essential to avoid old-age poverty
- Private LTC insurance has not been very successful
  - Market failures (adverse selection, risk selection)
  - Unpredictability of costs lead to high mark-ups
- Large role for public sector
  - Tax-financed (cash benefits, social assistance)
  - Contribution financed (social security)
  - ⇒ Both are pay-as-you-go mechanisms
  - ⇒ Who will pay?



## Increase private savings for retirement and dependency now

- Only solution is to increase savings of current working age population for their own retirement and dependency needs
  - Difficult to accumulate savings in public risk pooling (reserves)
    - ⇒ Increase private savings
    - ⇒ Only alternative: shift financial burden to future generations
- Private financial products (not LTC insurance for in-kind benefits) to insure against poverty in case of dependency
  - Example of France
  - Enhanced annuity (life insurance payments increases in case of dependency)
  - Reversed mortgage