



Financing eldercare in Belgium

Challenges and options for reform

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Content

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



Challenges

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The situation in Belgium today: Who finances what?

- ➔ **Eldercare = Accomodation + Care**
- ➔ **Accomodation: out of pocket**
 - Average price of a nursing home $\approx 42\text{€}/\text{day} \approx 1250\text{€}/\text{month}$
 - > 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%

What have we learned?

- ➔ 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 revenue 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 revenue side here



Options for reform

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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. Referring 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



Thank you for your attention!
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