

The Geneva Association: Informal care, insurance and intra-family moral hazard



Intra-family moral hazard refers to the disincentive for informal caregivers to provide care to their dependant relatives in the presence of insurance coverage for formal long-term care. Using evidence from France, **Dr Christophe Courbage**, a Research Director at The Geneva Association, shows that insurance coverage for home help for assistance with daily activities negatively influences the reception of informal care, pointing to some form of intra-family moral hazard. We bring you an extract of this essay.

The ageing of populations in most industrialised countries is accompanied by an increase in the need for long-term care (LTC). LTC is a mix of social and health care provided on a daily basis, formally or informally, at home or in institutions, to people suffering from a loss of autonomy in their daily living activities.

A large part of LTC needs is met through informal caregivers mainly relatives or family members. Yet, due essentially to the disintegration of the family unit, the distancing of children from their parents, and the increase in women's employment rates, the number of informal care givers is decreasing.

As a consequence, LTC expenditure as a percentage of GDP is projected to increase by more than 100% in most European countries between 2000 and 2050 (OECD, 2005). One suggested solution to slow down the increase in LTC expenditure is to promote the development of informal care. In that respect, several countries have set up public policies to encourage and financially support informal care givers.

The determinants of informal care reception are thus crucial in terms of the future management of LTC expenditures. Various factors influence the reception of informal LTC, whether this is the degree of dependency, the number of children, their place of residence, the level of inheritance to let, the reception of formal LTC, the level of insurance coverage, among others.

Intra-family moral hazard

In that respect, Pauly (1990) and Zweifel and Stüwe (1996) put forward the idea that informal care givers may be influenced by the availability of insurance coverage for LTC.

This phenomenon is labelled intra-family moral hazard. Intra-family moral hazard refers to the disincentive for informal care givers to provide care because their dependent elderly has insurance coverage against the need for LTC. Intra-family moral hazard differs from classic moral hazard in the sense that it is not the policy-holder behaviour that is modified by the presence of insurance, but is the care giver's behaviour.

The literature on the determinants of informal care has largely expanded in recent years. Most of these works look particularly at the relationship between formal care and informal care reception (see e.g. Van Houtven and Norton, 2004; Bolin et al., 2008; Bonsang, 2009). Yet, they do not take into account the role of insurance in influencing both the demand for formal care and the behaviour of informal care givers. Our work tries to fill this gap by looking at this issue in France using cross-sectional data from the SHARE database. The choice of France stems from the fact that France is one of the most developed markets in terms of private health and long-term care insurance coverage, and then provides an adequate framework to test for the presence of intra-family moral hazard.

Relationship between informal care and formal care

When analysing the relationship between informal care, formal care and insurance, various issues need to be taken into account. The first issue concerns the links existing between informal care and formal care. Results are not unanimous and depend on the causal sense of the relationship and on the type of formal care considered.

While some authors looked at the effect of informal care on the use of formal care, some others looked at this relation the other way around. Recent papers (eg Van Houtven and Norton, 2004, 2008; Bolin et al., 2008; Bonsang, 2009) found a rather negative effect of informal care on the use of formal care, highlighting a substitution effect between these two types of care.

In a stimulating paper, Holly et al. (2008) looked at this relation the other way around. They found that these two types of care tend to be substitutes in Europe. These authors justify the sense of the causal relationship between





these two types of care on institutional setting grounds. In countries where public support or coverage for formal care is rather important, like in Europe, elderly parents in need of assistance would first turn to formal care services and then informal care would adapt accordingly. In that case, the appropriate modelling is to examine how formal care affects informal care. This will be taken into account in our empirical strategy.

The second important point in the relationship between informal care and formal care stems from the nature of formal care. Indeed, the relationship between both types of care may depend on the type of formal care considered. For instance, nursing home care is rather skilled care while home help is rather unskilled care.

Informal care, formal care and insurance

The relationship between informal care and formal care is crucial when one wants to address the issue of intra-family moral hazard. This is the case because insurance coverage first affects the decision to use formal LTC as these kinds of care, or part of them, are reimbursed by insurance.

Having insurance for formal care is likely to increase the consumption of formal care as care is reimbursed. Then depending on whether informal care and formal care are substitutes or complements, change in formal care reception should then influence informal care, negatively or positively. This is the indirect effect of insurance on informal care which is conditioned by the relation between formal care and informal care. The other effect, the direct effect or the true intra-family moral hazard that we aim to measure, is the disincentive for carers to provide care due to the presence of insurance and not due to the reception of formal care.

Our strategy is then to simultaneously analyse the reception of informal care and formal care and to see how it is influenced by insurance coverage. To carry out our empirical analysis, we use the SHARE database and both a multivariate probit model and a multivariate tobit model. These models make it possible to estimate, either in terms of probability or intensity, the influence of insurance coverage on both the reception of informal care and formal home care.

Results

If we do not dissociate among the types of formal home care, we do not find any significant influence of insurance on informal care reception. Few variables influence informal care. Neither insurance nor formal care influences the reception of informal care.

This first result would suggest that there is no presence of intra-family moral hazard. Yet, as stressed earlier, formal cares have different functions and require different skills, which is likely to impact differently informal care and/or to react differently to insurance coverage. We present

hereunder the estimation results of the three equations¹ of the detailed models.

Informal care receipt equation

We find that insurance covering formal home help for assistance with daily activities has a significant negative impact on the provision of informal care to older parents, while there is no significant relationship for insurance covering nursing home care.

This result is rather intuitive once one knows that informal care mainly corresponds to personal care. Having insurance for home care closely similar to informal care seems to provide disincentives to informal care givers. This would support the phenomena of intra-family moral hazard in the case of home help coverage.

Yet, having insurance for care requiring higher skills, such as nursing home care, has no impact on the reception of informal care. Informal care givers would not change their help whether or not parents have coverage for care rather different to informal care, but would decrease their help if parents had coverage for formal care closely related to informal care.

Another interesting finding is that formal home help and informal care show a positive and significant relationship, suggesting that informal care and home help are complements. This result might lead one to think that this is not the reception of home help itself that deters the reception of informal care, but rather the fact of having insurance covering this type of formal care.

Formal care equations

Results differ depending on the type of formal care considered. When we consider home help for assistance with daily activities as formal care, reception of formal care is positively and significantly affected by insurance coverage. Yet, this is no more the case when we consider nursing home care since insurance coverage does not impact significantly on formal care.

Note that in the specific case of insurance coverage for home help, insurance makes informal care less likely (direct effect), and it also makes formal care more likely which itself impacts informal care (indirect effect). Future work could be to compute the total (or net) effect of insurance on home care reception.

Conclusion

While these results naturally depend on the hypothesis of our model, they could explain the sluggish development of private LTC insurance observed in various developed countries. Indeed, insurance for LTC tends to weaken the children's incentive to provide care, which in turn could discourage the parent from purchasing insurance for LTC. Further research on this issue and for other countries should be developed to generalise our results.▲

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¹ Equations can be found in the full essay which can be obtained from christophe_courbage@genevaassociation.org