Reforming Long-term Care in Germany

Preliminary Findings from a Social Experiment with Matching Transfers

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Extended Abstract

In the mid-1990s, Germany gradually introduced a long-term care social insurance scheme (LTC-SI) to reduce public assistance dependency for nursing home residents. Since 1999 expenditures have exceeded receipts and in 2004 the scheme reported a record deficit of €820m. According to estimates by the German Federal Ministry of Health and Social Security, the LTC insurance’s cash reserve of approximately €3bn will be exhausted in 2007 so that initial surpluses are expected to turn to overall deficits by 2007.

One important determinant of expenditure projections is the proportion of benefit recipients in nursing homes. From the LTC-SI perspective, nursing home care is much more expensive than home care. Due to demographic change and weakening family ties, the proportion of benefit recipients is expected to rise continuously. According to such status quo projections, these severe cost pressures for the LTC-SI will ultimately lead to higher social contribution rates. A projection of the Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2004), based on age-specific care probabilities and the population forecast by the Federal Statistical Office in Germany, reports an increase in the number of frail elderly from 1.9m (2003) to 2.39m (2050) in a status quo scenario. Correspondingly, the deficit-adjusted social contribution rate would have to rise from today’s 1.75% to 2.81%. A worst-case scenario draws a projection

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leading to more than 4m benefit recipients and a deficit-adjusted contribution rate of more than 10%.

Against this background, creating incentives to ensure that a higher share of benefit recipients stay at home (which is also their favourite option) becomes an important objective of any reform of the LTC-SI. One natural starting point is greater flexibility in the LTC-transfer system which would allow for more stable LTC-arrangements in home care. To date benefit recipients have had to choose from among three types of transfers: an in-kind transfer that is restricted to a small number of legally defined LTC services, a less generous cash transfer and a combination of both kinds of transfers. Due to the restrictive set of LTC services that are available as in-kind transfer, a matching transfer that also pays for soft care services has been considered an attractive fourth option. Soft care refers to services that are not paid by the current LTC-SI in-kind transfer such as home delivery, laundry and reading services and services provided by friends, neighbours or other legal carers. The matching transfer differs from the cash type transfer in that it may neither be used to pay family members for their informal care nor may it be used for any non-care related consumption. Positive experiences with matching transfers are reported from Great Britain and the Netherlands (see Arntz/Spermann 2004 for a survey) as well as from the U.S. (see Foster et al. 2003 for the Cash and Counseling Program in Arkansas).

In order to evaluate the costs and benefits of introducing a matching transfer to the already existing LTC-SI transfer system, social experiments to test matching transfers were launched in various sites in western and eastern Germany in 2004 and are due to continue through to 2008. This model project is being funded by the employee association of the LTC insurers, the Verband der deutschen Angestelltenkassen (VdAK). The project is being conducted by Evangelische Fachhochschule Freiburg (EFH Freiburg). The research accompanying the project is being undertaken conjointly by care scholars, sociologists, lawyers and economists in order to embrace the complexity of the different aspects of the project. The Kontaktstelle of EFH Freiburg examines the legal dimensions and care aspects, whereas sociological aspects are being analysed by the Freiburg Institute for Applied Social Sciences (FIFAS). The Mannheim Centre for European Economic Research (ZEW Mannheim) is focusing on economic aspects and the cost benefit analysis of introducing matching transfers to the currently existing transfer system. Matching transfers will be introduced at seven sites in

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1 The legal basis of the model project is § 8(3) SGB XI which assigns the LTC insurers to conduct field projects regarding matching transfers.
eastern and western Germany. It aims at surveying 800 individuals in the program group and comparing them to approximately 800 individuals in the control group between October 2004 and March 2008.

The Model

We use a simple household bargaining approach in the spirit of Pezzin/Schone (1997, 2000) and introduce “soft care” in addition to formal and informal care (the model is set out in full detail in Michaelis 2005). We deduct various hypotheses with respect to cash and in-kind transfers as well as the experimentally tested matching transfer that allows for soft care services. In particular, we derive substantiated microeconomic hypotheses about the rationality of care arrangements including cash transfers, in-kind transfers and matching transfers. Our first empirical results allow some preliminary insights on the following two hypotheses.

The first hypothesis refers to the attractiveness of matching transfers (plus case management) relative to in-kind transfers. In the social experiment the matching transfer is twice as high as the cash transfer but identical to the level of in-kind transfers. (Almost) all recipients of in-kind transfer will switch to the matching transfer since no price has to be paid for the lessening of the choice restriction.

The second hypothesis to be tested refers to care arrangement: The enrichment of the opportunity set implies an increase in the demand for soft care and a fall in the demand for formal care. Since soft care is expected to be a very close substitute to informal care by family members and/or friends, this also implies a drop in informal care. Health services provided by professional carers crowd out private effort on the part of the elderly’s relatives/friends.

Preliminary Empirical Results from a Social Experiment

The most convincing way to solve the fundamental evaluation problem is to conduct a social experiment. This is still unusual in Germany (Greenberg/Shroder 2004). By randomizing a group of interested frail elderly into a program and a control group, this design ensures that both groups do not differ significantly with respect to age, gender, household context etc. and thus ensures statistical comparability. Figure 1 shows the evaluation design of the model project.
As can be seen from figure 1, frail elderly in home care have to decide whether to participate in the social experiment, i.e. whether they are willing to participate in the randomization process (see ARNTZ/SPERMANN 2005 for an extensive discussion of the evaluation design). According to HECKMAN (1992), this may actually introduce some selection bias into the social experiment since individuals who are willing to participate in such an experiment may be significantly different – e.g. less risk-averse – than the group choosing the matching transfer if no randomization process was involved. A survey of interested individuals revealed, however, that this bias is negligible. Furthermore, randomization turned out to be successful according to t-tests with respect to the program and control group. Therefore, we assume that the identifying assumption of this social experiment holds, i.e. that the missing counterfactual is produced by random assignment.

Treatment is defined as matching transfer plus case management in this social experiment. Biannual surveys will produce data on various outcome variables such as duration in home care, life satisfaction, quality of care and home care arrangements. If observations are sufficient, we can measure the causal effect of matching transfers with respect to these outcome variables. Unfortunately, the number of participants is still low after an intake period of about one year. At the present stage (September 2005), the model project has only 261 participants, 184 of which belong to the program group and 77 to the control group in seven sites. This clearly contradicts the first hypothesis that a matching transfer should be an attractive alternative for in-kind-transfer recipients. A survey of interested individuals and some case studies at this early stage reveal a number of reasons why this theoretical insight does not seem to hold in the real world. First, transaction costs associated with organising individual care arrangements turn out to be a major obstacle. Second, the system of in-kind transfers seems to be more
Reforming Long-term Care in Germany

flexible in practice due to the legal combination of in-kind and cash transfers as well as semi-legal collaboration between frail elderly and care providers. Third, there a number of individuals who decide not to participate in the experiment because the matching transfer precludes reimbursements of informal care within the family. On the other hand, the theoretical reasons for soft care arrangements hold: Interviewed individuals prefer individually-tailored care arrangements, enjoy support by case managers and the development of new care arrangements by professional carers. Thus, we find a number of reasons why a matching transfer is an attractive alternative only for a small group of individuals so that the demand for soft care is lower than expected.

Case studies provide interesting insights into the care arrangements for matching transfer recipients. In line with the second hypothesis, households substitute expensive care provider services for cheaper services by friends and neighbours, especially laundry and cleansing services which are offered by professional carers on a semi-legal basis in practice. It is this substitution that forms the basis of the, in some cases aggressive, resistance of professional caregivers to the model project. Legal care providers are extremely wary about seeing their market share shrink if matching transfers are implemented. To date, only very few of them perceive it as an opportunity for a new market with new services and profit opportunities.

As well as a drop in formal care, case studies also reveal the expected drop in informal care. A preliminary analysis of care arrangements shows that informal care is more or less substituted for soft care with constant overall hours of care. This effect varies between care levels and depends on the stability of the personal network. One household even increased its out-of-pocket expenditures as matching transfers made home care arrangements feasible. Anecdotal evidence suggests that these new care arrangements are highly valued by family members and lead to increased subjective quality of life among matching transfer recipients. In several cases, new care arrangements have even prevented nursing home care and thus contributed to the stabilization of home care arrangements.

Preliminary results from this early stage of the social experiment thus point to positive effects for matching transfer recipients. At the same time, only a small group of frail elderly seem to consider matching transfers as an attractive alternative to other transfer types. Whether an implementation of matching transfers significantly mitigates the cost pressures of the LTC-SI thus remains unclear at this stage. A concluding evaluation of matching transfers necessitates further research on the basis of a longer observation period and an increasing number of participants. This final evaluation is scheduled for spring 2008.
References


