Summary for non-specialists
Economic Papers No. 469 / 2012
Economic Papers index

Long-term care: need, use and expenditure in the EU-27

by Barbara Lipszyc, Etienne Sail and Ana Xavier

The public provision of long-term care (LTC) services represents a non-negligible and growing share of GDP and total government spending. On average, public LTC expenditure in 2010 accounts for 1.8% of GDP across the EU-27. In the future, it will pose an increasing challenge to the sustainability of public finances in the EU, due to an ageing population.

The ageing of the population is expected to put pressure on governments to provide long-term care services as (very) old people often develop multi-morbidity conditions, which require not only long-term medical care but assistance with a number of daily tasks. Yet the demographic factor is only one of many determinants of the future provision of LTC and therefore, public expenditure. Indeed, the expected decrease in availability of informal care– mainly due to labour market trends and evolution of family arrangements – and therefore the further need for/recourse to formal care also presses for higher public expenditure on long-term care. These, combined with growing population expectations for a more extensive provision of formal and high-quality LTC services that can help increase the quality of life of individuals living with a dependency, may lead to increasing public expenditure on LTC. Further, policy decisions on future patterns of care provision will determine the extent to which future needs translate into future public expenditure.

In this view, the paper aims to provide indications on the timing and potential fiscal impact associated to changes in the demographic structure, by presenting the projections of public expenditure on LTC in the long run (2060) under alternative assumptions. A first set of scenarios assumes that base-case long-term budgetary projections should illustrate the policy-neutral situation. Therefore, the LTC supply will follow any related changes in demand. A second set of scenarios are "policy-change scenarios", in order to reflect some potential future institutional or legal changes to the financing and organisation of LTC systems and to illustrate the impact of possible future policy changes on that matter.

All scenarios project a non-negligible increase in public expenditure: in the abse case scenario, population ageing results in a projected increase in public expenditure on LTC of 1.7 p.p. of GDP for the EU-27 as a whole. All other things being equal, the expected increase in the demand for formal LTC support then varies across EU-27 Member States according to their current patterns of LTC provision: the balance between formal and informal care, the emphasis they put on institutional care, home care or provision of cash benefits, the supply constraints both in the formal and informal care sectors, the current average cost and coverage rate for each type of care and their distribution across age groups.

While having public finance implications, the actual availability and access to formal LTC services and cash benefits will increasingly shape the welfare of dependent citizens and their families. Availability and access also have broader economic implications, including social benefits, which may reduce the net costs of additional expenditure on LTC provision. Concerns about future expenditure on long-term care are similar to those about future expenditure on pensions or health care: how will future expenditure affect the sustainability of public finances? In view of current and expected economic developments, governments facing an expected pressure to increase the long-term care delivery will have to react through adequate and sustainable political choices that may differ from those envisaged today. They will have to make – sometimes tough – allocation choices between different kinds of public demand, and in particular concerning the type of long-term care to provide. Given the impact on public finances, it is necessary to develop more cost-effective ways of providing needed care.