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Pricing long-term care for older persons

Executive summary

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Governments invest in long-term care (LTC) to provide universal access to care that older persons need, ensure financial protection against high out-of-pocket spending, and provide a social safety net for those unable to pay for services. LTC involves a range of services including medical and nursing care, personal care, assistance and social services that help people live independently or in residential settings when they can no longer carry out routine activities on their own. The diversity of health and social care needs results in a wide scope of providers and institutions offering a range of services.

Pricing is also an important policy tool that provides the right incentives to ensure that budgetary goals are met, to promote quality, to increase equity, and to foster coordination and integration with health services.

Policy choices are critical in how health and social services for older people are delivered, and how the prices of these services are set or negotiated. These choices include the means of defining eligibility for public benefits, the use of means-testing, and the definition of the benefits package. In this context, pricing is not only about covering the costs of service delivery. Pricing is also an important policy tool that provides the right incentives to ensure that budgetary goals are met, to promote quality, to increase equity, and to foster coordination and integration with health services.

Case studies were carried out in Australia, France, Germany, Japan, the Republic of Korea, the Netherlands, Spain, Sweden, and the United States of America (USA) to examine the organization, financing and price setting for LTC services, and to review experiences in the use of pricing to achieve policy objectives. Most of these countries take a universal approach to LTC coverage with the overall goals of access to required services and financial protection. In the USA, publicly funded LTC operates as a social safety net with targeted eligibility for persons with a low income and high level of need.

Patterns of expenditures on LTC are largely based on supply side factors such as the availability of formal care rather than demand or need. Many countries manage LTC funds separately from general health funding by, for example, creating separate funding streams for LTC (e.g. Australia, France, Germany, Japan, the Republic of Korea, the Netherlands and Spain). Among these countries, Germany, Japan, the Republic of Korea and the Netherlands have dedicated LTC insurance programs.

In recognition of the heterogeneity in health, functional and social care needs across the age spectrum, needs assessments are applied in all countries. Eligibility for care and the level of entitlements are typically established through a graded dependency assessment. Monitoring and evaluation of needs assessments are not routinely done to inform whether unmet needs result from the different ways of defining eligibility. In addition, most of the countries in this study apply means-testing to determine the level of government subsidies or user co-payments. In some settings, individual co-payments for needed care are significant.

The fragmented nature of LTC organization and funding is reflected in differences in mechanisms used to set prices for services, both between and within countries. Prices for LTC services in the countries described in this paper are mostly set unilaterally by the purchaser or through collective negotiations between purchasers and providers. These methods have the potential to reduce price discrimination in LTC services and promote affordability for the public payer in comparison with a system where prices are entirely determined through market-based mechanisms. However, such advantages may be offset where there are differences in

the level of administration and local authorities set prices depending on the availability of resources. For example, subnational governments in France, Spain and Sweden play an important role in price setting by the public payer for LTC personal and social care services for older persons, resulting in substantial price variation within country that does not necessarily reflect differences in the costs of production or local wages. For residential care, most countries differentiate prices among care services (such as nursing) from living services (such as meals and accommodation).

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Price adjustments and add-on payments are made in several countries to promote equity in access and resource allocation. Such adjustments are done mainly to address variations in the cost of providing care by geographical location or by older persons' characteristics. Pricing and payment systems have important consequences for ensuring optimal resource allocation (allocative efficiency), particularly given the need for a high level of coordination between health and social services, and the more substantial financial risk associated with the provision of institutional care versus home care. For example, home care may be managed at the municipal level to adapt care plans to local and individual circumstances. At the same time, institutional care may be managed by the national government given that the national level may be better able to bear the substantial financial risk of this type of care. This has implications for the way price setting and regulations could be used to optimize resource allocation between those settings.

Few countries take into account differences in quality in their pricing and payment systems because of the lack of data, heterogeneity in relevant outcomes, and difficulty in measuring and monitoring quality in LTC - particularly given the range of settings where LTC services are provided from institutions to home care. Most of the countries in this study release information publicly about the quality and prices of services to promote trust and transparency. However, evidence is lacking about the impact of price and quality transparency on choice of provider and the incentives for efficiency and quality improvement.

The following lessons learned may be applicable to other countries.

- **Public investments in formal LTC systems are important because of population ageing and declines in the availability of family caregivers, many of whom are women.** At the individual level, it is impossible to plan for how much money is needed to pay for LTC. Providing older persons with services that support their ongoing health and social needs can help maintain their functional independence and quality of life. It may also reduce demand for more expensive hospital care. Adequate pricing of LTC contributes greatly to ensuring an appropriate allocation of the public budget and thus to achieve this goal.
- **The overall objectives of a given LTC system will have an influence on how care is organized and financed in that system.** The level of financial protection and LTC coverage for service needs depends on the stringency of eligibility criteria, how financing arrangements are set, and the pricing of services.
- **A separate funding stream may help ensure that LTC funding is not diverted to other purposes**, promotes transparency in management, and enables policies specific to the LTC sector to be implemented

when they may not be applicable for health services (for example, eligibility testing). However, the separation of funding for LTC and health care may pose problems in coordination across health and social care.

- **Funding to LTC should be linked with need and the care provided.** Objective needs assessments to determine eligibility and benefits have been used to link prices and payments with health and social care needs. Transparent needs assessment mechanisms ensure that people understand their right to care and can access the care that they need.
- **Where cost control is the primary objective and eligibility criteria are stringent, unmet needs may emerge.** Therefore, needs assessment systems should be monitored to ensure that they enable access to needed care. Similarly, systems of user charges should be formally evaluated as to whether their application results in reduced utilization and unmet need.
- **Funding to LTC should be based on a secure reliable source that reduces any regional inequities in resources available.** Policy initiatives are important to reduce fragmentation of services and financing arrangements, and encourage coordination among different services and across different levels of government (i.e. municipal, regional and national).
- **Price adjustments and add-on payments could be used more broadly to foster equity in provider payment.** Such policy uses are particularly important to address variations in the costs of providing care by geographical location or by older persons' characteristics.
- **Quality measurement in LTC is an important area requiring further policy development, which can be linked to price levels and payment mechanisms.** Evaluation of the impact of publicly released information about quality and prices could usefully inform efforts to improve relevant outcomes.

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