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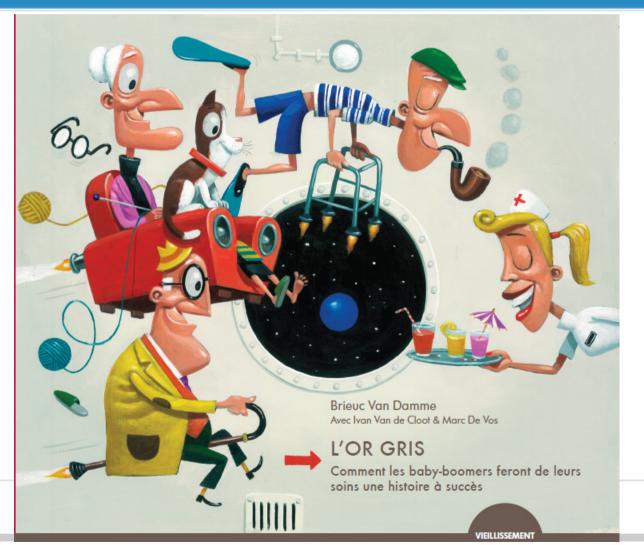
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To show, to defend and to build roads for policy reform towards sustained economic growth and social protection, for Belgium and its regions.

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Allow me to make some publicity first...



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Content

- Challenges of financing eldercare
- Options for reform
- Conclusion: New roles for public and private sector



Challenges

Brieuc Van Damme



The situation in Belgium today: Who finances what?

- Eldercare = Accomodation + Care
- Accomodation: out of pocket

Average price of a nursing home ≈ 42€/day ≈ 1250€/month > 82% of Belgian pensions

Care: fixed rate from social security in function of person's disability



The situation tomorrow: Who can finance what?

A new social reality: the elderly 2.0 will want more

- Comfort
- Freedom

A new financial reality:

- Babyboomers are the richest and healthiest generation in the history of mankind!
- But wealth and income are very unequally distributed,

A new budgetary reality

Year	Cost as % of GDP	Difference with today	Relative difference with today
2009	1,2%	0	0
2015	1,5%	0,3%	+25%
2030	1,8%	0,6%	+50%
2060	3,1%	1,9%	+160%

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What have we learned?

- O Policymakers will need to take into account the aspirations of some, while protecting the others
 - →Thus: more protection & more freedom
 - = more selectivity
- Policymakers have an opportunity to release some of the budgetary pressure that an ageing population puts on the welfare state
 - →Thus: need to channel the means in a socially responsible and efficient way



How?

Financial empowerment

- On the revenu side
 How are we going to collect the means?
 Answer:
 - A reformed insurance system
 - Financial innovation
- On the expense side
 How are we going to spend those means?
 Answer: a demand driven sector

We will focus on the revenu side here



Options for reform

Brieuc Van Damme



Theory: The ten commandments of a care insurance

- 1. Beneficiary cannot manipulate the amount of care himself.
- 2. The bigger the group and the wider the age distribution of that group, the lower the premiums and the higher the benefits.
- 3. The most unpredictable care expenses should be insured first.
- 4. An early adoption opens opportunities for risk pooling and financing capacity.
- 5. Refering and recording data correctly are key.
- 6. Risks of moral hazard can be lowered thanks to a franchise.
- 7. Information provision to the insured is key
- 8. Pernicious interactions between different financing schemes can be avoided by risk equalisation pools, income subsidies and an ambitious competition policy.
- 9. Thanks to a capitalisation component babyboomers can bear a part of the increased financial burden.
- 10. Under certain conditions, policymakers could allow privileged partnerships between insurers and providers.



Reality: The German reforms of 1995

- Based on two principles:
 - Level playing field
 - No crowding out of informal care
- Pflegeversicherung covers basic care + room for individual contributions and private insurance
- Financing by employees and employers
- Room for capitalisation, also allows for financing the transition period
- Results:
 - Expansion of formal and informal care thanks to level playing field
 - No more waiting lists
 - Broad popular and political support



Policy: Social or private insurance? (1/2)

Social insurance

- Basic care package: public program with private insurance opt out
- Possibility of complementary insurance
- Possible legal and technical features:
 - Capitalisation component to reduce demographic risk
 - Mandatory contribution at a certain age
 - · Risk equalisation fund
 - Legal minima



Policy: Social or private insurance? (2/2)

Private insurance

- Use fiscal advantages to make products more attractive
- Possible legal and technical features:
 - Default option
 - Quid indexation?
 - Possibility of insurance (s)hopping
- Opportunities for creative financing:
 - Reverse mortgage
 - Flat bonds (city of Antwerp, Silver Avenue) with no loss of capital!



Conclusion: New roles for public and private sector

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New roles for public and private sector

The individual:

- More autonomy of spending and contracting → dynamism
- Will need to think about and prepare dependency period
- Of increasing political relevance

The private sector:

- Best position to fulfill expectations of potential users
- Will need to be as creative as possible with available means
- Economists expect competition will lead to better quality and lower prices

The public sector:

- Monitors quality
- Guarantees access for everyone
- Informs and guides (potential) users
- Guarantees fair competition



