

# Comments on paper by Mandeep Bains

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- No comments on the projections which have followed the same general framework as at the OECD
- Agree with the caveats expressed in paper
- Country projections for health given to the OECD in our projections included many ad hoc adjustments and differences in modeling.

- Projections by the EU have the advantage of being more comparable.
- Central EU projections show public spending increases of 2.2 to 2.7 % points of GDP to 2050
- Projections by the OECD 1/2 % point higher -- reflecting differences in models and in hoc assumptions for effects of productivity, relative prices (using EU projections indexed on income per worker), etc.

# Some general comments

- this increase in public HC spending may seem small
- Nonetheless these very much underestimate their importance for longer-term fiscal sustainability
- Four reasons

# 1. Overall costs of ageing

- Public HC care costs represent only about half of the overall fiscal impact of ageing to 2050. This is projected to be just under 6 % points of GDP for the average of OECD countries (over 8 points for 6 countries).
- HC comes on top of an increase in public pension spending of 3.5 % points of GDP

**Table 2. Projections of age-related spending, 2000-2050<sup>1</sup>**

*Levels in per cent of GDP, changes in percentage points*

	Total age-related spending		Old-age pensions		"Early retirement" programmes		Health care and long-term care		Child / Family benefits and education	
	level 2000	change 2000-50	level 2000	change 2000-50	level 2000	change 2000-50	level 2000	change 2000-50 <sup>2</sup>	level 2000	change 2000-50
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Australia	16.7	5.6	3.0	1.6	0.9	0.2	6.8	6.2	6.1	-2.3
Austria <sup>2</sup>	[10.4]	[2.3]	9.5	2.2	..	..	[5.1]	[3.1]	..	..
Belgium	22.1	5.2	8.8	3.3	1.1	0.1	6.2	3.0	6.0	-1.3
Canada	17.9	8.7	5.1	5.8	..	..	6.3	4.2	6.4	-1.3
Czech Republic	23.1	6.9	7.8	6.8	1.8	-0.7	7.5	2.0	6.0	-1.2
Denmark <sup>3</sup>	29.3	5.7	6.1	2.7	4.0	0.2	6.6	2.7	6.3	0.0
Finland	19.4	8.5	8.1	4.8	3.1	-0.1	8.1	3.8	..	..
France <sup>4</sup>	[18.0]	[6.4]	12.1	3.9	..	..	[6.9]	[2.5]	..	..
Germany	[17.5]	[8.1]	11.8	5.0	..	..	[5.7]	[3.1]	..	..
Hungary <sup>5</sup>	7.1	1.6	6.0	1.2	1.2	0.3	..	..	..	..
Italy	[19.7]	[1.9]	14.2	-0.3	..	..	[5.5]	[2.1]	..	..
Japan	13.7	3.0	7.9	0.6	..	..	5.8	2.4	..	..
Korea	3.1	8.5	2.1	8.0	0.3	0.0	0.7	0.5	..	..
Netherlands <sup>6</sup>	19.1	9.9	5.2	4.8	1.2	0.4	7.2	4.8	5.4	0.0
New Zealand	18.7	8.4	4.8	5.7	..	..	6.7	4.0	7.2	-1.3
Norway	17.9	13.4	4.9	8.0	2.4	1.6	5.2	3.2	5.5	0.5
Poland <sup>5</sup>	12.2	-2.6	10.8	-2.5	1.4	-0.1	..	..	..	..
Spain	[15.6]	[10.5]	9.4	8.0	..	..	[6.2]	[2.5]	..	..
Sweden	29.0	3.2	9.2	1.6	1.9	-0.4	8.1	3.2	9.8	-1.2
United Kingdom	15.6	0.2	4.3	-0.7	..	..	5.6	1.7	5.7	-0.9
United States	11.2	5.5	4.4	1.8	0.2	0.3	2.6	4.4	3.9	-1.0
<b>Average of countries above<sup>7</sup></b>	<b>21.2</b>	<b>5.8</b>	<b>7.4</b>	<b>3.4</b>	<b>1.6</b>	<b>0.2</b>	<b>5.9</b>	<b>3.1</b>	<b>6.2</b>	<b>-0.9</b>
<i>Portugal<sup>8</sup></i>	<i>15.6</i>	<i>4.3</i>	<i>8.0</i>	<i>4.5</i>	<i>2.5</i>	<i>-0.4</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>..</i>

1. Data for health care shown in parenthesis are drawn from EPC (2001). They are the result of an EC exercise using a common methodology for all countries. The projections are based on the same macroeconomic assumptions as in OECD (2001) Table 3.1. These health and long-term care projections assume that costs per capita rise in line with productivity/wages. They do not allow for technological change or other non-age-related factors.
  2. Total pension spending for Austria includes other age-related spending which does not fall within the definitions in Cols. 3-10. This represents 0.9 per cent of GDP in 2000 and rises by 0.1 percentage point in the period to 2050.
  3. Total for Denmark includes other age-related spending not classifiable under the other headings. This represents 6.3 per cent of GDP in 2000 and increases by 0.2 percentage points from 2000 to 2050.
  4. For France, the latest available year is 2040.
  5. Total includes old-age pension spending and "early retirement" programmes only.
  6. "Early retirement" programmes only include spending on persons 55+.
  7. Sum of column averages. OECD average excludes countries where information is not available and Portugal where the data are less comparable than for other countries.
  8. Portugal provided an estimate for total age-related spending but did not provide expenditure for all of the spending components.
- Source: OECD and EPC (2001).

## 2. LT demand for health care

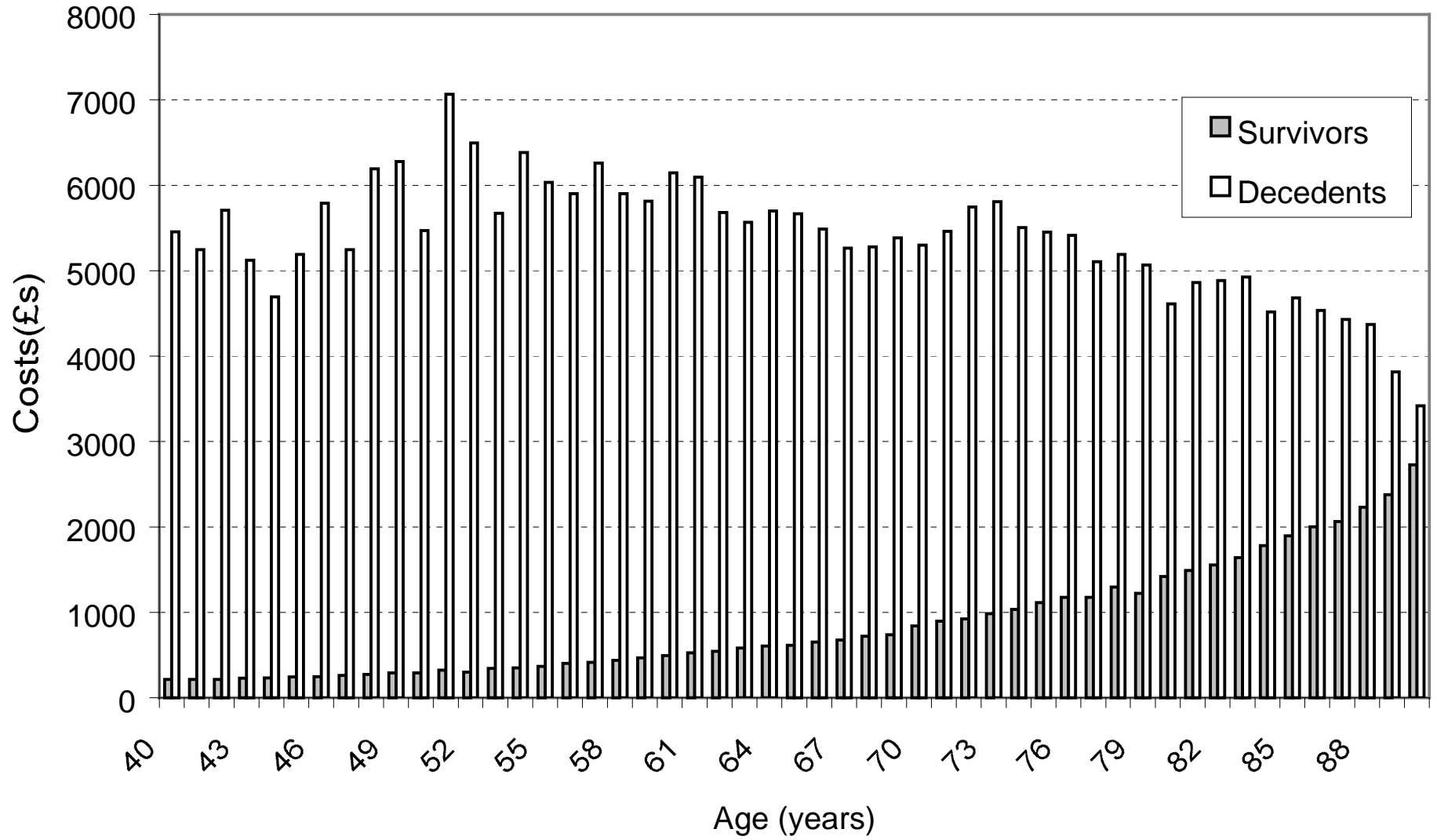
Appears to be driven more by income and by changing technology than by ageing.

- Income elasticities appear to be greater than 1
- estimates in the US suggest that over half of the increase over recent decades comes from the impact of technology on the intensity of treatment
- more demands for “best” treatment

### 3. Lengthening lifetimes may help but be wary

- Costs of those dying in any given year are high but may decline with age
- Costs of survivors still increase with age
- The number of people who die are still a small proportion of those who survive even in older age groups.
- The distribution of the decline in mortality across age groups will be important.

Average HRG costs for decedents and survivors (all population)



## 4. Increasing demand for LT care

- Population projections show much smaller numbers of children per family
- Projections have been built on a higher female participation rate (women have been the main carers for the elderly in the past)
- Families will be less and less able to care for the elderly
- Govts will be called on to fill the gap

# Rising relative cost of labour in HC sector

- The increase in demand for HC and particularly LT care will coincide with slower growth (falls) in labour supply
- More difficult to draw workers into this sector
- Wages may be likely to rise.

# Important points for policy

- Health care expenditure likely to be stronger than indicated
- Govts can:
  - Try and influence drivers of health care spending (technology).
  - Try and shift costs on to the private sector
  - Increase taxes and social charges.