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Challenges in Long-term Care Financing and Provision

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Structure of the talk

- Illustrate some tensions between decentralized decision-making and centralized financing and regulation of long-term care (LTC)

- Illustrate challenging trade-offs involved by examples from LTC in the Norwegian setting

Goals – what we would like a financing system to achieve

- Access to long-term care (LTC) according to need
- Equal access irrespective of socio-economic status
- Equal access irrespective of geographical area
- High quality of services
- Consumer choice
- Account for local preferences
- Reasonable co-payments
- Reasonable costs in relation to access and quality
- Cost control

Long-term care (LTC) in Norway

- Population: 5.3 million
- LTC is the responsibility of 422 municipalities, the lowest level of government
- LTC is financed by a combination of local income taxation, unconditional grants from the state and co-payments from LTC recipients.
- Co-payments depend partly on services received and partly on recipients' income

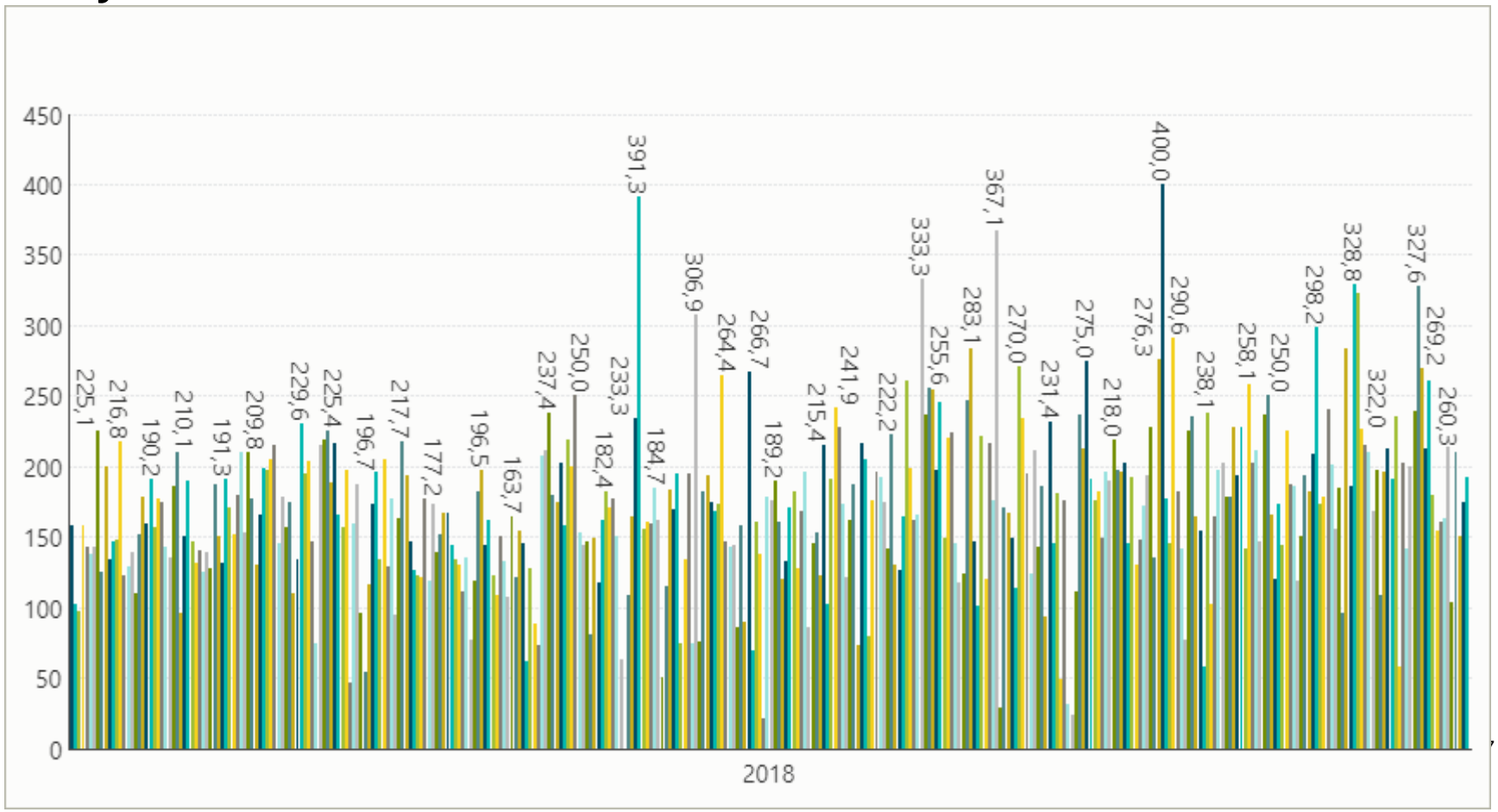
- Municipal firms, supplemented by some private providers, in particular in the cities, provide nursing home and home-based LTC services.

- LTC accounts for almost one third of the total operating costs of municipalities

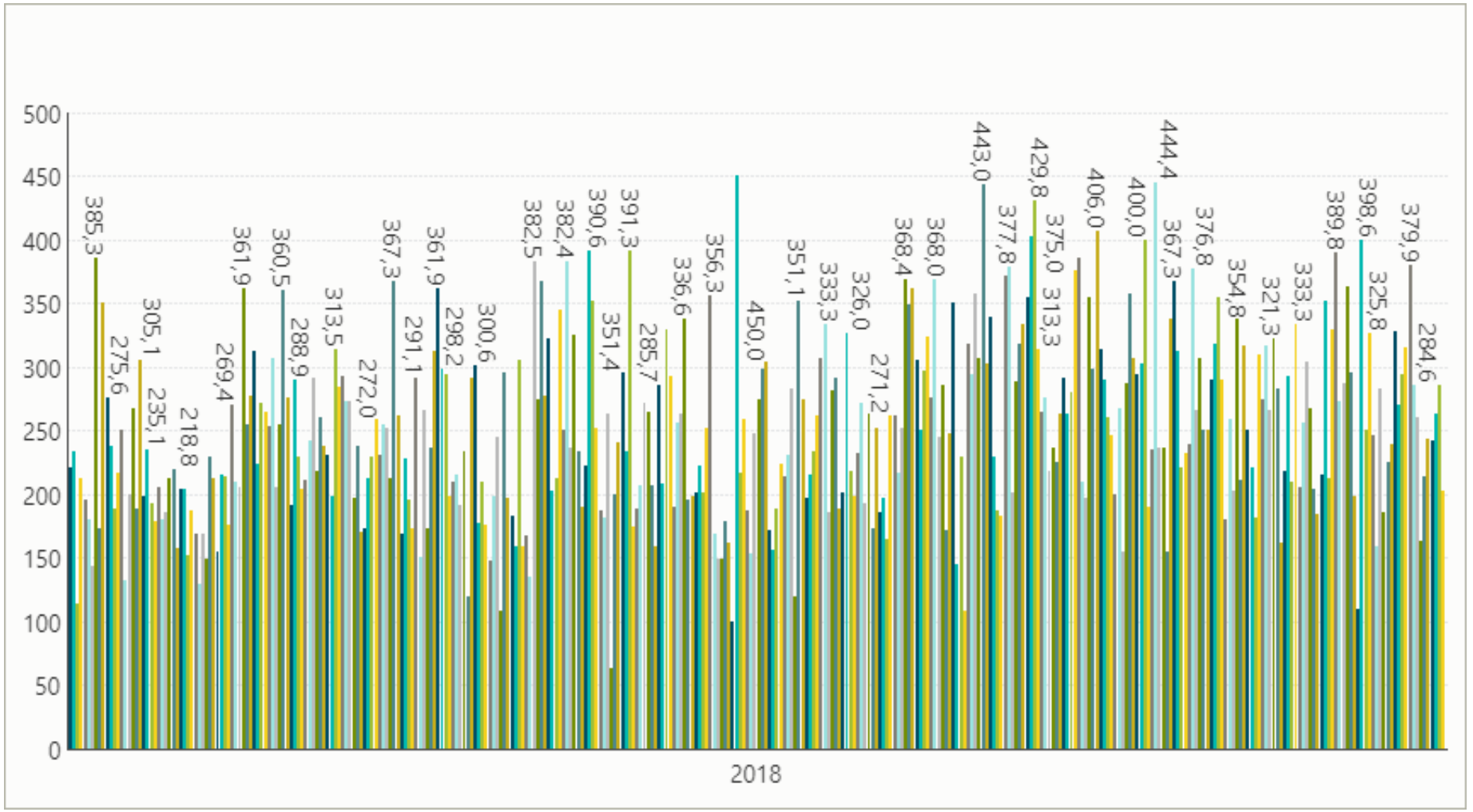
Considerable variation in LTC across municipalities

(Source: Directorate of Health, Kommunalt Pasientregister)

Number of nursing home places per 1000 inhabitants above 80 years old



Number of nursing home places and sheltered housing per 1000 inhabitants above 80 years old



Advantages

- Account for local preferences as expressed in local elections
- Cost control due to fixed budget at the municipality level
- Principle of financial responsibility applies: decision-maker pays

Disadvantages

- Variation in needs assessment across municipalities
- Financial risk for the smallest municipalities
- Create service risk for potential clients and geographical variation in access and quality

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- Quality
- Reasonable costs in relation to access and quality

Studies show that additional seats to the right-wing parties appear to lead to higher spending on welfare services that benefit the elderly, and lower spending on services for the young (J.H. Fiva, O. Folke, R.J. Sørensen: The power of parties: evidence from close municipal elections in Norway. Scand. J. Econ (2018))

The government worries that some municipalities provide too few services of too low quality

This worry motivates government initiatives to influence LTC provision at the local level.

Three examples to illustrate potential tensions in the system

A. State financing of investments in nursing homes and sheltered housing

Motivation: Help municipalities to prepare for the increasing number of frail old people

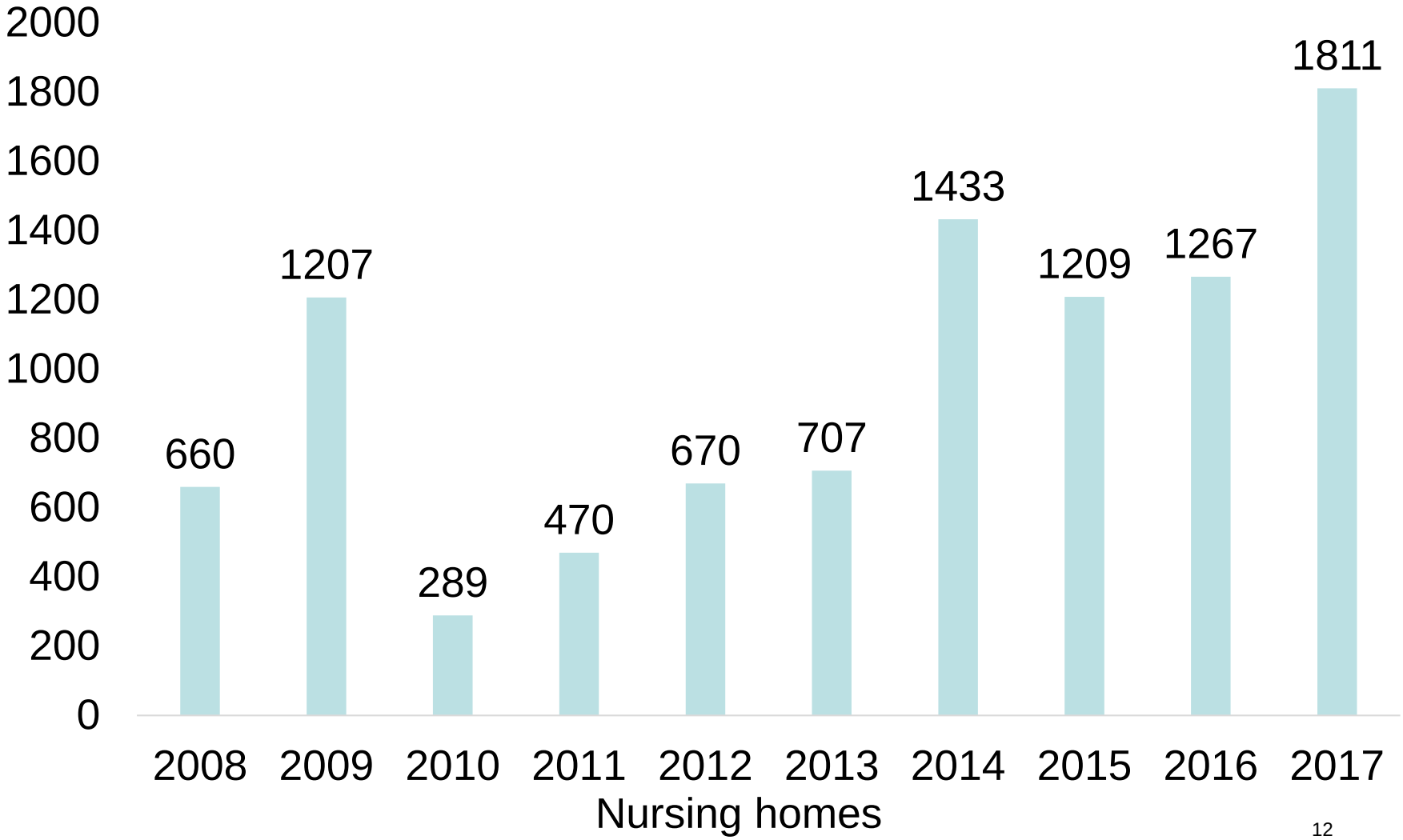
State subsidy to municipalities to reduce construction costs of nursing homes and sheltered housing since 2008

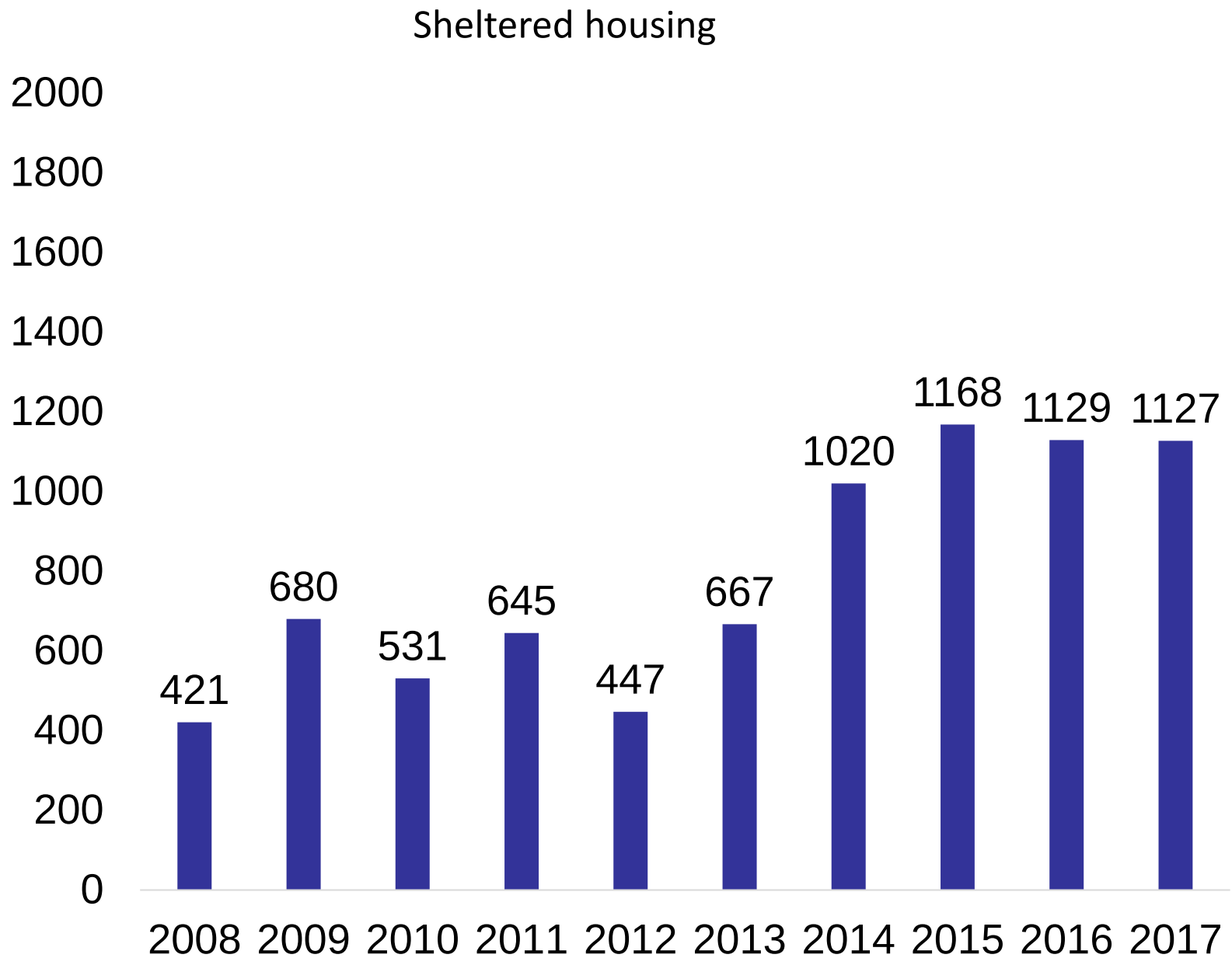
Results from evaluation report by Menon Economics:

https://www.menon.no/wp-content/uploads/2019-43-Evaluering-av-investeringstilskudd-til-omsorgsboliger-og-sykehjem.pdf

Number of financed places in nursing homes and sheltered housing

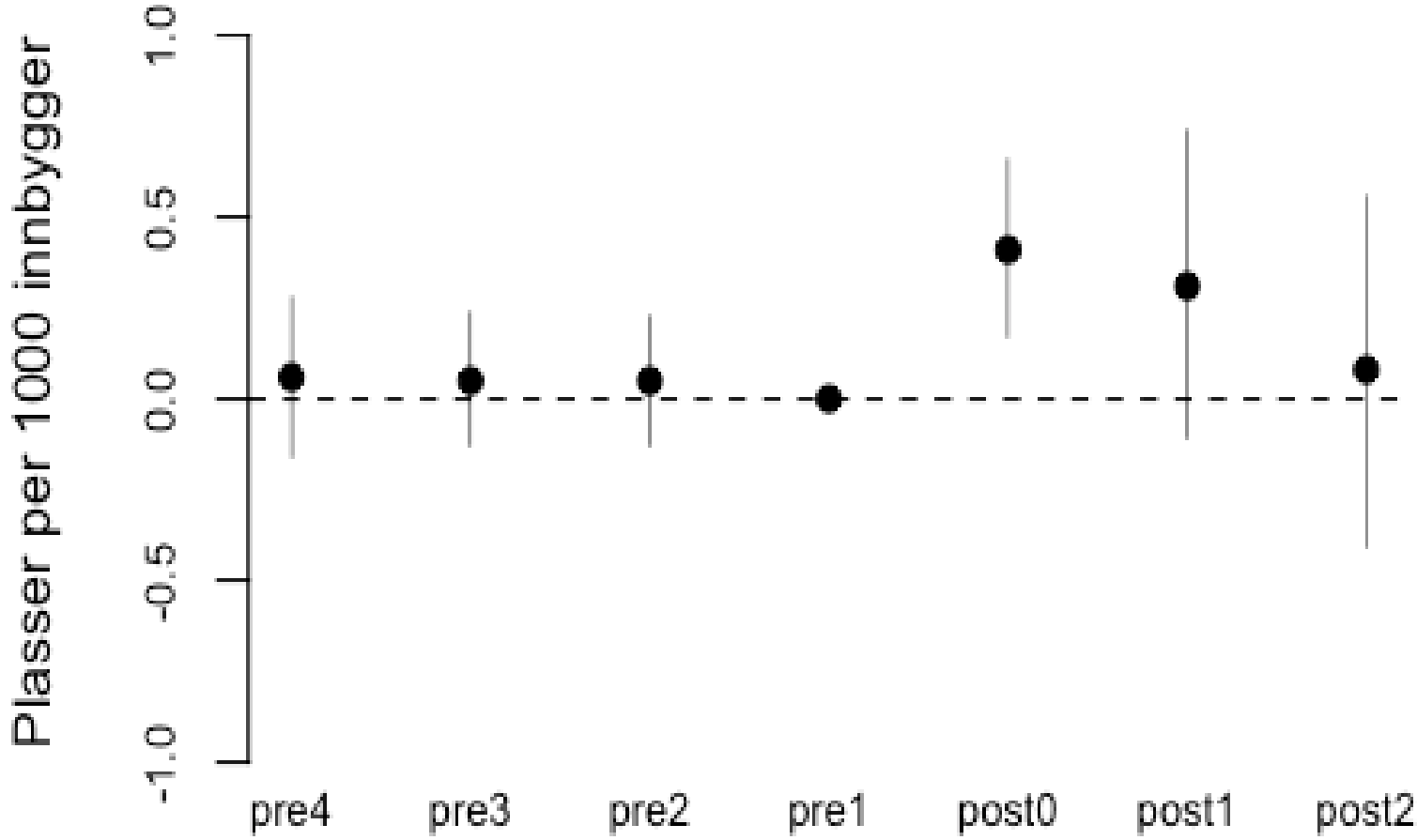
(source: https://www.menon.no/wp-content/uploads/2019-43-Evaluering-av-investeringstilskudd-til-omsorgsboliger-og-sykehjem.pdf)




Sheltered housing
2000
1800
1600
1400
1200
1000
800
600
400
200
0
421
680
531
645
447
667
1020
1168
1129
1127
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017

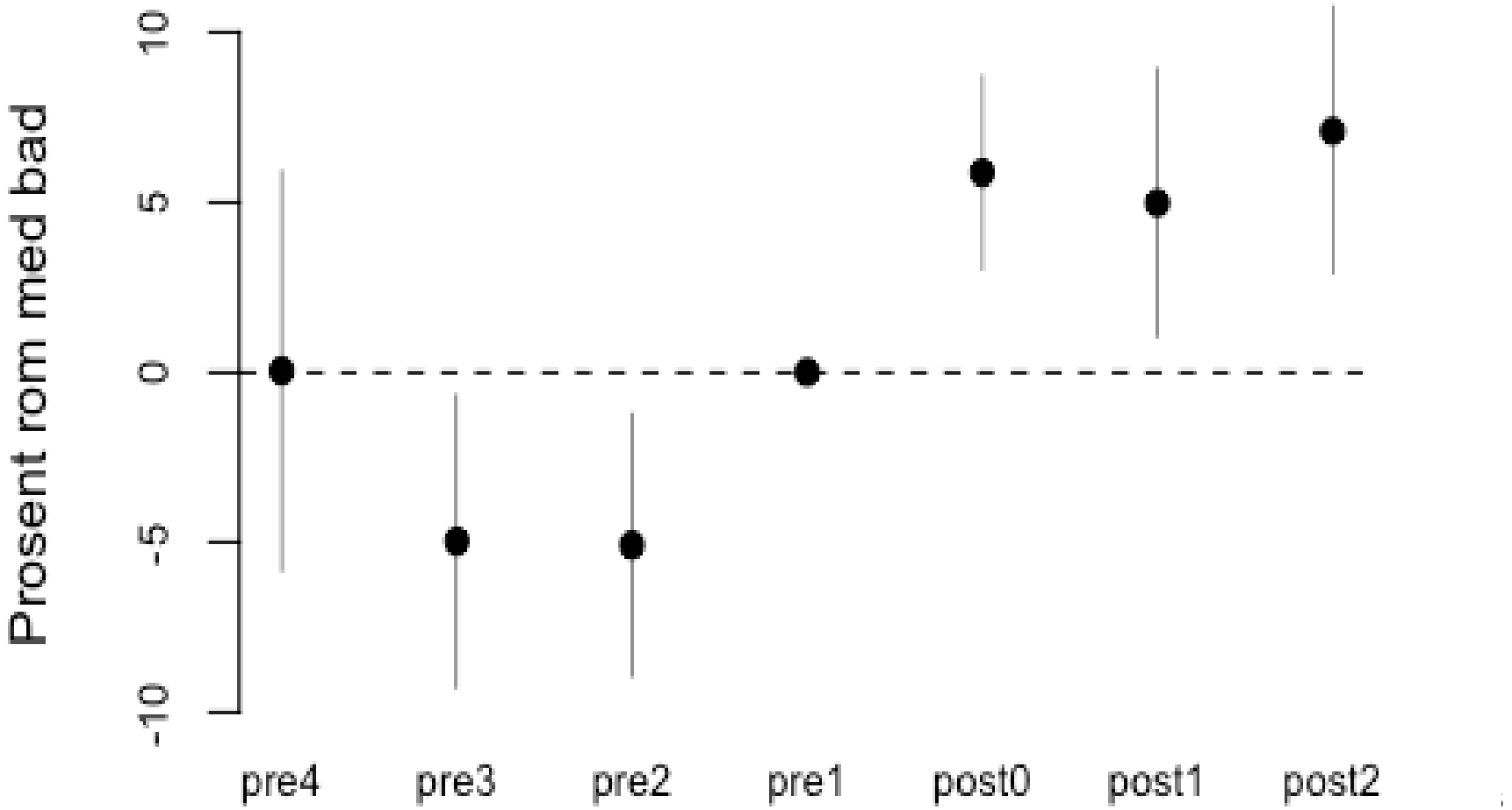
Places in nursing homes per 1000 inhabitants relative to year before received grant

(source: https://www.menon.no/wp-content/uploads/2019-43-Evaluering-av-investeringstilskudd-til-omsorgsboliger-og-sykehjem.pdf)



Proportion of rooms with separate bathroom relative to year before received grant

(source: https://www.menon.no/wp-content/uploads/2019-43-Evaluering-av-investeringstilskudd-til-omsorgsboliger-og-sykehjem.pdf)



Conclusion:

- Improved quality due to improved quality of building facilities
- No net increase in number of places
- Likely reason: No state subsidy of operating costs
- More subsidies to rich than to poor municipalities – may have increased the geographical variation in quality
- Now introduced a requirement that the subsidy should contribute to a net increase in number of places

B. Trial with state financing of care services

Motivation of the trial:

- Standardize procedures for determining when a person is in need of LTC
- Reduce geographical variation in access and quality

Two models:

- Model A: Service specific funding from the state
- Model B: Fixed transfer from the state designated to LTC.

Preliminary results after 2 years:

(Source: The directorate of health (2018): Evaluering av forsøksordning med statlig finansiering av kommunale helse- og omsorgstjenester)

Model A:

- 15% increase in LTC expenditures
- 21% increase in unit costs of nursing homes
- Improvement in quality indicators, such as nursing home staffing
- Some reduction of geographical variation in costs and services
- The small sample questions whether general statements from results should be made

Conclusion:

- Generous state funding of locally provided LTC may imply increase in costs and quality, reduced cost control and reduced geographical variation
- Interfere with the principle of financial responsibility: Decision-maker pays
- Provide protection against financial risk at the local level

C. Coordination with health services

- Motivation: Since hospitals are state owned and LTC is the responsibility of the municipalities, hospital stays for old people may be too long due to missing care initiatives by the municipalities

- The coordination reform introduced in 2012 aimed at giving the municipalities incentives to provide care services so that patients who are ready to be discharged from hospitals can be taken care of in the local community.

- The state introduced a fee of about 500 Euros per hospital day after the hospital declared a patient ready to be discharged.

- Combined with an increase in the unconditional state grant to the municipalities

- The evaluation of the reform found a substantial reduction of the length of stay and some increase in readmission rates. (Source: H. O. Melberg and T. P. Hagen (2016): Liggetider og reinnleggelser i somatiske sykehus før og etter samhandlingsreformen. Tidsskrift for omsorgsforskning)

Conclusion

- Decentralized tax-financing favors choice, priority-setting and cost consciousness at the local level.

- It may also involve considerable financial risk for small municipalities and pulls in the direction of regional variation in access to long-term care and quality of services due to variation in local income and priorities.

- Centralized financing with detailed regulation of access and quality may reduce regional variation at the expense of local priority-setting and cost control.

- The problem of cost control relates to the discretion involved in determining the threshold for entitlement to specific services – requires national regulation – not always verifiable.

- Labor saving technology in LTC likely to be more important in years to come due to shortage of labor in the LTC sector and development of technology in society in general

- A crucial question whether centralized or decentralized financing is the more appropriate to support the introduction of new technology into LTC

- Many difficult trade-offs involved

Making a proper choice of system requires both a detailed analysis of the properties of alternative systems and a recognition that different systems will score differently on the various goals one would like to pursue. Hence, optimal choice of financing system then also depends on the relative weights one assigns to different goals in policy-making.