

## PROJECTIONS OF PUBLIC EXPENDITURE ON HEALTH AND LONG-TERM CARE

Despite a dramatic slowdown in spending on health and long-term care in many EU member states following the 2008 economic and financial crisis, more recent estimates show that spending is back on an upward path. Since, on average, around three-quarters of health spending is financed out of public sources, this represents a sizeable share of government spending, meaning that growth in health and long-term care spending can have a considerable impact on a country's budgetary position. In addition, ageing populations will continue to exert pressures on health and long-term care spending while at the same time reducing the size of the working-age population able to finance such expenditures, thereby raising concerns around the fiscal sustainability of health and long-term care systems (OECD, 2015).

Projections of public expenditure on both health and long-term care are regularly carried out by the Ageing Working Group of the Economic Policy Committee (AWG), using the European Commission services' models (EC and EPC, 2017). In both health and long-term care projection models, a range of scenarios tests the potential impact of different determinants of public spending (including both demographic and non-demographic factors) to project how each may contribute to the evolution of public spending over the next 50 years.

The results presented here are based on the reference (or baseline) scenario. Among the main assumptions are that half of the future gains in life expectancy are assumed to be spent in good health and that there is a convergence of income elasticity of health care spending from 1.1 in 2016 to unity by 2070. The main outcome of the 2018 projection exercise, based on these set of assumptions, is an increase of public spending on health of almost one percentage point (0.9) of GDP in total for the 28 EU countries by 2070 (Figure 8.16). At the lower end of the projections, public expenditure on health is forecast to rise by only 0.3 of GDP in Bulgaria and Estonia, while it is projected to increase by more than 2 percentage points of GDP in Portugal and Malta (EC and EPC, 2018).

Long-term care expenditure represents an increasing share of GDP in many EU countries and as such is important in the long-term sustainability of public finances. Under the same AWG reference scenario of healthy life expectancy gains and converging income elasticity, the main result from the baseline scenario is a projected increase in public spending on long-term care across the 28 EU countries by slightly more than one percentage point, from 1.6% of GDP in 2016 to 2.7% of GDP in 2070 (Figure 8.17). The results vary widely across countries, from only 0.1 percentage point of GDP in Greece and Bulgaria up to more than 2 percentage points of GDP in Luxembourg, the Netherlands and Denmark (EC and EPC, 2018).

Additional OECD studies have shown that different policy and institutional factors (such as financing mechanisms, decentralisation, organisation of health

provision, etc.), can all have a substantial impact on the growth in public spending on health care (de la Maisonnette et al., 2016).

### Definition and comparability

Public expenditure on health is defined as the "core" health care categories (SHA 1.0 categories HC.1 to HC.9), excluding long-term nursing care category (HC.3), but including capital investment in health (HC.R.1). It excludes private expenditure in the form of direct out-of-pocket payments by households and private health insurance.

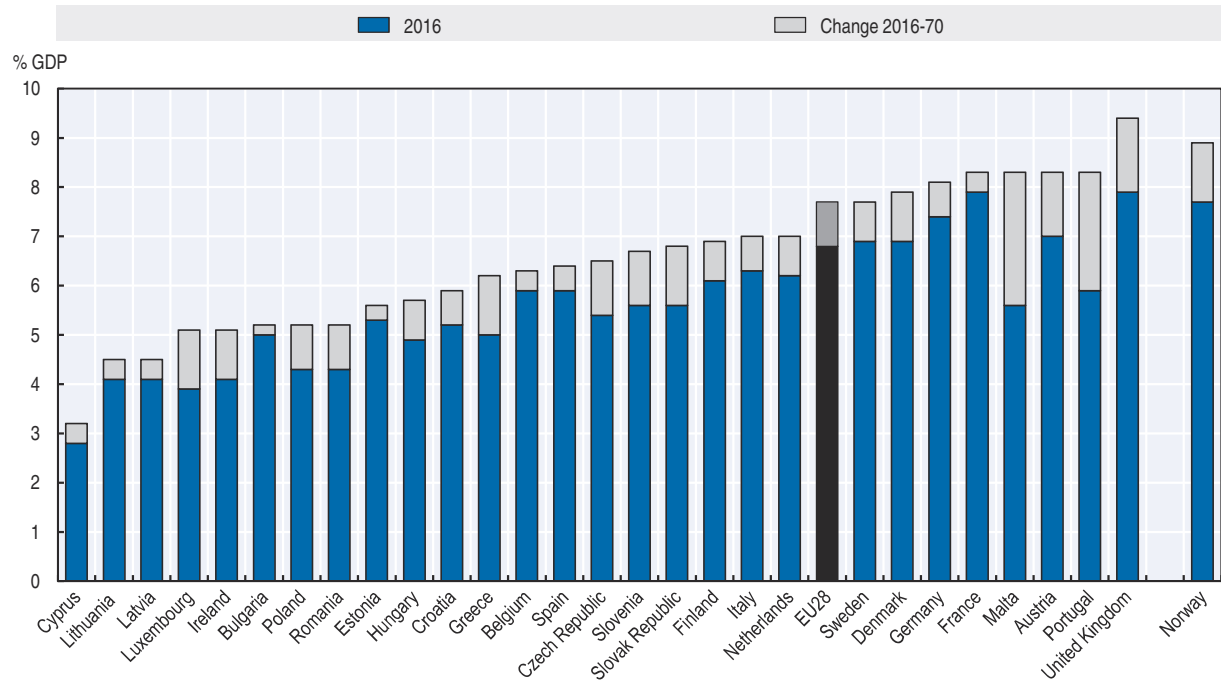
Long-term care is defined as a range of services required by persons with reduced degree of functional capacity (physical or cognitive) and who are consequently dependent on help with basic and/or instrumental activities of daily living for an extended period of time. Basic Activities of Daily Living (ADL) or personal care services are frequently provided in combination with basic medical services such as nursing care, prevention, rehabilitation or services of palliative care. Instrumental Activities of Daily Living (IADL) or assistance care services are mostly linked to home help.

The data, methodology and assumptions used for the health and long-term care expenditure projections are explained in detail in the 2017 report prepared by the European Commission (DG ECFIN) and the Economic Policy Committee (Ageing Working Group). The "AWG reference scenario" is used as the baseline scenario when calculating the overall budgetary impact of ageing. The EU averages are weighted according to GDP.

### References

- de la Maisonnette, C. et al. (2016), "The drivers of public health spending: Integrating policies and institutions", OECD Economics Department Working Papers, No. 1283, OECD Publishing, Paris.
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- European Commission (DG ECFIN) and Economic Policy Committee (Ageing Working Group) (2018), *The 2018 Ageing Report: Economic and Budgetary Projections for the 28 EU Member States (2016-2070)*, European Economy, No 79/2018, Brussels.
- OECD (2015), *Fiscal Sustainability of Health Systems: Bridging Health and Finance Perspectives*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264233386-en>.

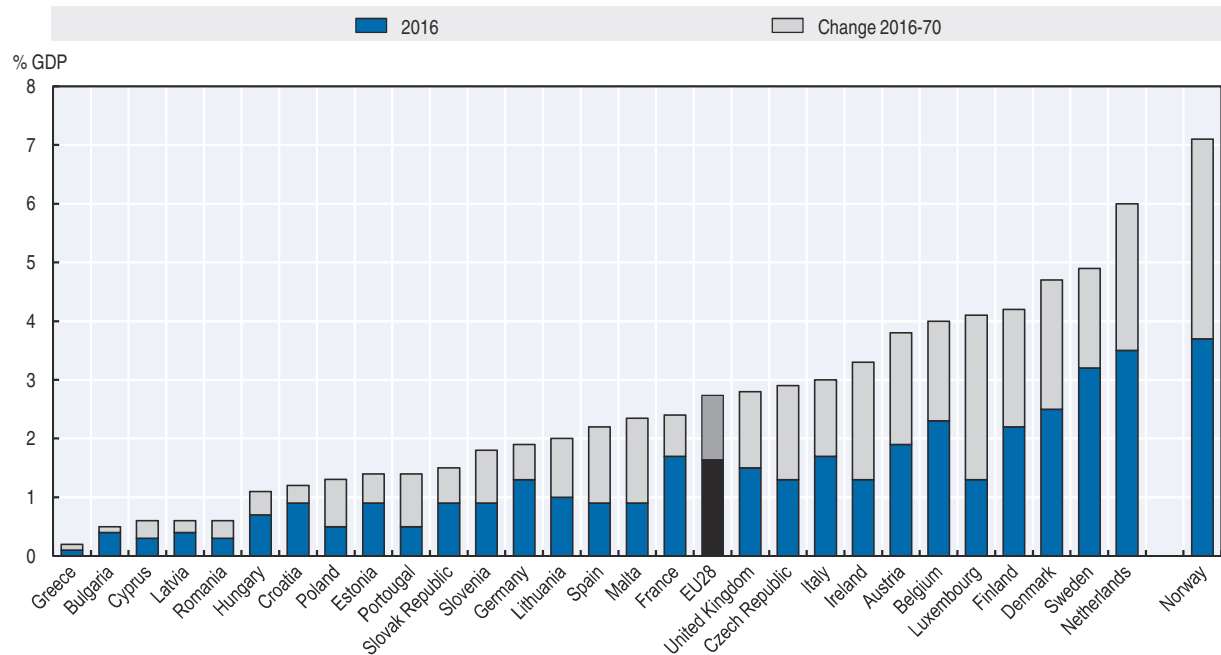
### 8.16. Public spending on health care as a percentage of GDP, 2016 to 2070 – Ageing Working Group reference scenario



Note: The EU28 total is weighted by GDP.  
Source: EC and EPC (2018).

StatLink <http://dx.doi.org/10.1787/888933837017>

### 8.17. Public spending on long-term care as a percentage of GDP, 2016 to 2070 – Ageing Working Group reference scenario



Note: The EU28 total is weighted by GDP.  
Source: EC and EPC (2018).

StatLink <http://dx.doi.org/10.1787/888933837036>



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