Ageing in Europe
Presenting the EC/EPC-AWG expenditure projections on health care & the joint healthcare policy analysis for ensuring long-term fiscal sustainability

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Chair of the EPC-Ageing Working Group
Outline of the presentation

1. Spending pressures due to both ageing and trend increase

2. Policy challenges and reform options
1. Long-term fiscal sustainability risks posed by population ageing
The Ageing Reports

- economic & budgetary long-term projections for the EU, including public expenditure on pensions, health care, long-term care, education and unemployment

- published every three years

- jointly by the European Commission and the Economic Policy Committee
and next... the 2018 Ageing Report

- A new set of expenditure projections for EU 28 Member States
- Publication in May 2018
- Projection horizon extended to 2070
- Further details on underlying assumptions and projection methodologies available since November 2017
# The 2015 Ageing Report: health care expenditure projection model structure

<table>
<thead>
<tr>
<th>Sources of data:</th>
<th>Input data:</th>
<th>Alternative scenarios:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurostat</td>
<td>Population projections</td>
<td>Scenarios on demography</td>
</tr>
<tr>
<td>Member States</td>
<td>Per capita age-specific expenditure profiles (unit costs)</td>
<td>Scenarios on health status</td>
</tr>
<tr>
<td></td>
<td>&quot;Unit cost&quot; development</td>
<td>Scenarios on unit costs</td>
</tr>
<tr>
<td></td>
<td>Total spending on health care</td>
<td>Scenarios on income and macro economic variables</td>
</tr>
</tbody>
</table>

### Diagram Description:
- **Sources of data**: Eurostat, Member States, AWG macroeconomic assumptions.
- **Input data**: Population projections, Per capita age-specific expenditure profiles (unit costs), "Unit cost" development.
- **Alternative scenarios**: Scenarios on demography, health status, unit costs, income and macroeconomic variables.
- **Output**: Total spending on health care.
Health systems and fiscal sustainability

Health related expenditure takes up a significant share of resources in the EU. This is projected to greatly increase in the coming decades.

Public expenditure in health and long-term care (% GDP)
Demographic Changes and Advances in technology are at the root of this increase.

Life expectancy will continue to increase and the share of old people in the population will continue to grow.

<table>
<thead>
<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>77.6</td>
<td>83.1</td>
</tr>
<tr>
<td>2060</td>
<td>84.0</td>
<td>89.1</td>
</tr>
</tbody>
</table>

Life expectancy
Demographic drivers of expenditure

PEOPLE WILL LIVE LONGER

- Men: 77.6 years in 2013, 84 years in 2060
- Women: 83.1 years in 2013, 89.1 years in 2060

THERE WILL BE MORE OLDER PEOPLE

- 0-14: 15.6% in 2013, 15.0% in 2060
- 15-64: 66.0% in 2013, 56.6% in 2060
- 65-79: 13.3% in 2013, 16.6% in 2060
- 80+: 5.1% in 2013, 11.8% in 2060
the latest 2018 update...

Source: Eurostat 2015-based population projections
Health care is labour-intensive: likely to become relatively more expensive (Baumol disease) over time.

As countries become richer, they are likely to spend more on health care and long-term care.

Technological progress

Non-demographic care expenditure
# Health Care Scenarios

## Table II.2.1: Overview of scenarios to project health care expenditure

<table>
<thead>
<tr>
<th>Population projection</th>
<th>High life expectancy scenario</th>
<th>Constant health scenario</th>
<th>Death-related costs scenario</th>
<th>Income elasticity scenario</th>
<th>EU28 cost convergence scenario</th>
<th>Labour intensity scenario</th>
<th>Sector-specific composite indexation scenario</th>
<th>Non-demographic determinants scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>Alternative higher life expectancy scenario (+1 year)</td>
<td>2012 profiles split into profiles of decedents and survivors and adjusted in line with changes in age-specific life expectancy</td>
<td>2012 profiles held constant over projection period</td>
<td>2012 profiles held constant over projection period</td>
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<td>2012 profiles held constant over projection period</td>
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</tr>
<tr>
<td>Age-related expenditure profiles</td>
<td>2012 profiles held constant over projection period</td>
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<td>2012 profiles held constant over projection period</td>
</tr>
<tr>
<td>Unit cost development</td>
<td>GDP per capita</td>
<td>GDP per capita</td>
<td>GDP per capita</td>
<td>GDP per capita</td>
<td>GDP per capita</td>
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<td>GDP per capita</td>
<td>GDP per capita</td>
<td>GDP per capita</td>
<td>GDP per capita</td>
<td>Input-specific indexation</td>
<td>GDP per capita</td>
</tr>
<tr>
<td>Elasticity of demand</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Cost sensitivity of 1.4 in 2013 converging to 1 by 2060</td>
</tr>
</tbody>
</table>

*Source: Commission services, EPC.*
Coping with health care spending trends remains a major challenge (change in pps. of GDP, 2013-60)
Projecting Long-Term Care

Sources of data:

- EUROPOP
- EU-SILC
- Member States, Eurostat SHA, ESSPROS
- AWG macroeconomic assumptions

Input data:

- Population projections
- Size of the disabled population
- Formal care at home
- Formal care in institutions
- Informal care
- Unit cost of care at home
- Unit cost of care in institution
- "Unit cost" development

Alternative scenarios:

- Scenarios on demography
- Scenarios on health status
- Scenarios on patterns of care
- Scenarios on unit costs

Total in-kind public spending on long-term care

Public spending on long-term care related cash benefits
## Long-Term Care Scenarios

### Table II.3.1: Overview of the different scenarios to project long-term care expenditure

<table>
<thead>
<tr>
<th>Population projection</th>
<th>Demographic scenario</th>
<th>Base case scenario</th>
<th>High life expectancy scenario</th>
<th>Constant disability scenario</th>
<th>Shift to formal care scenario</th>
<th>Coverage convergence scenario</th>
<th>Cost convergence scenario</th>
<th>Cost and coverage convergence scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>2009-2013 average disability rates held constant over projection period</td>
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<td>III</td>
<td>2012 cost profiles</td>
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<td>2012 cost profiles</td>
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<td>2012 cost profiles</td>
<td>Cost profiles per Member State converge upwards to the EU28 average by 2060</td>
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<tr>
<td>IV</td>
<td>Probability of receiving each type of care held constant at 2013 level</td>
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<td>Probability of receiving each type of care held constant at 2013 level</td>
<td>Gradual increase (1% per year during 10 years) of the share of the disabled population receiving formal care (at home or in an institution).</td>
<td>Probability of receiving any type of formal care (in-kind or cash) converging until 2060 upwards to the EU28 average.</td>
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<td></td>
</tr>
<tr>
<td>V</td>
<td>in-kind: GDP per hours worked; cash benefits: GDP per capita</td>
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### Source: Commission services
Coping with long-term care spending trends remains a major challenge (change in pps. of GDP, 2013-60)
WIDE DIFFERENCES EXIST BETWEEN EU MEMBER STATES

Public expenditure in health and long-term care (% GDP)

- 2013
- 2060
2. Policy challenges and options
In October 2016, EC-EPC published the 'Joint Report on Health Care and Long-term Care systems & Fiscal Sustainability'.

Volume 1 presents policy challenges and reform options on how to contain spending pressures through efficiency gains.

Volume 2 presents specific chapters on each Member State's HC and LTC systems.
**Policy Challenges**

- Containing costs on hospital and pharmaceutical care
- **Investing in primary care** and health promotion and disease prevention
- Frequent budget overruns, competing fiscal pressures, changing policy priorities
- Improve the quality of information
- Decision making split in ministerial silos
- Fraud and corruption

**Policy Options**

**A**: Improving the governance of health care systems

**B**: Enhancing the sustainability and efficiency of health care systems
Union action shall respect the responsibilities of the Member States for the definition of their health policy and for the organization and delivery of health services and medical care. The responsibilities of the Member States shall include the management of health services and medical care and the allocation of the resources assigned to them.

Art. 168 (7) TFEU
Policy options:

A. Improving the governance of health care systems through:

1. strengthening the **cooperation between fiscal and health policy authorities** and employing a wide range of budgetary planning tools;
2. adjusting the **regulatory framework** to support and strengthen efficiency, transparency and accountability;
3. setting up of information technology and data management strategies, to support **monitoring and governance**;
4. **assessing health-policy reforms** ex-ante and ex-post in a systematic and formalised manner based on evidence and;
5. using **workforce planning** tools to actively manage the health workforce.
B. Enhancing the sustainability and efficiency of health care financing and spending

This includes:

1. improving the **financing mix**;

2. benefits packages need to be based on **cost-effectiveness criteria** and **cost-sharing schemes should** support the containment of public spending, while preserving access;

3. moving away from **hospital-centric models**;

4. strengthening the **cost-effective use and the affordability of medicines**.
Council conclusions

- Health systems aim at providing timely access to good quality care. This contributes to human well-being and economic prosperity through improving labour market participation and productivity, and will be crucial for longer working lives in the context of an ageing society.

- At the same time, high government debt, together with the budgetary pressures posed by population ageing, including from health care and long-term care expenditure, calls for reforms that enhance the fiscal sustainability of health systems.

Council conclusions (8/11/2016)

"The Council CONSIDERS that achieving the twin aim of ensuring fiscal sustainability and access to good quality health care services for all, by improving the efficiency and effectiveness of health and long-term care systems, is therefore particularly important."
Thank you for your attention!

Publications:

'Aging Report 2018 – Underlying assumptions and projection methodologies'

'Aging Report 2018 – Economic and budgetary projections for the 28 EU Member States (2016-2070) – forthcoming in May 2018

'Joint Report on Health Care and Long-term Care systems & Fiscal Sustainability'