Long Term Care and the Role of In kind Transfers: Economic Analysis and Empirical Investigation

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The population ageing process is certainly a great challenge for most developed countries: its features directly impact the pension system and the provision of health services but have important indirect effects also on labour and insurance markets and on the general tax system. Among the multi- faceted reality of this phenomenon, the present work focuses on a particular aspect, namely the need for long term care by older adults. In particular, we develop a simple economic model to analyze the role of in kind transfers, which can be interpreted as professional care, to elderly people with severe disabilities. It is assumed that these people live with their children (in working age) who provide them health care (informal care) and that the overall amount of health care is determined by free public provision, by additional professional care bought in the market or by informal care directly given by the children in terms of leisure. The choice between professional and informal care depends on the wage rate and on the "productivity" of leisure in providing health care as compared to professional care. Within this model it is examined the effect of an increase of in kind transfers combined with an equal cut in cash transfers: this can be interpreted as a generalized cut in pensions whose ratio could be found in a sort of intra-generational solidarity between old people with and without severe disabilities. The paper deals with different alternatives and the conditions assuring a benefit to families with old people with severe disabilities, which is such to more than compensate the loss imposed to healthy old people. Moreover, the conditions assuring a budget surplus are derived: these stem from the incentive such policies give to increase labour supply diverting leisure from informal care.

In order to confirm some of the assumptions of the economic model, we exploit microdata coming from different sources (primarily SHARE and EUSILC) to provide a statistical insight. We investigate to what extent available official statistics help detecting various aspects of elderly care in Europe and estimate a statistical model for the probability of turning to professional home care, conditional on individual and household characteristics.