# Comment
# Is Self-Insurance for Long-Term Care Risk a Solution?

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**Abstract -** The financial risk associated with long-term care (LTC) is partially insured in France and in all European countries. However, the level of coverage across all countries is significantly lower compared to health risk. Public coverage varies widely from country to country, although in most cases households are left to bear a significant proportion of the cost burden. Since LTC risk occurs at the end of life, the use by households of their financial and housing assets to finance their LTC expenses – in other words, self-insurance – may appear as one solution. Using data from the SHARE survey, the study by Carole Bonnet, Sandrine Juin and Anne Laferrère aims to address this question head-on and to assess the extent to which self-insurance could meet the financing needs of long-term care in Europe. This comment considers the approach taken by the authors before discussing the implications of their analysis.

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The financial risk associated with long-term care (LTC) risk is partially covered in France and in all European countries. However, coverage across all countries is significantly lower compared to health risk. The level of public coverage varies widely across countries, but in most cases a significant proportion of the cost burden is left to households, particularly where the disability status requires institutionalisation. Furthermore, private insurance plays a marginal role in insuring against the risk. Because LTC risk occurs at the end of life, the use by households of their financial and housing assets to finance their LTC expenses – in other words, self-insurance – has been proposed as a possible solution (Bozio *et al*., 2016). In other words, the question arises as to the ability of self-insurance to insure against LTC risk. Using data from the SHARE survey, the study by Carole Bonnet, Sandrine Juin and Anne Laferrère aims to address this question head-on and to assess the extent to which self-insurance is able to meet the financing needs of long-term care in Europe. Before discussing the implications of the study, the approach taken by the authors is examined first.

## Assessment of Needs: An Effective Approach

LTC risk is characterised by difficulty in performing basic activities of daily living. To compensate for these difficulties, dependent persons are cared for by relatives, known as informal caregivers, and/or by paid professional caregivers, whether care is provided at home or in an institution.

The position taken in the study involves estimating the financial risk associated with LTC risk by the number of hours required to care for a dependent individual, valued at the price of professional care. The assessment is carried out without taking into account public care and the informal care provided by relatives. The approach adopted is, in my view, highly effective. It has the advantage of allowing for a consideration of gross risk – i.e. the risk faced by individuals independently of resorting to informal caregivers. Of course, assessment is a delicate matter, and understanding the real needs of dependent individuals is no easy task. The authors' choice of standardisation is open to discussion. Scenario-based analyses drawing on other sources for the assessment of needs would have been worthwhile. More broadly, the measurement of needs would have merited further discussion since it determines all the calculations and results of the study.

In particular, the question of institutionalisation is not addressed. Yet the method of care delivery (at home, in an institutional setting or in assisted living facilities) directly determines the cost of care and the financial risk of long-term care. The measure of needs used in the study may not account for the cost of institutional care despite the high annual costs used for the simulations. In any event, the method of assessment of needs chosen by the authors, expressed in hours of care, does not cover the home care of certain dependent individuals, a case in point being dependent individuals suffering from dementia. In other words, severe needs requiring institutionalisation are not explicitly considered in the paper. The approach taken, based on the assessment of a standardised and absolute need, is however attractive insofar as it provides a means to move away from the real arrangements made by households, to focus instead on a financial risk that is independent of the care choices of families. In this way, it has the advantage of not having to take into account the costs of care associated with a costly decision. However, the exercise is not well suited to the case of institutionalisation, which may not be a matter of choice but necessity. Currently in France, institutional care is the type of care associated with the highest burden of cost for households – a burden that generally exceeds the income of persons in institutional care because of the costs associated with accommodation (Fizzala, 2016). In a way, the authors proceed on the assumption that home care costs and institutional care costs are equivalent. This would be worth further discussion.

Nevertheless, in any case, the approach adopted appears to be both effective and informative. Of course, the assessment of needs used by the authors is not independent of the hypotheses made to measure risk.

## LTC Risk: A Highly Simplified Dynamic Process

Based on the data used, the authors are led to simplify the methodological approach and to make several significant simplifying assumptions. The first relates to the definition of a binary risk: requiring or not requiring long-term care. It would probably be more realistic to consider a more fine-grained process to reflect

the gradual development of the different stages of disability (Edjolo *et al*., 2016).

Similarly, the authors base the microsimulation on transition probabilities derived from logistic regressions using the different waves of SHARE. Here too, it would be better to base the simulations on estimations aimed directly at accounting for the dynamic of disability and taking better account of the competitive nature of long-term care and death risks.

It is clear that the data used do not allow for a direct implementation of this type of approach. However, it is possible to envisage importing epidemiological models with a view to applying them to the data used in the study. Doing so is, in fact, a highly delicate matter because of the fundamental difference between SHARE data and the data used in epidemiological research on long-term care, which are generally based on cohort data with long-term longitudinal follow-up. In other words, the authors can hardly be blamed for taking a pragmatic approach by adapting their method to the data used. This is all the more so since their aim is to account for the heterogeneity of risk with regard to the socio-economic characteristics of individuals, which is not always possible to do with the same degree of precision on cohort data, and even less so in a European perspective.

These methodological limitations, which are inherent to the data used, are not such as to fundamentally undermine the main findings of the study. Nevertheless, research of this kind would benefit from a more detailed modelling of the dynamics of long-term care, thereby allowing, by extension, for a more detailed needs assessment according to the stage of care reached.

## Self-Insurance and LTC Risk Sharing

The study clearly highlights the fact that long-term care is a risk, in the sense that individuals will be affected to highly varying degrees whether the occurrence of the risk itself or the period of exposure to a disability status is considered. In other words, the variability of risk is sufficient to provide for risk sharing. While the message is not necessarily new, the translation of long-term care risk in terms of support needs and, ultimately, financial risk, as proposed by the authors, is particularly instructive. In other words, the study highlights the reality of the risk and the extent to which this reality applies to Europe as a whole, or at least to the countries included in the study.

Second, a key message of the paper is that the risk faced by a large proportion of the population is catastrophic in the sense that it exceeds the ability of the individuals in question to pay even when taking into account their financial and housing assets. From this point of view, LTC risk is no different from health risk. This is a key point of the paper. The financial risk associated with long-term care has sometimes been underestimated, either because it was assumed that it could be covered, at least in part, by relatives, or because it was thought that housing assets represented a sufficient source of financing to cover a significant portion of the risk.

First, the authors take the opposite view by considering financial risk independently of the informal care received, rightly assuming that informal care represents a resource that can sensibly be given a monetary value in the same way as professional care. The authors show that the second argument is only partly valid since just 49% of the European population studied and 58% of the French population cared for would be able to pay for their LTC needs by using all their assets. In other words, there is no escaping a form of sharing or socialisation of LTC risk if the aim is to provide sufficient coverage for the risk of being unable to perform the basic activities of daily living. This is, in my view, the main message of the paper. Once again, while it may not necessarily be a novel finding, the argument has great force, with the authors systematically considering the alternative of self-funded care by taking into account all the assets of dependent persons. The inability to pay for LTC needs is not limited to the poorest segment of the European population but to approximately half the population. A safety net reserved for the very poorest would then not be enough to provide sufficient coverage of LTC needs.

Of course, the finding may be tempered by considering that informal care is also a form of self-insurance that serves to reduce the cost of LTC as valued by the authors. The authors show, in this case, that 57% of the European population studied (68% in France) could pay for their LTC expenses. Of course, it should be kept in mind that the authors are approaching the matter from the standpoint of a radical scenario that leaves dependent persons with very limited means to live. In a less radical

scenario, the proportion of individuals who cannot pay for their LTC needs would be significantly greater even under the hypothesis that dependent persons rely on their ability to pay by resorting to informal care and by using their assets.

The results of European comparisons are more difficult to interpret. Variability across Europe does not appear to be a matter of risk alone, but also a matter of the cost of care and the importance of households' real estate assets. Therefore, the results relating to the proportion of households that would be able to pay for their LTC needs in different European countries are not immediately interpretable. In any event, the usual north-south gradient found in European comparisons, including on the LTC risk itself, does not apply. The reason is, first, that differences in the cost of care serve, in a sense, to offset household income differences and, second, that the proportion of homeowners able to draw on real estate is greater in southern countries. Of course, as noted by the authors at the end of the paper, the structure of housing assets cannot be considered as independent of the structure of social protection and, in particular, of the public policies aimed at dependent persons. The scenario studied by the authors, who do not consider any sources of financing other than those provided by the resources of the dependent person, seems somewhat artificial when examining the European comparisons. Undoubtedly, this does not detract from the value of the approach; but it suggests that more caution is needed in interpreting the comparisons presented in the paper.

## Reverse Mortgages as a Medium for the Use of Real Estate

The question posed by the study is the ability of dependent individuals to self-insure when faced with the cost of LTC in the event of the occurrence of the risk. Here, the main contribution of the study consists in the systematic consideration of real estate as a source of financing for dependent persons. Doing so provides a very direct way of assessing the ability of households to pay for their LTC needs, showing, convincingly, that the resources of dependent persons who have no partner are barely sufficient to cover all such costs in half of all cases of persons with LTC needs.

To lend credibility to the scenario involving the use of real estate to pay for LTC needs, the authors consider the use of reverse mortgages to liquidate assets by making the funder assume the risk of long-term disability. The difficulty for such a market to expand significantly is well established, notably because of the very high interest rates prevailing in the market, which, by themselves, are enough to dissuade potential users. More fundamentally, we need to examine the role that paying for LTC through real estate can play in LTC financing systems as they currently stand in European countries and in France in particular.

In the case of France, public financing is concentrated on the poorest segment of the population even though the financing of LTC by the APA (*Allocation Personnalisée d'Autonomie*, or Personalised Autonomy Allowance) is universal in the sense that although the amount of assistance decreases with household income, all are eligible. It is important to recall that the APA is not recoverable from the estate and that the decision to exempt the APA from recovery from the estate at the time of death was adopted to avoid the low uptake found with the scheme that preceded the APA (the *Prestation Spécifique Dépendance*, or Specific Dependency Benefit). The aim was to avoid the risk of insufficient or unsuitable provision for dependent persons. In other words, the idea of drawing on the assets, and in particular the real estate, of dependent persons was set aside to protect such persons from inadequate provision.

From this point of view, the idea of using reverse mortgages may appear to be at odds with what we know about the behaviour of French families in relation to assets and property, since they are often very keen to protect the transfer of assets, sometimes beyond what is reasonable, i.e. potentially at the expense of the well-being of dependent persons.

Furthermore, and still in the case of France, for expenses not covered by the APA and exceeding the ability of the dependent person or of his or her household to pay, the mechanism of recovery on the estate, in particular for the ASH (*Aide Sociale à l'Hébergement*) a specific form of social assistance which funds the housing of persons in institutional care, is used by departments as a means of covering their expenses. In this case, real estate is implicitly mortgaged since it is used by the department at the time of inheritance up to the level of the expenses incurred by the department. In a way, French departments assume the role of mortgage issuers. However,

the mechanism involved is more complex than this since the department first turns to relatives of the dependent individual with a maintenance obligation before considering the individual's assets at the time of their death. This arrangement departs from an approach based on the deferred use of assets since there is currently no mechanism to regulate the contributions of those with a maintenance obligation based on the assets of the dependent person. A genuine mortgage-based approach should rectify this anomaly, the simplest option being to remove the principle of maintenance obligation to ensure that those with a maintenance obligation no longer perform the role of mortgage issuers, which is evidently a highly ineffective solution.

Admittedly, the case of France is specific and cannot be applied to all the European countries included in the study. Nevertheless, it raises questions about the role of reverse mortgages in how long-term care is financed in France and in Europe. The reverse mortgage market could be envisaged as an alternative mechanism to recovery on the estate that would be supervised and guaranteed by the state (in order to avoid prohibitive interest rates) and used to complete dedicated public financing or to finance existing services (such as the ASH in France).

## Drawing on Assets is Not Necessarily Synonymous with Self-Insurance

It should be kept in mind that promoting a wider use of reverse mortgages is certainly not desirable without considering the risk that families may not resort sufficiently to such mortgages based on the needs of dependent persons. Without questioning the interest of the exercise proposed in the paper, it should not overshadow the drawbacks of using the assets of dependent persons to finance their care. First – and this is self-evident – such a method of financing implies opting out of risk-sharing. Yet, as the study clearly shows, long-term care constitutes a risk to which the population is exposed to highly varying degrees. Opting not to share the risk unquestionably leads to an *ex ante* loss of well-being. On the other hand, from the point of view of the transfer of assets, reverse mortgages are particularly unfair since it amounts to placing the burden of LTC risk on children whose parents cannot pay for their care. Given the correlation between the income of parents and the income of children (Gramain *et al.*, 2007), funding through reverse mortgages tends to reduce the assets of the poorest families to a greater extent than the assets of the wealthiest families.

The financial pressures on public spending and the difficulty of setting up an efficient long-term care insurance market are realities that may lead to considering the use of reverse mortgages, although it is important to remember that doing so is a last resort. However, this does not mean that household assets should not be used to finance long-term care. Other methods may be considered. In a recent study, Masson (2018) offered several scenarios aimed at basing deductions on household assets to better cover long-term care risk. The advantage of this kind of solution is that households are made to contribute independently of the occurrence of the risk, meaning that risk is shared, which, as noted above, is a condition for efficiency. It also ensures vertical fairness of financing by drawing on assets according to the amount of taxed property – in a logic of a vertical fairness.

As the authors of the article show, the private financing of long-term care risk – commonly known as self-insurance – cannot, in European countries, cover the risk for all persons in long-term care, far from it. From this point of view, the study is particularly informative and rich in content. It is also important to recall that the self-financing solution is in itself both inherently ineffective, in the sense that it implies opting out of risk-sharing, and unfair insofar as assets are made to contribute based on the ability of dependent individuals to pay for their care needs out of their income. □

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