FISCAL POLICY AND AGEING

Session II: Public Spending on LTC and Health

Jim Ebdon (UK), Santiago Calvo Ramos (EU), Philip Schuster (Austria)

Thank you...

All three presentations provided excellent insights into the fiscal sustainability challenges faced by health and long term care systems, in light of ageing populations.

I have four main points. I wanted to start by briefly summarising what these presentations told us about the ***extent of the fiscal sustainability challenge for health and long-term care, in terms of increased spending requirements***. I also have one slide up, and I'll come back to that later.

- Across the EU, Mr Ramos showed that EU forecasts project public spending on health and LTC to increase from 8.7% of GDP in 2015 to 12.6% of GDP in 2060. He also showed that LTC spending increases may well be higher than for other types of HC.
- For the UK, Mr Ebdon projected health spending as a whole to reach around 12% of GDP in 2060, but also stressed the uncertainty in such long-term projections.
- In Austria, Mr Schuster presented a range of scenarios for future spending on LTC, where depending on the exact assumptions used the cost of LTC reached between 1.94% and 3.59% of GDP in 2060 – in all cases noticeably higher than LTC's share of GDP in 2015, of 1.27%.
- The single slide I have up – showing historical data for different types of health spending – generally supports these projections (as do our own spending projection work), even if spending growth is slower now than it was before the global economic crisis. Historical data are also consistent with the observation that spending growth for LTC may be of particular concern within the health sector.

Despite these significant expenditure increases over time, my second observation from these presentations and our own work at the OECD is that

ageing is an important driver of health spending in some countries but less so in others, and for some types of health care and not others.

- For example, Mr Ebdon showed that in the UK, demographics were not expected to be a major driver of increased health spending over time (as compared for instance with Japan). Alongside ageing, he pointed to rising incomes, new technologies and relatively low productivity in the health sector as more important factors.
- Whereas the presentations on the EU as a whole and for Austria showed that ageing is likely to be a more significant driver for LTC than for other types of HC, because LTC needs are more clearly related to elderly populations.
- What was also clear to me, was that for all countries and all types of health care, a critical factor determining how much ageing will increase health spending is the extent to which there is *healthy ageing*.
- All presenters observed that health spending increases with age. But at the same time someone aged, say, 65 today is on average in better health than someone who was aged 65 forty years ago. Likewise, someone aged 65 in forty years' time is likely to be healthier than someone aged 65 today, and consequently have lower health care and health spending needs. The big unanswered methodological question is the extent to which there is healthy ageing. But the main policy question is how we can encourage active, healthy ageing.

Which brings me onto my third point, around ***policies***. All three presentations discussed a range of ***policy options for maintaining fiscal sustainability in light of ageing populations***.

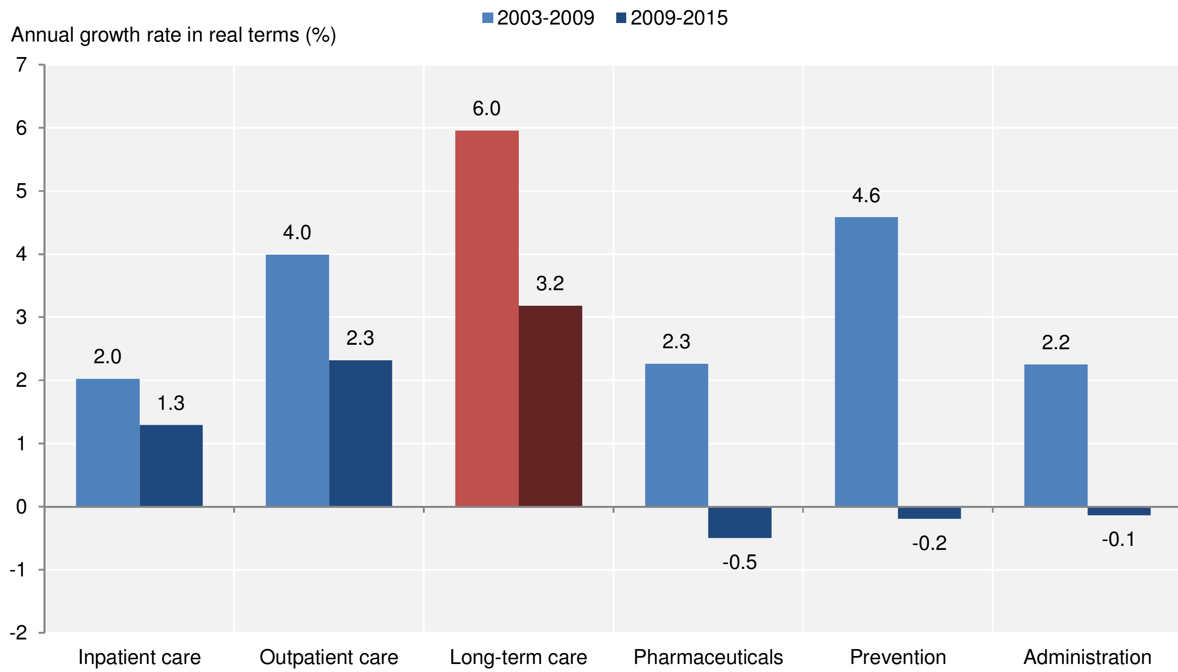
- What came across particularly strongly to me from these presentations was how strengthened primary care and a greater focus on health promotion and disease prevention can improve efficiency – and therefore reduce health spending pressures – in the longer-term.
- Yet coming back to my one slide one last time, we see that across the OECD, spending growth for prevention has actually been negative after the 2008 economic crisis.

My final observation is that whilst the exact impact ageing populations will have on increasing health spending depends on a range of factors, what is much clearer from these presentations is the ***adverse impact ageing will have on revenues for health***.

- All presentations pointed to the *rising dependency ratios over time* and its impact on tax revenues. This is a major concern, even if with healthy ageing it is reasonable to also assume that more people will be able and want to continue working to an older age in the future.
- To me, part of the answer to this revenue challenge is in *revenue diversification*. For health, this is particularly crucial for countries with SHI systems reliant on payroll taxes. One excellent example of revenue diversification in health is in France, which shifted from a near 100% wage contribution in 1968 to nearer 50% in 2013 by introducing a social protection tax (Contribution Sociale Généralisée) that is drawn from different types of revenues.

So these are my main observations. I'd like to conclude just by saying that whilst ageing populations do pose major financial risks for health systems, it is not a foregone conclusion that ageing will make future health systems unsustainable. With the right policies, future health systems can both better serve the elderly and also remain affordable.

LTC spending has grown faster than other types of health spending in recent years



Source: Health at a Glance 2017.