HealthManagement
Promoting Management and Leadership

Long-Term Care Dynamics: Implications for Labour, Welfare, and Policy

Public long-term care (LTC) spending, currently averaging 1.7% of GDP across OECD countries, is projected to double by 2060 due to ageing populations. In the U.S. and Germany, about 70% of LTC recipients rely on informal family care, which often conflicts with workforce participation and incurs significant opportunity costs. A recent paper published in the Journal of Health Economics examines the economic and labour market impacts of informal caregiving in the context of the growing LTC sector. To address these challenges, many social security systems offer LTC benefits, including compensatory transfers to informal caregivers.

Modelling the Impact of LTC Regulations on Caregiving Dynamics and Welfare Outcomes

The paper uses a dynamic structural discrete choice (DSDC) model to estimate the impacts of informal care on labour supply, lifetime income, and welfare under various institutional regulations. Specifically, it evaluates two features of the German public LTCI: cash transfers and pension entitlements for informal caregivers. The paper includes retirement choices and pension impacts in the analysis, highlighting long-term opportunity costs of LTC provision. It also incorporates benefits from German public LTCI, showing that cash transfers and pension entitlements can mitigate the negative effects of caregiving on labour supply and welfare. Simulations reveal that while these policies increase fiscal costs, they ultimately improve caregiver welfare. The research underscores the complex interplay between caregiving, labour supply, and fiscal policy, emphasising the need for carefully designed LTC benefits to balance these factors effectively.

Exploring Utility Parameters and Labour Market Dynamics in Caregiving

The utility parameters in the model present challenges in interpretation due to their interactions. While disposable income positively impacts utility, leisure utility varies with age and the agent's unobserved type. Initially, caregiving hours provide negative utility at ages 55 and 56, shifting to positive utility from age 57 due to a positive age trend. However, caregiving entails losses in leisure time and increased consumption, affecting overall utility. Depending on factors such as unobserved type, income distribution, and labour choice, high-intensive or light caregiving may result in either negative or positive marginal utility. Initial caregiving is associated with high negative utility, indicating significant adjustment costs. The comprehensive welfare effects of caregiving will be analysed further in Section 7.5.

Job offer probabilities are generally low in the baseline, particularly for individuals over 65 or with low education, indicating notable labour market frictions. In the care demand function, past caregiving influences current care demand positively. Having both parents alive decreases the probability of intensive care demand, while a spouse's poor health significantly raises this probability.

Wage offers tend to increase with work experience but exhibit diminishing marginal gains. Higher-educated women receive higher wage offers and realise greater returns from work experience compared to those with lower education. On average, women in East Germany receive lower wage offers compared to those in West Germany, reflecting the income gap between the regions.

Most structural parameters are significantly different from zero, although three baseline parameters show no significant impact: the spouse's health on extensive care demand, fathers' information on intensive care demand, and the number of children on the initial condition process.

Robustness checks, including considering siblings in the state space and care demand process, show minimal impact on most parameters. Similarly, assigning a fixed number of non-intensive caregivers to a group without cash benefits results in negligible alterations to utility and other estimated parameters.

Long-Term Impact of Caregiving and LTCI Regulations

The paper investigates the persistent impact of caregiving on labour supply and retirement decisions among German women aged 55–67, utilising a dynamic structural discrete choice (DSDC) model based on SOEP data from 2002 to 2019. It explores how different features of the German long-term care insurance (LTCI) influence caregiver behavior and caregiving costs through counterfactual policy simulations. Key findings include:

- Labour Market Impact: Caregiving leads to consistently reduced employment and working hours over the short and long term, resulting in lower lifetime income and diminished pension entitlements. This mirrors significant career costs associated with caregiving, akin to those observed in childcare.
- LTCI Regulations: In the German LTCI system, caregivers can opt for cash benefits, and intensive caregivers working fewer than 30 hours per week are eligible for contributions toward their public retirement insurance. While these measures partially compensate for income lost due to caregiving, the extent of compensation varies based on income distribution. Cash transfers provide short-term relief but exacerbate negative long-term effects on labour supply and retirement benefits. However, LTCI contributions to retirement insurance help offset these effects for individuals with below-average earnings.
- Welfare Outcomes: The study highlights favourable welfare outcomes associated with caregiving over the life cycle, particularly benefiting low-income individuals. However, it does not consider negative health effects or fiscal impacts associated with caregiving, nor does it delve into the welfare of care-dependent individuals.
- Future Implications: With increasing female labour force participation across age groups, caregiving is expected to have more pronounced adverse effects on labour supply and income. This could potentially counteract policies aimed at promoting female labour force participation and extending effective retirement ages. The study does not explore substitution effects between informal and formal care or interactions among family members in caregiving decisions, which could alter caregiving dynamics.
- Fiscal Considerations: The paper emphasises the importance of considering indirect costs alongside direct LTCI transfers, as indirect costs account for approximately 20% of total costs. This underscores the need for a comprehensive evaluation of policy measures considering both welfare and fiscal perspectives.

Source: **Journal of Health Economics**

Image Credit: **iStock**

Published on : Thu, 30 May 2024