02/2018
FINNISH CENTRE FOR PENSIONS, STUDIES

SUMMARY

Maria Vaalavuo

The Impact of Social and Health Care Services on Retirees' Income

Public social and health care services from the perspective of income distribution

This study analyses how retirees used social and health care services in Finland in 2015. The analysis covers the production costs relating to the services, that is, the computational monetary value of the services provided, as well as the customer fees paid by the users of the services. The analysis also includes the copayments of such drugs, travel costs and private sector services that are reimbursed by the Social Insurance Institution (Kela). The review is done by age and income groups.

Public services support individuals' wellbeing in many ways. The services can be viewed as part of the public income redistribution system. On the other hand, customer fees relating to these services and other health care expenses, such as copayments for medicines, can become a financial burden in particular for sick, low-income people. Since the majority of social and health care services are financed with tax revenues, it is important to examine who uses these services as well as who carries the burden of the expenses of that usage.

This type of research provides information on the potential impact on income distribution of changes in the funding of these services. For example, what happens if the balance shifts from services financed with tax revenues to services financed with customer fees? More importantly, we can see how the monetary value of the services used is distributed in society and who would be affected by changes in the supply of services.

Study based on unique register data

This study is based on register data that covers the entire population. The register data combines the data of the Care Register for Health Care with Statistics Finland's data on individuals' income and socioeconomic status. The data is for the year 2015. The Care Register for Health Care includes data on the use of social and health care services. The customer fees for one year per individual have been calculated based on it. In addition, the data has been supplemented with Kela's registers on copayments for medicines and travel costs and use of private sector services. That part of the data has been available for a 70 per cent representative random sample of the Finnish population.

The calculation of the cost of production, that is, the monetary value of the services, is based on cost per unit. The cost per unit includes data on costs for each time a service is used or for each treatment episode. The cost is computational and does not necessarily correspond to the accounts of the municipals. The calculation of customer fees is based on the maximum amounts stated in the laws on customer fees. Mikko Peltola, senior researcher at the National Institute for Health and Welfare, combined the register data with the cost per unit and customer fee data. Without his valuable input, this study could not have been done.

The research data is unique, also from an international perspective, and offers the possibility to make a very detailed analysis. Similar research, with this degree of precision, has not been done before, and the simultaneous review of the production costs and the costs for the individual is certainly the first of its kind.

Use of services differs considerably by age and income group

The average monetary value of services used by retirees in 2015 was 6,500 euros per retiree. The paid customer fees covered 12.7 per cent of the expenses. As a rule, using public social and health care services was more common in the lower income brackets. In other words, on average, low-income retirees use these services more often than high-income retirees. Relative to the available income, the monetary value of the services was particularly significant in the lower income quintile. However, the study does not analyse the use of services relative to the individual's needs. Based on the data, it was also impossible to draw any conclusions on the extent of unmet social and health care needs.

The individual services differed greatly in terms of how commonly they were used, how much it cost to produce them, how much the customers paid for using them and who exactly used them. The outpatient services of primary healthcare were used by the majority of retirees, regardless of their age and income. More than half of the retirees used special health care services, and approximately every fifth retiree had been in short-term inpatient care in 2015. Other services were used considerably less frequently. These were more often than not services that are significantly more expensive to produce.

Around every seventh retiree used home care services, but the share was much higher in the older age groups, particularly among the over 85-year-olds. Of them, nearly every second used home care services at least once in 2015. The gap in the use of home care services

between the low-income and the high-income retirees is wide: of the over-85-year-olds that belonged to the lowest income quintile, about 49 per cent used home care services while the same was true for only 40 per cent of the retirees in the highest income quintile. This gap is partly due to the fact that many retirees in the lowest income quintile live alone. In addition, they are less healthy and use private services to a lesser degree than the retirees in the higher income quintiles. In other words, there are differences between the income groups in the use of services based on the type of service and the age group. This makes a fine-grained analysis important.

It should also be noted that, in 2015, the 18–54-year-old retirees actively used social and health care services. This is naturally due to the underlying grounds for retirement on a disability pension in this age group. The costs deriving from using services were the next highest in this age group, following those of the over-85-year-olds. Compared to other age groups, the 18–54-year-olds used housing and residential care services frequently. The largest group of retirees, the 65–69-year-olds, on the other hand, were mainly recently retired individuals who were in fairly good health. This was also reflected in their relatively low use of services.

More than 90 per cent of the retirees (compared to approximately 70% of the total population) paid copayments for their medicines. This was more common among retirees in the oldest age groups and least common among retirees in the lowest income group. Copayments relating to travel costs were, generally speaking, less frequent (25% of all retirees and 10% of the total population), but they were more common in the lower income brackets than in the higher ones. Slightly more than half of all retirees (and 40% of the total population) used private services reimbursed by Kela. The share was 71 per cent among the retirees from the highest income group. The data does not include information on social care services purchased by individuals on the private market. This may distort the picture slightly, particularly relating to the use of elderly services and home care and related fees among the high-income retirees.

Some retirees burdened by social and health care expenses

While social and health care customer fees and copayments of medicines and travel costs exceeded 40 per cent of the disposable income (so-called catastrophic health expenditure in the terminology of the World Health Organisation) for only a small portion of the total population, they did so for a greater number of retirees.

It is particularly common that young retirees spend a large proportion of their income on fees. (It must be noted, though, that it was impossible to take into account, for example, exemptions from charges or reduced charges in the analysis. That is why the figure may slightly exaggerate the amount of customer charges.) In 2015, the customer fees exceeded 40 per cent of the disposable income for 17 per cent of the 18–54-year-old retirees in the lowest income quintile. The equivalent rate for the total population was around one per cent, and of all retirees around 3.6 per cent. This was due, in particular, to the high copayments of the housing and residential care services of the mentally challenged relative to their income (if the users of these services were excluded, the rate would go down by approximately

10 percentage points). High expenses are relatively common also in the highest age groups of retirees. This is natural since the customer fees in long-term care can be as high as 85 per cent of the individual's income.

Nevertheless, relative to the monetary value of the service, the customer fees were low, especially among those who received only a guarantee pension or an otherwise small pension. For example, when 24-hour service housing cost about 140 euros per day in 2015, the guarantee pension of 775 euros would not have paid for more than a few days of such a service. That is why the income transfer produced by public services is considerable for its users, despite the customer fees. Without public services, the costs of long-term care, in particular, would rise and be disproportionally high for most retirees. Alternatively, the burden of providing the care would be transferred to the relatives of the individual needing it.

70% of costs concentrated on 10% of users

Although roughly 90 per cent of all retirees used social and health care services in 2015, the volume and intensity of the use (how often and for how long the service was used) varied greatly between the individuals. The averages hide a considerable fluctuation in the use even within age and income groups. 10 per cent of the retirees using the services generated roughly 70 per cent of all social and health care service expenditure under review. Similar results have been reached in other studies, in which the concentration of expenditure and service use have been studied for the general population.

On average, this 10 per cent of the retirees generated expenses that amounted to roughly 50,000 euros per person (when the average expense was 6,500 euros per retiree in 2015). This group of service users included a relatively higher number of over-85-year-olds and also 18–54-year-olds. Many of them used long-term housing and residence services. For many of the older retirees, the high expenses related to dementia while the high costs of the younger ones related to psychosis and epilepsy.

Including services in the concept of income – problematic but important

From the point of view of income distribution, taking into account the benefits from the services would narrow the income gaps between the poorest and the richest retirees. However, it should be remembered that services are used to meet certain needs. This fact is not taken into account when measuring income. On the other hand, public services enable individuals to consume their income on other things as they do not have to purchase, for example, care or health insurance or other services from the private sector. It follows that we should contemplate how to define an appropriate monetary benefit or value for public services that could be included in a wider definition of income. At the same time, we can extend the framework and think about who really benefits from the services: is it the person who uses the services (as argued in this study), the next of kin who is freed from the duty to care, or all persons covered by the system, according to the insurance principle? These methodological and theoretical questions have been examined extensively in the literature of this field.

In previous research on the use and expenses of social and health care services, it has been observed that low-income people seem to benefit more from certain services. At the same time, however, proportioning the use and the expenses to the need (in particular, to living alone and health status) would yield a different result, which would indicate inequity in the use of services. Based on the current study, we cannot assess inequity in this respect. Instead, this analysis should be seen as a description of how the use of services is distributed among retirees, without a normative assessment of the availability of the services, the level of meeting the needs, and the degree to which the use of services equals the need for these services.

In international comparisons and when monitoring the standard of living across time, it would be important to evaluate and analyse also public services. The adequacy of pensions, social benefits, and wages to reach a certain standard of living depends on the social context including the availability of public services. Different countries, at different times, opt for either monetary benefits (allowing individuals to purchase the services they need themselves) or in-kind benefits (public services) – or some sort of a combination of these two – to reach the same goals (to meet the need for care). That is why the results might actually be distorted to some degree if only monetary benefits are taken into account when the standard of living and the financial situation of a person or a household are assessed.

The Publication is available only in Finnish:
Sosiaali- ja terveyspalveluiden merkitys eläkeläisten toimeentulolle.
Eläketurvakeskuksen tutkimuksia 02/2018.

Ordering of publication:
aineistotilaukset@etk.fi

www.etk.fi › Publications › Studies › The Impact of Social and Health Care Services on Retirees' Income

ISBN 978-951-691-283-0 (sb.)
ISBN 978-951-691-284-7 (PDF)

ISSN 1236-3049 (printed)
ISSN 1798-7482 (online)

Subscribe to our Newsletter in English

Finnish Centre for Pensions
ELÄKETURVAKESKUS

Finnish Centre for Pensions
FI-00065 Eläketurvakeskus
Finland
Phone +358 29 411 20
Fax +358 9 148 1172

Eläketurvakeskus
00065 ELÄKETURVAKESKUS
Puhelin 029 411 20
Faksi 09 148 1172

Pensionsskyddscentralen
00065 PENSIONSSKYDDSCENTRALEN
Telefon 029 411 20
Fax 09 148 1172

www.etk.fi/en
› Publications