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Who should pay for health and social care?

George Stoye

Festival of Social Science 2019

Sally has kidney disease

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David has dementia

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Why does David pay for care but Sally doesn't?

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Why does the government provide health care?

Why doesn't it treat social care in the same way?

How could we reform social care?

The government spends a lot on health care...

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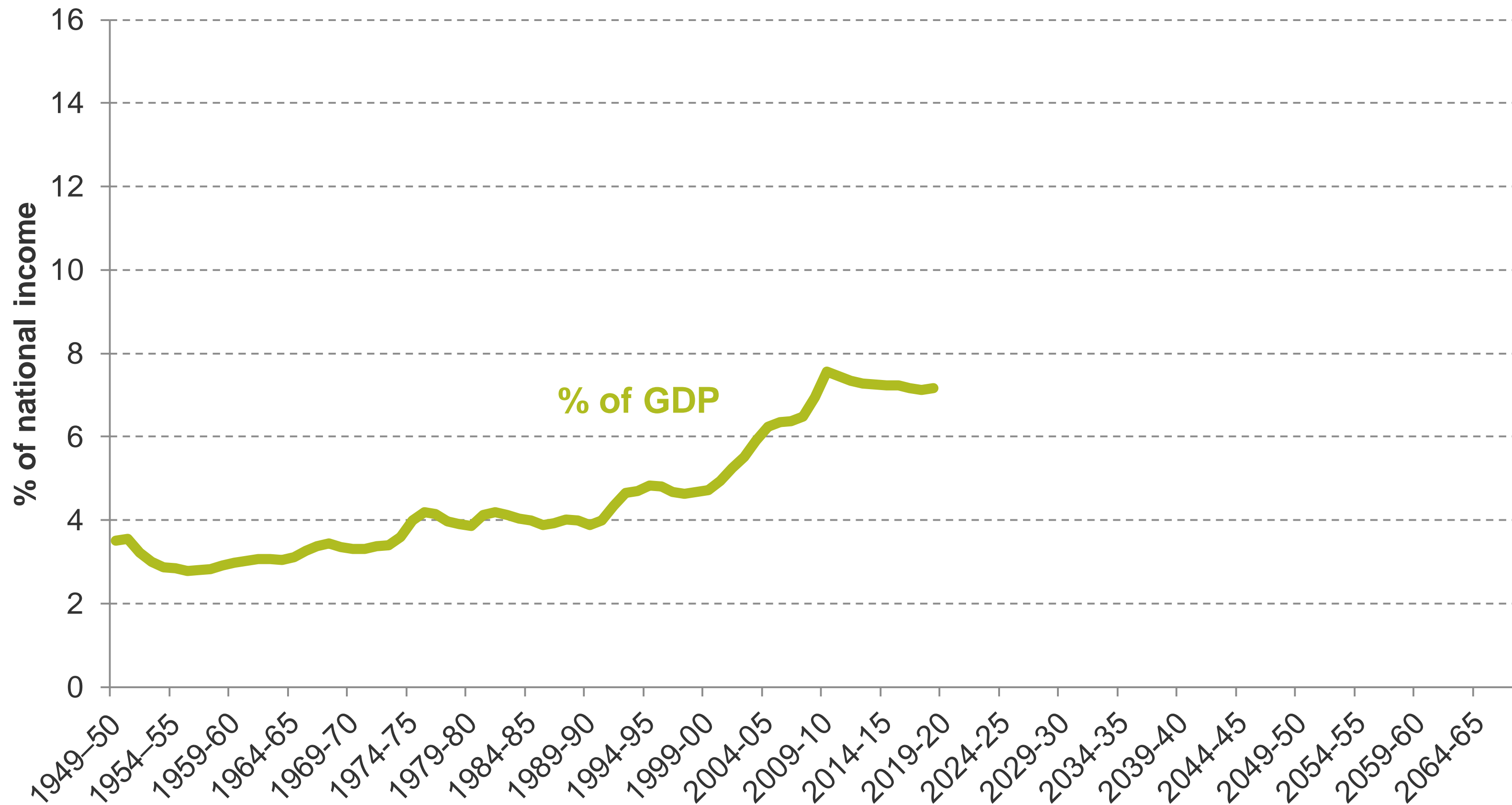
Historic health spending as % GDP



... and is going to spend more in future

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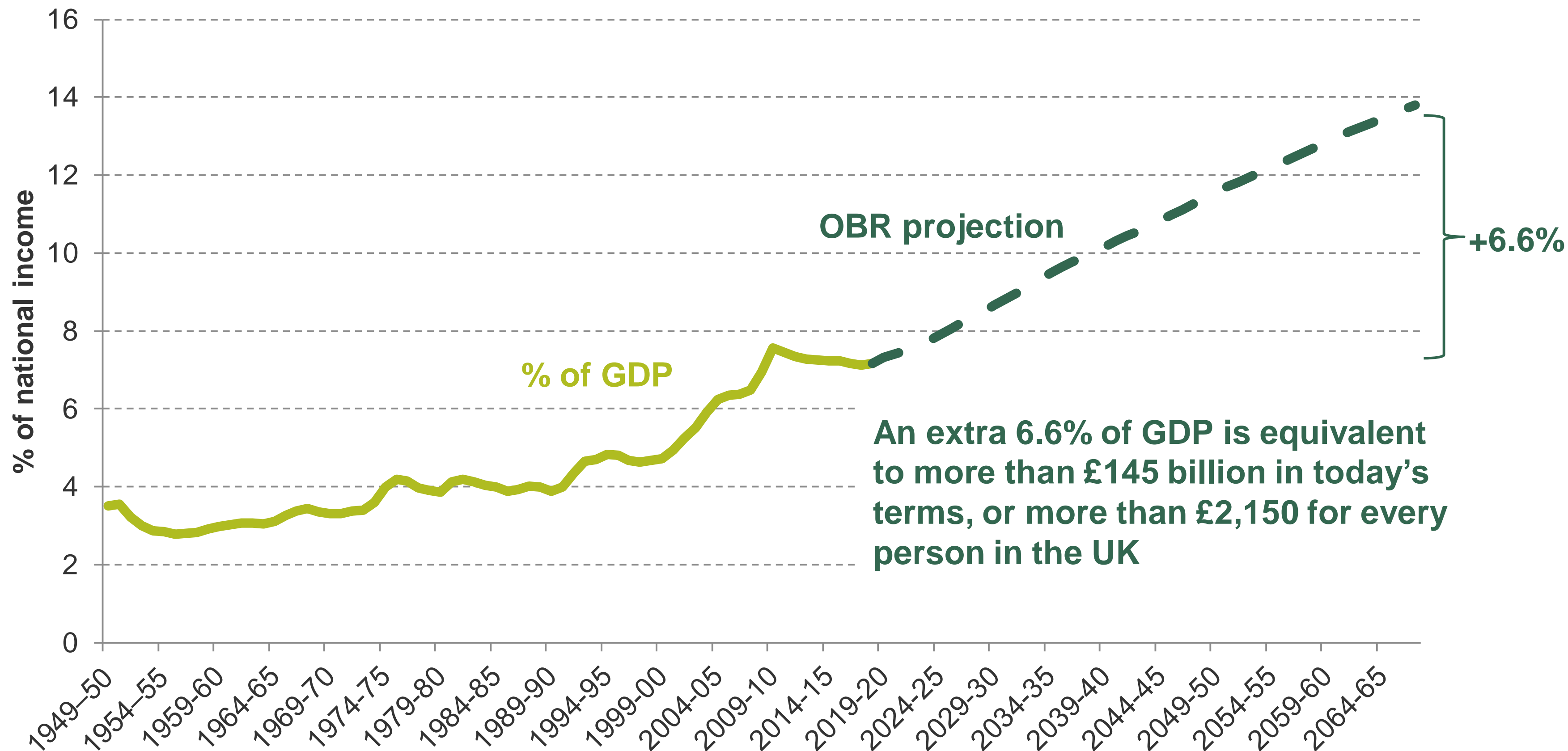

The UK government spent £559 billion on public services in 2018-19

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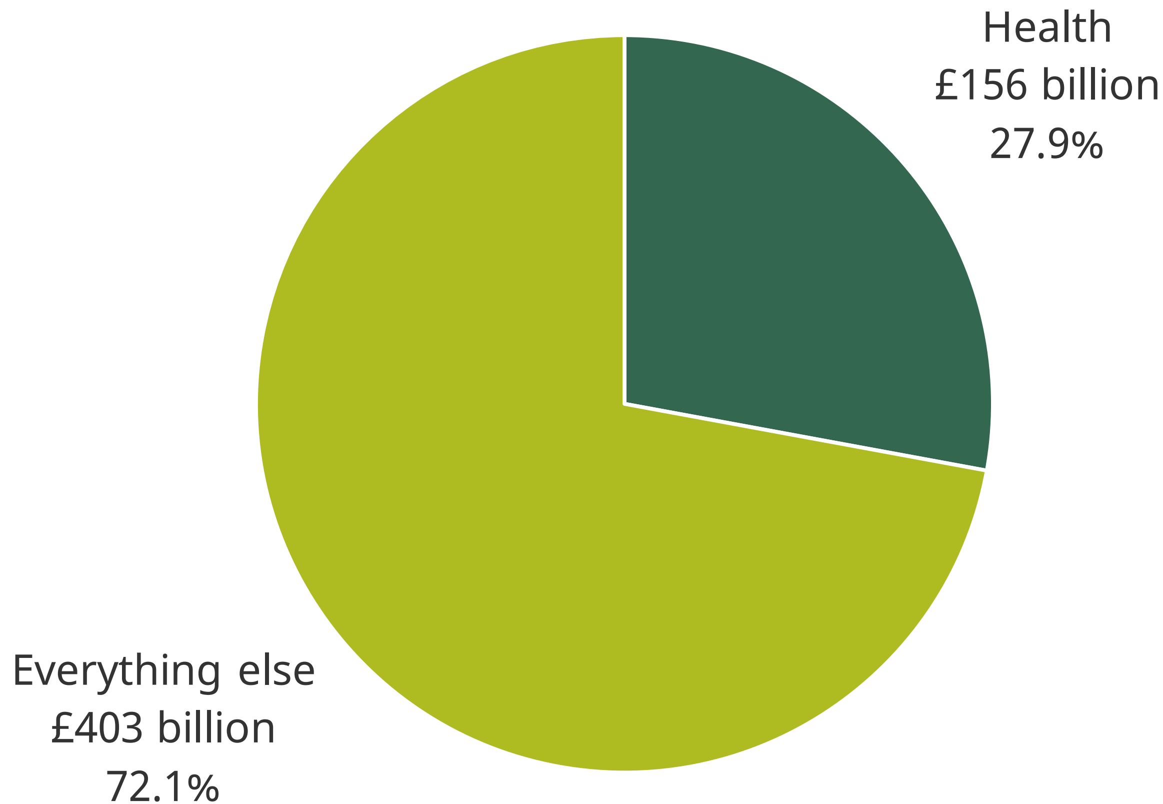

Note: public service spending defined as total managed expenditure less spending on social security and gross debt interest.

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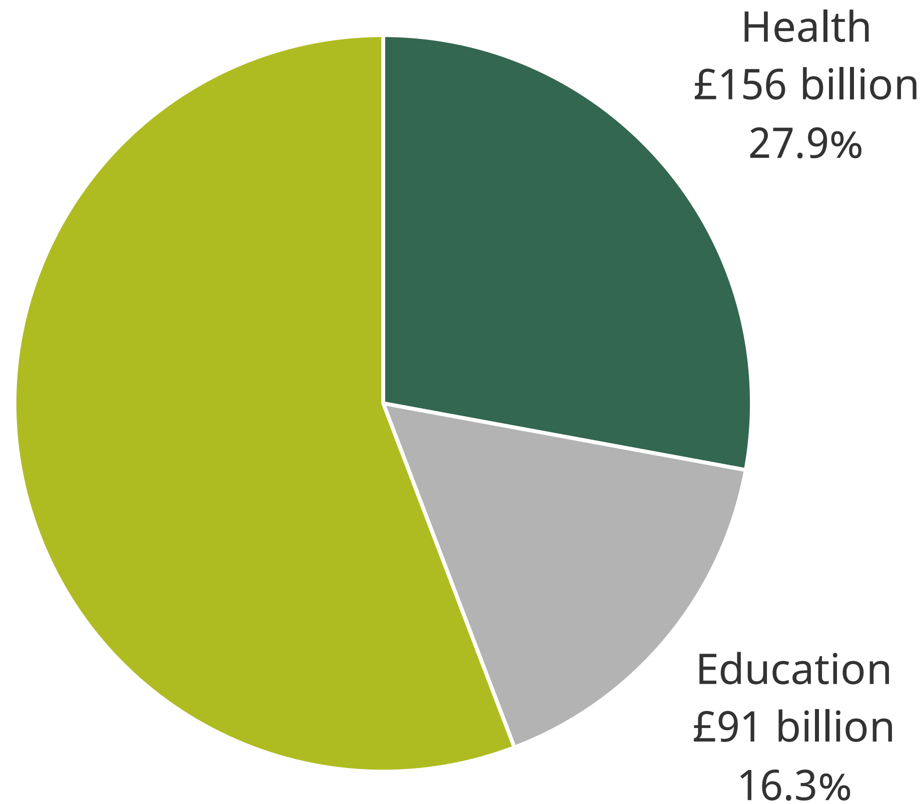
Health counts for a bigger share than anything else



Note: public service spending defined as total managed expenditure less spending on social security and gross debt interest.

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And we're not alone...

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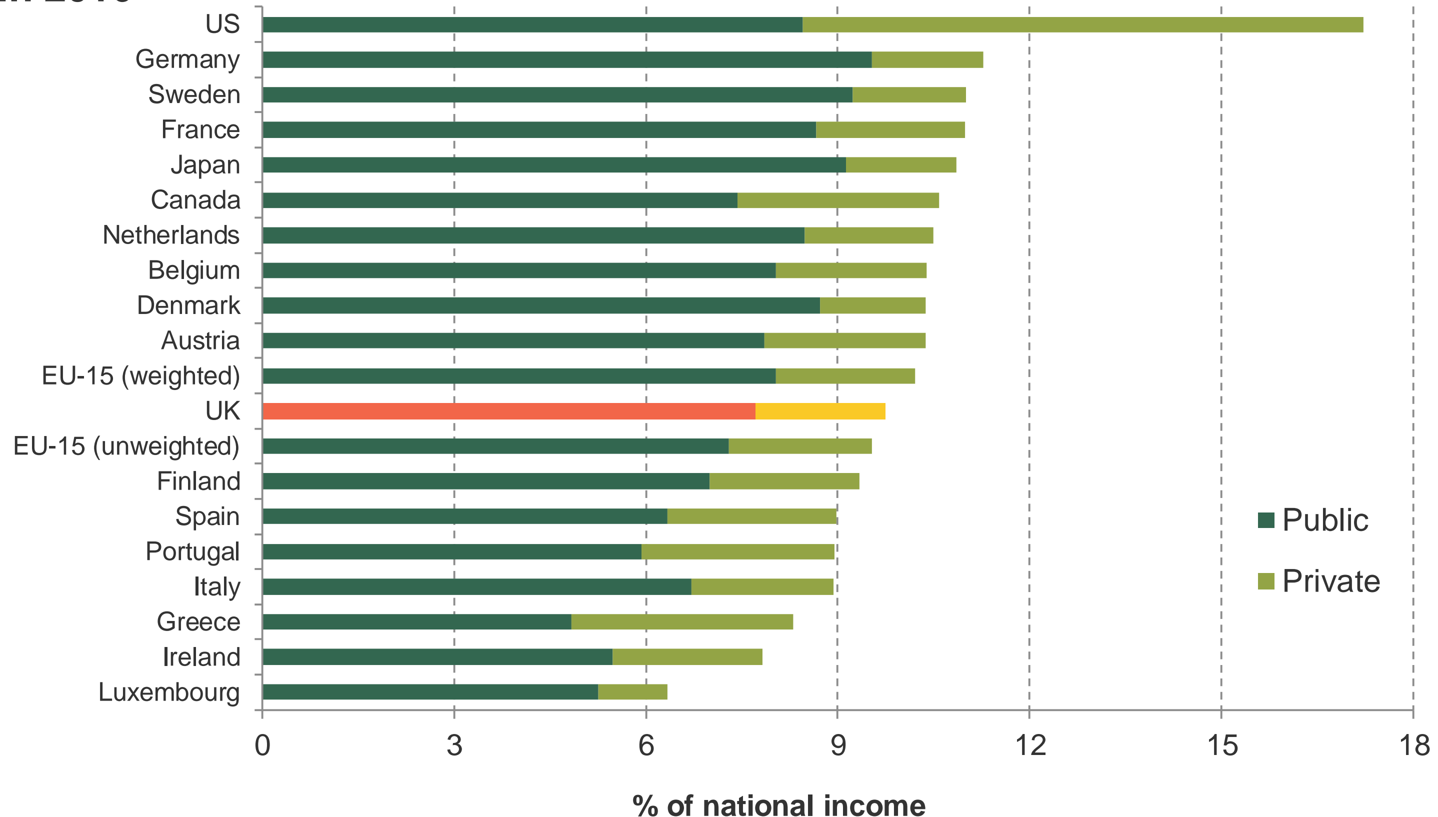
Public and private health spending as a percentage of national income in 2016



Note: Figures shown here are using the OECD's measure of health spending, which differs from that used in previous slides.
Source: OECD Health Statistics
(http://stats.oecd.org/index.aspx?DataSetCode=HEALTH_STAT)

Why do governments provide health care?

“Now, I have to tell you, it’s an unbelievably complex subject. Nobody knew health care could be so complicated” – Donald Trump, February 2017

People dislike risk

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Individuals are typically ‘risk-averse’: they don’t like uncertainty

But the future is uncertain

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Individuals might like to buy insurance against these risks

Governments can insure people against risks

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Governments often provide ‘social insurance’

The National Health Service is one example of this

- People pay taxes to the government
- NHS provides treatment for patients when they are sick
- Removes threat of ‘catastrophic costs’ when ill

Equity concerns: also provides care for those with low incomes

Not just about health – other prominent examples include unemployment benefits and disability insurance

But why do governments need to provide insurance?

If people don't like risk, why don't they just buy health insurance?

Patients have more information about their own health than insurers

- Insurers will only offer insurance if they at least break even
- Insurers want to charge different prices based on how healthy you are
- But how do insurers distinguish who is who?

Market would break down as a result of 'adverse selection'

These people want to buy health insurance

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Ashley

Ben

Christine

Why does Ashley want health insurance?

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Ashley

Ashley is pretty healthy

However, still a risk she gets sick (10%)

If she gets sick she'll need hospital treatment costing £10,000

She has 'expected costs' of £1,000 but may have £0 or £10,000

She might want to buy insurance so that she pays some money to avoid the possibility of paying £10,000

How about Christine?

If Christine needs to go to hospital she'll also have to pay £10,000

But she is unhealthy – so has a higher chance of going to hospital (30%)

Her expected costs are £3,000

She might be willing to pay more to avoid the £10,000 cost (it's more likely)

But she would prefer to pay less

Christine

Insurers know who is healthy and who isn't

	Ashley	Ben	Christine
Expected cost			

Insurers know who is healthy and who isn't

	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000

If insurers can tell who is healthy and who is sick, they can charge the appropriate price to each person

Insurers know who is healthy and who isn't

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	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price	£1,000	£2,000	£3,000

If insurers can tell who is healthy and who is sick, they can charge the appropriate price to each person

Each person will accept a 'fair' price

Insurers know who is healthy and who isn't

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	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price	£1,000	£2,000	£3,000
Buys insurance?	Yes	Yes	Yes

If insurers can tell who is healthy and who is sick, they can charge the appropriate price to each person

Each person will accept a 'fair' price

Insurers know who is healthy and who isn't

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	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price	£1,000	£2,000	£3,000
Buys insurance?	Yes	Yes	Yes
Insurer profit	£0	£0	£0

If insurers can tell who is healthy and who is sick, they can charge the appropriate price to each person

Each person will accept a 'fair' price

Full insurance provided to everyone

People have private information about their own health

	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price	£2,000	£2,000	£2,000
Buys insurance?			
Insurer profit			

Individuals now have private information about their own health

Insurers offer a ‘pooled’ contract (average overall cost)

But now Ashley doesn’t want the insurance

People have private information about their own health

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	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price	£2,000	£2,000	£2,000
Buys insurance?	No	Yes	Yes
Insurer profit			

Individuals now have private information about their own health

Insurers offer a ‘pooled’ contract (average overall cost)

But now Ashley doesn’t want the insurance

This makes the average cost of treatment higher

People have private information about their own health

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	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price	£2,000	£2,000	£2,000
Buys insurance?	No	Yes	Yes
Insurer profit	£0	£0	-£1,000

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	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
Price			
Buys insurance?			
Insurer profit			

Insurers offer a more expensive contract (£2,500 to break even)

People have private information about their own health

	Ashley	Ben	Christine
Expected cost	£1,000	£2,000	£3,000
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Buys insurance?			
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But now Ben doesn’t want to buy the insurance

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Insurers offer a more expensive contract (£2,500 to break even)

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Insurers offer a more expensive contract (£2,500 to break even)

But now Ben doesn't want to buy the insurance

Only Christine can get insurance (at £3,000)

Scale up to the whole population - market fails to provide insurance to the vast majority of people

What can we do about adverse selection?

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Problem exists because healthy people can choose not to purchase health insurance

- Address this by making sure everyone has insurance

National Health Service does this in the UK

- Government insures everyone and funds treatment through tax revenue
- Healthier people subsidise care for sicker people (e.g. Ashley subsidies Christine)

Other countries offer other incentives to buy health insurance

- France makes it mandatory to buy health insurance
- US offers strong tax incentives to purchase health insurance

....but is insurance always a good thing?

Insurance may change the behaviour of people – and ultimately increase the amount of health care they use

Economists call this ‘Moral Hazard’

Insurance might change behaviour before an event happens...

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People know they are insured against a bad event

- Undertake more risky behaviours or less preventative actions

Example: Flu shot

- No NHS: might pay for a flu shot to prevent getting sick
- But with NHS: risk getting sick (as they won’t face treatment costs in future)

...it could also change behaviour after the event

Insured person doesn't face the treatment costs

- Uses more (or more expensive) care than is necessary

Generic or branded drugs?

What can we do about moral hazard?

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Gatekeeping

- General Practitioners (GP) control referrals for expensive further care

Regulation

- Government only funds treatment that is deemed ‘cost-effective’ by NICE

What can we do about moral hazard?

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Other countries rely more on 'cost sharing'

- Patients pay a fixed fee for some treatment (co-payments) or a proportion of the costs (co-insurance)
  - Very limited use of this in the NHS (prescription charge)
  - But places like Norway have small charges for staying overnight in hospital

This is a really important trade-off!

- Reduces overuse of health care
- But exposures patients to risk once again

Key lessons

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Private information causes problems with health insurance market

Government intervention addresses adverse selection problem

Balanced against moral hazard concerns and risk of overuse

What about social care?

The government also funds some social care

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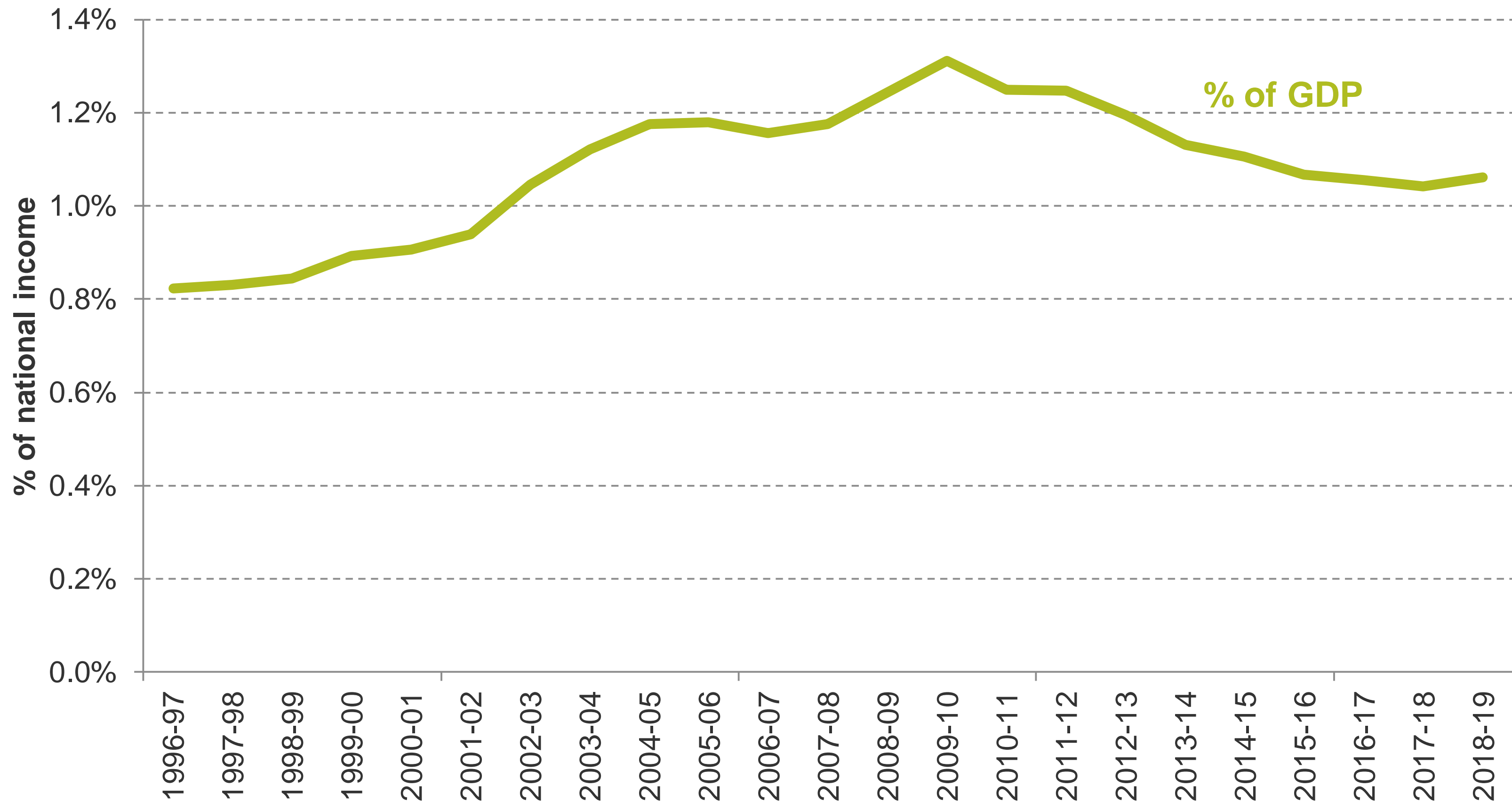
Historic UK social care spending as % GDP



What is social care?

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Non-medical services that support individuals with physical or learning disabilities that cause difficulties with activities of daily living (ADL)

- Examples include: housework, washing, general mobility, dressing, cooking

Social care in England is needs- and means-tested

- Only provided free to those with low assets and low incomes
- Very different to the NHS!

Care can be provided formally (by trained carers) or informally

- Vast majority of care provided by family, friends and neighbours
  - But may reduce labour supply and wellbeing of these carers
  - National Audit Office (2018) estimates annual replacement cost of £100 billion

David faces potentially high care costs

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And so does Sally!

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How different are David and Sally really?

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Both David and Sally face potentially high costs of care

- They might want to buy insurance

A similar problem exist in both markets

- People most likely to need care will want insurance (adverse selection)
- Private markets for either health or social care insurance breaks down

For Sally, the state will provide insurance through the NHS

But for David, social care is needs-tested and means-tested

- David is therefore exposed to the risk of very high care costs
- But wasn't this what we wanted to avoid!?

How could we reform social care?

"I don't want our children brought up in a country where the only way pensioners can get long term care is by selling their home" – Tony Blair, September 1997

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“We will fix the crisis in social care once and for all, and with a clear plan we have prepared to give every older person the dignity and security they deserve” – Boris Johnson, August 2019

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Suggestion 1: A 'Cap' System

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Main concern with current system is large exposure to extreme care costs

- One solution: cap lifetime contributions to social care costs

The Dilnot Commission (2011) recommend a cap of £25-50k

- Cap refers to personal care – additional payments to be made for rent/food
- Increase eligibility for means-tested help to £100,000 (from £23,500)

Proposals have still proved politically unpopular

- Similar proposal in the 2017 Conservative Manifesto was labelled a "Dementia tax"

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GET LEAN IN TIME FOR SUMMER WITH JOE WICKS

24 PAGE GLOSSY MAGAZINE YOU

The Mail ON SUNDAY

MAY 21 2017

Pippa's perfect (almost royal!) big day

STUNNING PICTURES AND REPORTS Pages 2-8

MAGIC MOMENT: Newlyweds Pippa and James share a kiss on the church steps as sister Kate looks on and Prince George, second from right, lines up with his fellow page boys

PLUS GLORIOUS 12 PAGE SOUVENIR PULLOUT SEE CENTRE PAGES

THE DEMENTIA TAX BACKLASH

- Tories' lead slips by 5% after pledge to make more elderly pay for care
- But they're still 12% ahead (and voters even prefer May to Maggie)

By Simon Walters POLITICAL EDITOR

THERESA MAY'S hopes of an Election landslide hit a setback last night when a poll showed strong opposition to her plan to make more elderly people pay for care.

A Survation poll for The Mail on Sunday showed the

Turn to Page 14

Suggestion 2: Free Personal Care (in England)

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Labour are proposing to provide free personal care to all in England

- Provides free state-provided help with activities of daily living (e.g. washing, cleaning, dressing) at home and in residential care

Already exists in Scotland

Big costs associated with both policies

- King's Fund and Health Foundation estimates (in 2030/31):
  - Additional £12bn for a cap
  - Additional £14bn for free personal care

Funding challenges already exist

Funding both health and social care in future will be harder given demographic challenges!

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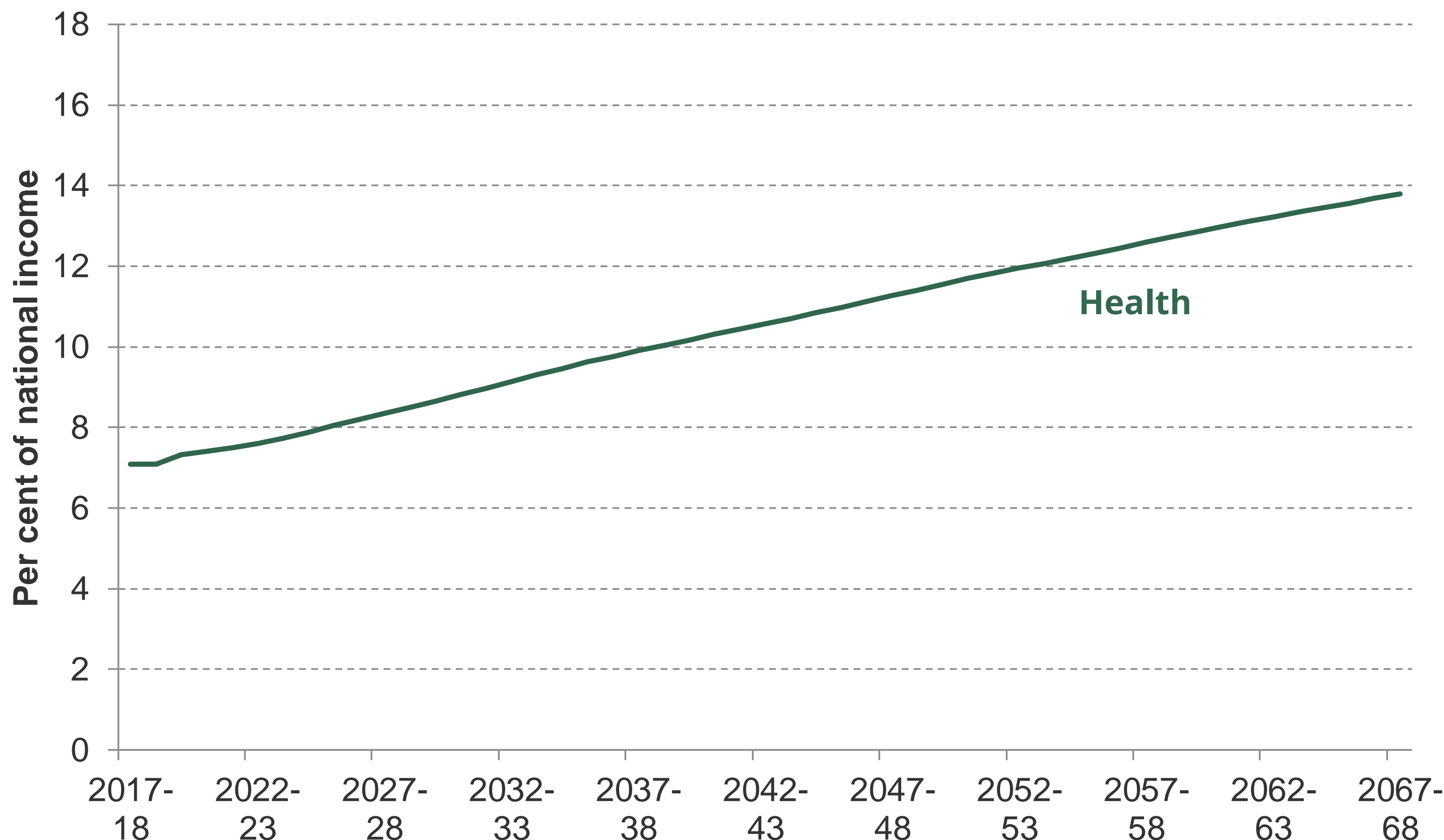

Funding both health and social care in future will be harder given demographic challenges!

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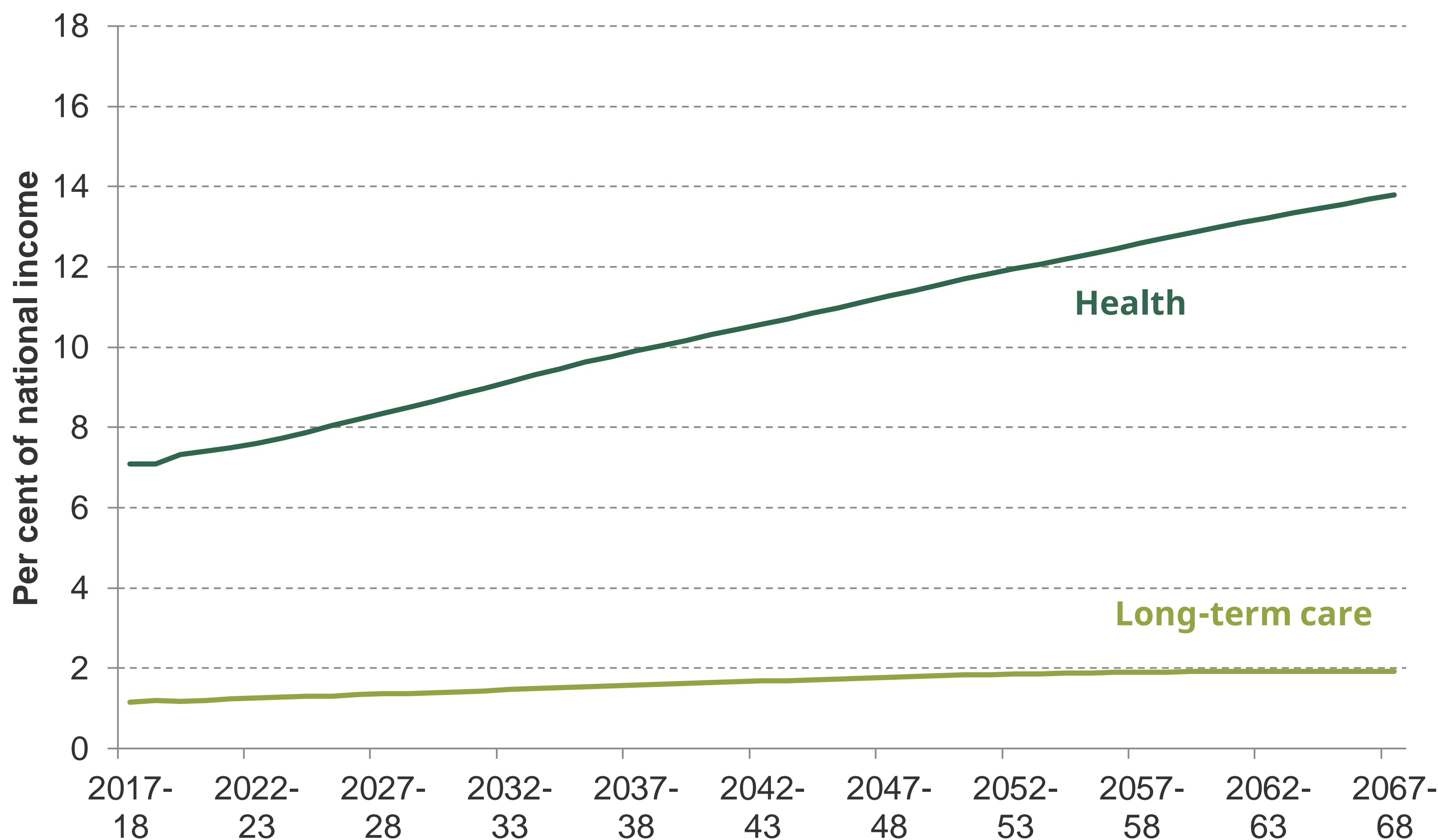
OBR spending scenarios, by public spending area (2017-18 to 2067-68)



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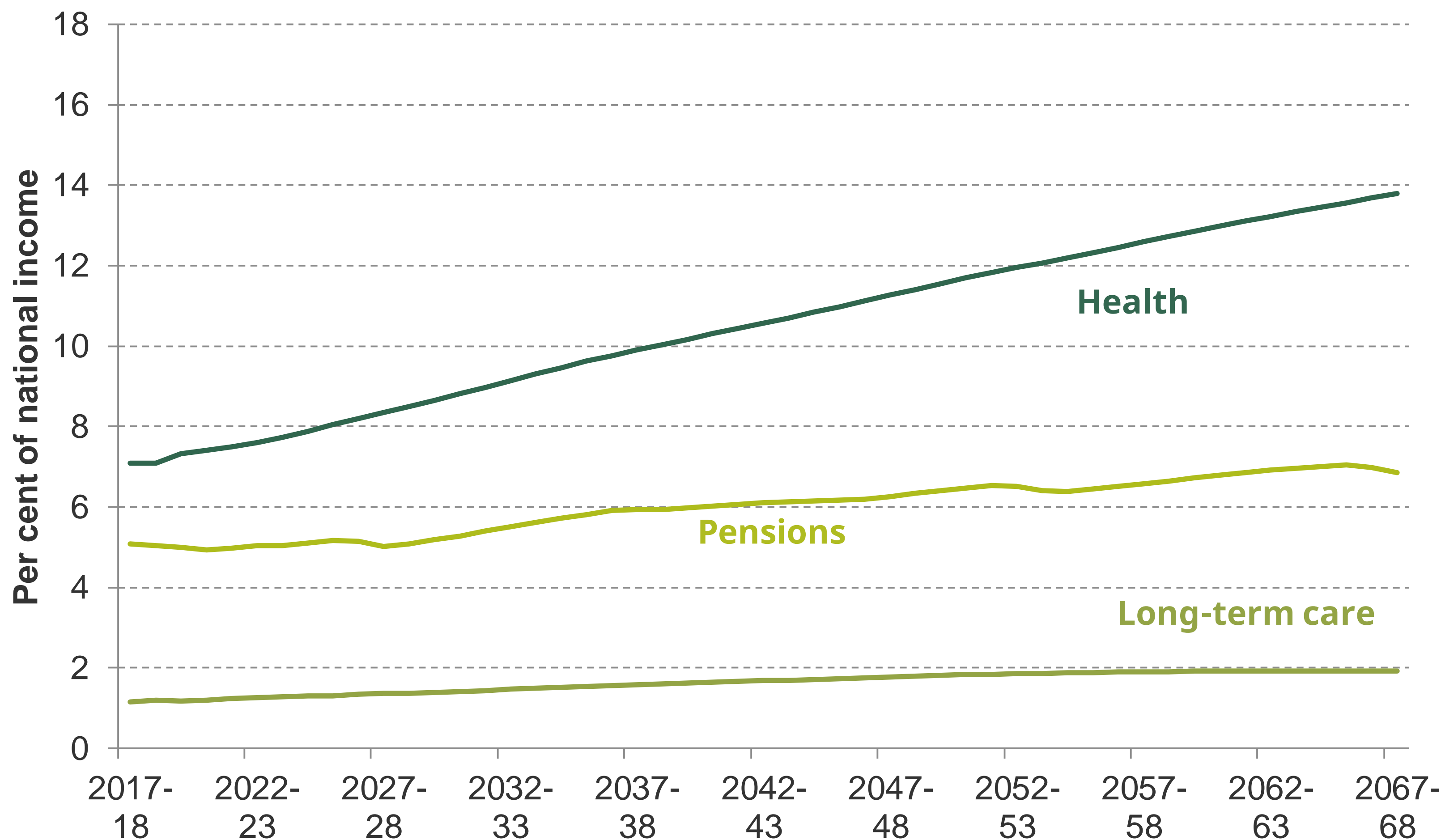

Funding both health and social care in future will be harder given demographic challenges!

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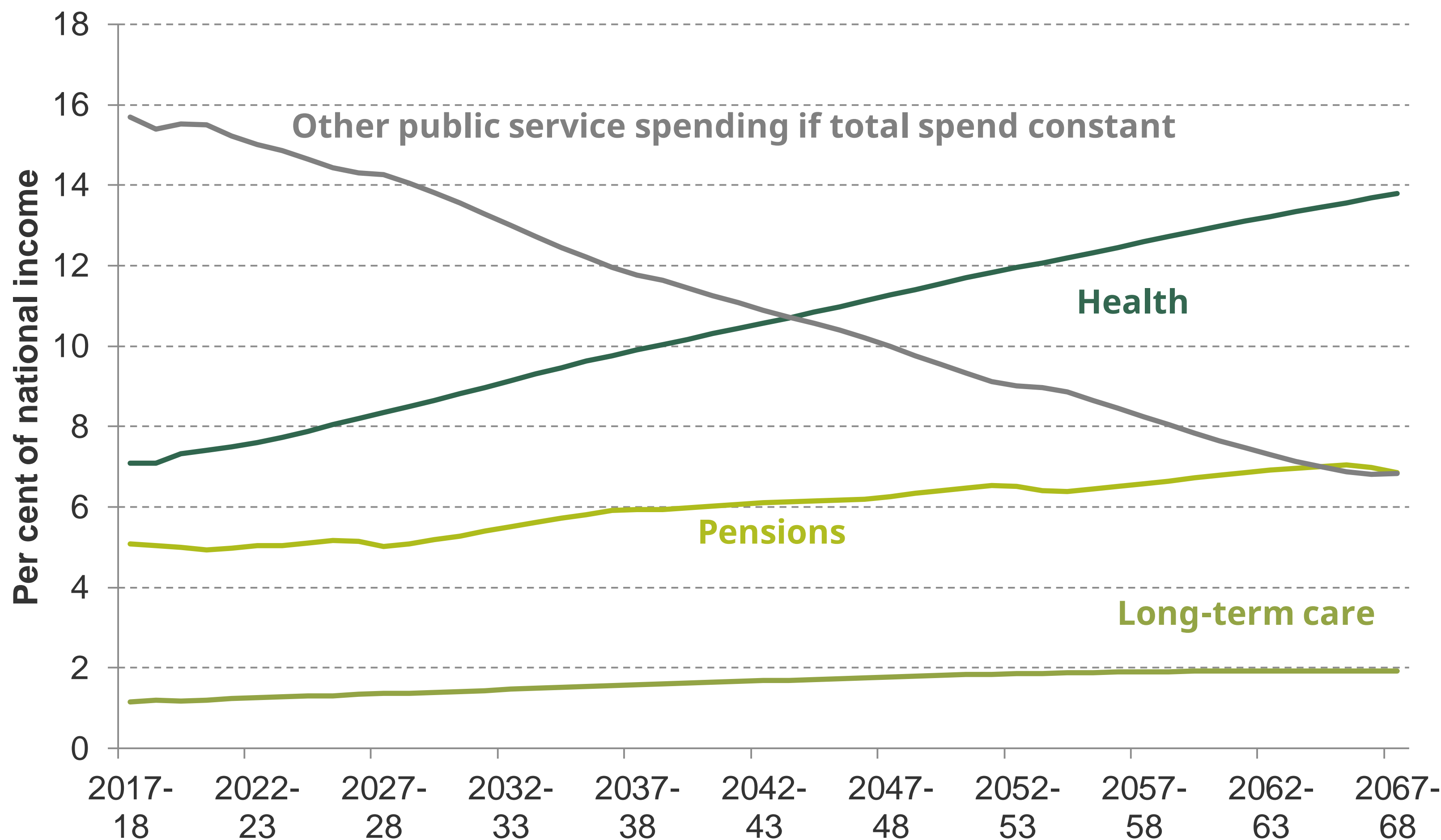

Key things to remember

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Individuals and governments don't like risk – but private market for insurance often fails

- Adverse selection is important
- But insurance benefits tempered by overuse and cost concerns

Health and social care currently treated quite differently despite similarities in concepts and risks

- Attempts to reform social care have proven unpopular

Regardless of systems, big challenges ahead in providing the funds for public systems of care (and all the other things they provide!)

Thank you for listening!