GREECE: OPTIONS FOR MEETING THE INCREASING DEMAND FOR ELDERLY CARE NEEDS[i]

MACROECONOMIC CONTEXT

Starting in 2009, in the aftermath of the global financial crisis, Greece underwent a major sovereign debt crisis that led to a sharp economic contraction followed by years of stagnation. The crisis was triggered by Eurozone economic turmoil, structural weaknesses in the Greek economy, and revelations that Greek debt was higher than had previously been reported. The lack of monetary flexibility inherent in the European single currency system, as well as deep interlinkages between sovereign and financial corporation-debt (de Grauwe 2014) worsened the situation. The ensuing years brought severe austerity policies resulting in a corresponding contraction and later stagnation of the Greek economy.

Although near-term growth is recovering following years of stagnation, it has been projected to take another decade and a half for Greece to reach pre-crisis levels of GDP per capita. IMF projections (IMF 2019) have real growth rates of GDP at about 2 percent in 2019 and 2020 with projections of about 1 percent growth for the years thereafter. These forecasts suggest that at these growth rates it will take another decade and a half for Greece to reach pre-crisis levels of GDP per capita.

Adverse demographics constrain current and future growth and put pressure on fiscal policy. In addition to an array of structural problems, the ageing of the Greek population also has an adverse effect on growth. Furthermore, fiscal expenditures are heavily tilted in favor of pensions and government wages with too little directed towards the social and healthcare systems critical to effectively managing a significant demographic transition (ibid.).

DEMOGRAPHIC TRENDS

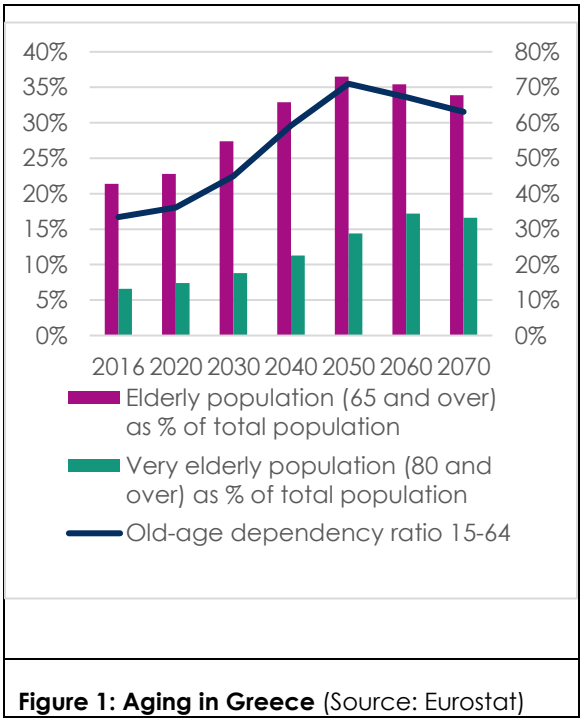

Figure 1: Aging in Greece (Source: Eurostat)

Greece is experiencing rapid population aging. Figure 1 shows demographic projections for the elderly population (65 years old and older and 80 years old and older) as well as the old-age dependency ratio in Greece. The share of the population aged 65+ is poised to increase from 22 percent in 2016 to a peak of 37 percent in 2050 and decline slightly thereafter. Simultaneously, the percentage of the "oldest old " population, aged 80+, will increase from 7 percent in 2016 to 14 percent in 2050 and will continue to increase in the following years. Additionally, the proportion of the population characterized as dependent, defined by having severe limitations in daily activities, is projected to increase from 10.4 to 15.1 percent, a 45 percent increase. This is more than double the more modest EU trend

predicting a 21 percent expected increase over the same timeframe.

These trends translate into an increase of the old-age dependency ratio from about 35 percent in 2016 to a startling 70 percent in 2050. Dependency rates of the elderly are expected to increase in Greece concurrent with a shrinking of the population. . Greece's population is forecasted to decrease from 10.8 million in 2016 to 7.7 million in 2070, due to low fertility and a migration balance that is projected to remain negative at least until 2030. As a result, the old-age dependency ratio is projected to increase from 33.4 in 2016 to a peak of 71.0 in 2050, and then decrease to 63.1 in 2070.

Diverging trends in life expectancy and years spent living healthily imply that many Greek seniors will suffer from frailty and restriction to their activities of daily living, leading to an increased demand for social and medical care. Headline health indicators are above EU averages, but the proportion of time spent in good health is falling. Life expectancy at birth (83.7 years for women and 78.5 years for men in 2015) is above the respective EU average (83.3 and 77.9 years of life expectancy) and has increased slightly since the crisis. On the other hand, healthy life years, at 64.1 years for women and 63.9 for men, while also above the EU averages of 63.3 and 62.6 in 2015, have fallen slightly since 2005. The diverging trends in life expectancy and years spent living healthily imply a growing care need as many Greek seniors will suffer from disabilities and restriction to their activities of daily living, precipitating increased demand for social and medical care.

Differences in health outcomes based on socio-economic status and geography are significant. There is a four-year gap in life expectancy between people with lower and higher educational attainment. People with the lowest level of education than those with the highest level of education are far more likely to live with chronic diseases such as diabetes (four times), hypertension and chronic depression (three times), and asthma or other chronic respiratory diseases (more than twice as likely). Furthermore, Greece faces large geographical inequities in the distribution of doctors (Section 4). The density of available physicians in 2014 varied from 2.9 per 1,000 people in Western Macedonia and Central Greece to 8.6 per 1,000 in Attica.

FUNDING, SERVICE PROVISION AND GOVERNANCE OF ELDERLY HEALTH AND SOCIAL SERVICES

PUBLIC EXPENDITURES ON HEALTH AND SOCIAL CARE

Overall spending on health has fallen dramatically in recent years and is below the EU average. Total expenditure on health as a percentage of GDP (7.8 percent in 2018) is below the EU average (9.9 percent). In the aftermath of the economic crisis, per capita spending on health has fallen from was EUR 2287 in 2009 to EUR 1650 in 2015 (adjusted for differences in purchasing power), a 28 percent reduction. Public expenditure on health stands at 5 percent of GDP compared to an EU average of 7.2 percent.

Public expenditures on long-term care (LTC) for the elderly are difficult to estimate but seem to have contracted in recent years. Overall, it is difficult to estimate LTC spending in Greece: different sources suggest widely different trends depending on how estimates are produced. The EU Ageing Working group report (AWG 2018) estimates that Greece's public expenditures on long-term care stood at 1.4 percent of GDP in the 2000s before dramatically declining to about 0.1 percent of GDP in 2018. Some sources (see Lyberaki and Tinios (2018)) challenge the 2018 estimate as it does not include expenditures on either the Help-at-Home program

financed by EU structural funds or municipality- and NGO-financed residential care. The Eurostat ESPROSS database meanwhile has Greece's public LTC expenditure increasing from 0.04 percent of GDP in 2009 to 0.15 percent of GDP in 2015. The uncertainty regarding Greece's LTC expenditure is likely due to different definitions of LTC expenditure which include or exclude certain programs as well as lack of quality data overall, especially at the municipal and provincial levels.

Demographic forecasts point to increasing costs for both health care and long-term care over the long run. The European Commission's "AWG reference scenario forecast" (EC 2018), encapsulating health-status and demographic cost drivers, forecasts public expenditure on health care to increase by 1.2 percentage points of GDP by 2050, compared to an average increase of 0.9 percentage points for the EU. In the same scenario, public expenditure on long-term care is projected to grow from 0.1 in to 0.2 percent of GDP between 2016 and 2070, an increase of 76 percent, which is slightly above the EU projection for the same period (73 percent). However, it should be noted that these projections are subject to the data uncertainty discussed above, and that given the low baseline of this forecast, Greece's long-term care expenditures are likely to make up a higher percentage of GDP by 2070, putting further pressures on fiscal sustainability.

Greece's share of private spending on health is among the highest in the EU. Public expenditure on health accounted for just 59 percent of total health spending in 2018, the fourth highest among the EU Member States and significantly higher than the EU average of 21.6 percent. Most private spending, about 35.5 percent of overall health expenditure, is in out-of-pocket payments to private providers. Notwithstanding some minor fluctuations over the last decade, this value is relatively similar to the one prior to the crisis in 2005 (34.8 percent). Spending on private health insurance is very limited.

SERVICE DELIVERY AND GOVERNANCE

The health care system is a mixture of tax-funded primary and secondary care, combined with a social health insurance system and a significant role for private providers. The unified health fund, the National Organization for the Provision of Health Services (EOPYY), established in 2011, is the provider of mandatory public health insurance and acts as the main purchaser of health services. In addition, the country has a large primary and secondary health care sector, the National Health System (ESY) operated by the government and funded through taxes. EOPYY contracts out services to both ESY and private providers. Providers are either directly employed at the centrally-funded ESY or operate privately, in which case many of them have contracts with the EOPYY. The recently (2016) introduced social health insurance ensures that all Greek citizens are covered, even if they are not able to pay the required contributions to the health-insurance system.

Whereas Greece's health care sector is highly centralized, the provision of long-term care is split between the central and local level. Overall, the health care sector is highly centralized with decision-making and fund allocation occurring at the level of the Ministry of Health. Although there are also seven Regional Health Authorities, their role has thus far been limited. On the other hand, long-term care provision is managed at both the central and the local government level. The Ministry of Labor and Social Affairs regulates the sector and, in cooperation with the Ministry of Health and the Unified Social Security Fund (EFKA), provides limited institutional care. Home and community-care services are provided at the level of the municipality.

Public formal long-term care services cover a very small proportion of seniors with needs and are financed through the budgets of both central and local governments. The

limited supply of formal public long-term care is financed through municipalities' social care budgets or centrally through the budget of the Ministry of Labor and Social Affairs. Many long-term care initiatives are co-financed through European Social Funds. In addition, the thirteen regional welfare centers providing means-tested institutional care are co-financed by the health insurance fund. The overall very low level of funding implies that a considerable part of current LTC needs are not covered by public means and require either high co-payments or high levels of informal care.

Greece does not have a universal system for long-term care and the public system covers a small proportion of those in need of care. Greece has by far the lowest provision of formal institutional long-term care in the European Union, while at the same time having a significant share of the population facing difficulties in their activities of daily living (Ziomas et al. 2018). Overall, there are three main types of available public long-term care services: (i) community-based day care centers for elderly with ADL and IADL limitations but no severe health conditions (KAPIs and KIFIs), (ii) means-tested municipality-financed home-care services providing nursing care, social care services and domestic assistance to elderly (aged 78+), (iii) a limited number of residential facilities providing institutional care mostly for the chronically ill. Some care-dependent elderly are also eligible for noncontributory disability benefits provided through the social welfare system. Overall, the provision of services varies significantly by municipality, with the main urban areas - Athens and Thessaloniki - having the best availability of services while rural areas have only limited service provision.

Most long-term care is provided informally by families, but in recent years Greek households have increased their use of formal long-term care services ,primarily via self-financing, to allow more women to join the labor force. The European Commission (2018) estimates that the majority of all long-term care in Greece is provided informally by family members at home. Informal care provision is supported by strong cultural norms that attach a high value to family responsibility for care of the elderly. But in the aftermath of the crisis, Greek households increased their use of formal long-term care services to allow more women, who previously provided informal care, to join the labor force. In the face of severe limitation in public sector care provision and financing, this increasing demand for formal care is met by largely unregulated private providers, and most households pay for this formal care without public assistance (Lyberaki and Tinios 2018).

As a consequence of increased demand and limited public sector service supply, a sizeable market of private for profit and not-for-profit service providers has emerged, often operating in a regulatory "gray zone." Private non-profit providers include services and programs run by NGOs, churches, and philanthropic organizations. The for-profit private sector incudes residential care homes for both medical and social care. These entities do not receive any public support and are financed entirely by user fees. The European Commission (2018) estimates that occupancy rates of for-profit providers of residential care are around 80 to 100 percent. Furthermore, there has been a surge of home-care provided by migrant care workers in the last decade. These carers typically live with the family of the care-dependent person and supply "twenty four-seven" home-care services.

Greek household responses to the economic crisis have had far-reaching impacts on female labor force participation, which has called into question the current modality of public provision and financing of LTC. Lyberaki and Tinios (2018) show that the crisis prompted more Greek women to enter the labor force, which, in turn created an increase in the formalization of care financed by households. Female labor force participation increased by about two percentage points between 2008 and 2016, concomitant with an increasing reliance on formal self-paid care as opposed to familial

care. These trends in turn facilitated the emergence of a sizeable market of private for-profit and not-for-profit service providers to satisfy the growing demand. These private formal providers of LTC in Greece may represent potential partners in a more intentional development of the sector to meet current and expected future needs. Tapping the potential of these private providers will require strengthening of government stewardship of the sector on one hand and developing formal eligibility rules and demand-side financing instruments (i.e. vouchers) on the other.

GAP ANALYSIS

Previous reforms have reined in increases in health spending, but medium-term demographic trends imply a need to increase spending. Major reforms in the sector have led to significant efficiency gains in health spending. However, considerable fiscal resources are needed to accommodate increasing spending demands arising from demographic changes. Moreover, the decision not to proceed with the pension reform planned for 2019 will raise long-term pension expenditure. Thus, the government faces the need to make significant resources available over the medium-term together with increasing the efficiency of spending to accommodate expenditure pressures.

Trends in the labor market strongly influence the fiscal sustainability of the health and pension systems. Since the Greek health and pension systems are largely funded by payroll contributions, funding is directly dependent on labor market participation and rising earnings. This dependency on labor market performance requires contingency planning to safeguard the health sector when the labor market weakens. In the long run, low birth rates, emigration, and increases in life expectancy will further increase the ratio of people aged over 65 relative to the working-age population. This heightens the importance of high labor market participation rates, especially among women, to balance out increasing dependency ratios.

Yet, the current policy reforms do little to increase the supply of affordable care. Government reforms focus primarily on deinstitutionalization and regulation. The Ministry of Labor and Social Affairs is currently preparing a national deinstitutionalization strategy, which includes a 2019- 2023 Action Plan for deinstitutionalization projects and the provision of community-based services to prevent institutionalization. While these reforms make important changes to the system, they do not go far enough to address needs and challenges of informal care provision. Evidence shows (World Bank 2018) that informal care provision, especially when coupled with other care or labor market responsibilities, can be a significant burden on caregivers and lead to caregivers dropping out of the labor market or requiring health services themselves, thus increasing the cost to the system. Furthermore, informal care provision has an important gender dimension, as the majority of caregivers are women. Given that increasing female labor force participation is one of the levers for the government to increase the sustainability of the health and pension systems, assisting informal care givers should be a policy priority.

Increasing needs and constrained budgets put a high premium on developing a more efficient modality for care provision, one that would allow for the realization of "value for money" for the government and households. In this regard, there is significant untapped potential for regulating and cooperating with the private sector in providing long-term care. While the private sector has stepped in to accommodate the lack of public provision of services, it operates without proper government oversight and regulation, and its services can only be afforded by a small minority of dependent elderly. Given the large unmet care needs and the extensive reliance on informal care, there is a strong likelihood of

an informal (gray) market of long-term care operating without proper regulation. Establishing a legal framework for private sector long-term care provision, enabling the development of a competitive market, represents a low-cost option for increasing the efficiency and diversity of service provision.

In addition, there is potential to improve efficiency and equality through better coordination. There is currently little coordination between different sectors and different levels of government on long-term care. The supply of formal long-term care in Greece is organized across different institutions with limited coordination between the different entities. The distribution of service delivery responsibilities across multiple entities aggravates fragmented provision of care. As Greece currently does not have a comprehensive long-term care system in place, there is a strong rationale for building strong cross-sectoral collaboration into future initiatives to create such a system.

Greece will eventually need to undertake the development of a sustainable mechanism for financing long-term care service provision. The budget envelope for long-term care currently only allows for patchwork solutions that places the burden of responsibility chiefly with families. Furthermore, there is no clear policy defining which services the elderly are entitled to and how and where co-payments or means-testing should apply. Creating a long-term care system will require dedicated sources of funding from either social insurance, budget transfers, and co-payments by users. Importantly, putting money in the hands of consumers (as vouchers or similar instruments), as opposite to financing providers, is another way to improve the efficiency of the system and the satisfaction of consumers.

PRIORITIES FOR REFORM AND POLICY OPTIONS

The policy recommendations stemming from the European Semester as well as the government's strategy documents clearly delineate reform priorities in the areas of health and social care for the elderly. The EC Country Report on Greece (EC 2019) outlines the most urgent reform priorities for the Greek government. Policy objective 4 in Annex D (A more social Europe) states the importance to "enhance access to, and inclusiveness of affordable, sustainable and high-quality social services" (ibid.). Specifically, the document recommends to "develop day-care centers for the people with disability (children, adults and the elderly)". Government strategy also outlines the need for policy development in the areas of health and social care. The Ministry of Health's National Action Plan, published in 2016, articulates the goal of expanded support for informal carers and expanded provision of home and day-care.

Greece's rapid demographic changes, coupled with an unsustainable reliance on informal familial care, necessitate reforms to the provision and financing in the sector. As outlined above, Greece faces an ageing population and associated fiscal pressures on pensions, health care, and long-term care. A higher dependency ratio will lead to an ever-smaller workforce bearing the tax burden of financing these systems. Furthermore, heavy reliance on informal care is an unsustainable solution in the long run as the ceiling on female labor force participation is a binding constraint for the Greece economy. Thus, reforms to increase the sustainability and effectiveness of health and long-term care for the elderly is an urgent policy priority.

I. Upgrading the stewardship capacity of the government to govern both the public and private segments of the long-term care market can unlock significant efficiency gains. This would entail

developing, piloting, and implementing standards (accreditation and certification, service delivery standards, staffing standards, governance and management standards, M&E standards) for residential, community-based, and home-based aged care services and applying these to the public and private sectors. At the same time, some public funding could be reallocated to demand-side financing (i.e. vouchers) usable both in the public and private segments of the market. Standards could encourage home care and define regulations controlling admission to institutional care to avoid unnecessary institutionalization. Furthermore, the development of standards for the private sector would assist in bringing many unregulated operators into the formal market, raising the quality and transparency of service provision. Moreover, putting vouchers in the hands of eligible elderly would strengthen the effective demand for private sector care services. The SFH specifically encourages increased development of public-private partnerships in the health/LTC sector. In China's Anhui province, for example, the World Bank is supporting an implementation of a project to strengthen the stewardship capacity of the government, including developing an IT system, aged-care standards, training of managers and front-line workers, as well as upscaling both home-based and institutional care services (P154716). The lessons learned from the implementation of this project can provide valuable insights for Greece.

II. Creating a policy framework to manage the "migrant-carers" workforce is critical to combat informality, foster transparency, and ensure adequate and humane working conditions. The lack of formal long-term care likely incentivizes Greek households to employ migrant carers informally. This issue will become increasingly salient over the next decade as the demand for LTC workers increase. Creating a comprehensive policy framework is key to managing the situation and should encompass measures related to migration, language, labor market policies (including regulation and supervision of recruitment practices of job agencies), and "remittance-friendly" measures in the financial and banking sector of both sending and receiving countries.. In Australia and the Pacific Islands, the World Bank has advised governments to set up a system for managing circular migration of care workers and remittances (P155609).

III. Introducing reforms to support informal carers could mitigate the negative effects on carers' health and labor market participation. Supporting family carers could take the form of flexible working conditions, respite care, carers' allowances replacing lost wages or covering expenses incurred due to caring, and alignment of cash benefits paid to care recipients with incentives for employment of carers. In Estonia, the World Bank has implemented a RAS to develop policy options for the government with the aim of introducing reforms to support informal caregivers that could serve as a model for Greece (P158968).

IV. Overall, introducing an integrated care model that adequately coordinates the health and social sectors also promises significant efficiency gains. This could consist of the creation of one-stop shops at the regional level with adequately trained personnel centralizing access to information; simplifying the application process for available services and helping to coordinate the different long-term care providers; creating a single integrated information system to track beneficiaries which allows for referrals within the system; and providing a catalogue of services available at the local level. In Chile, the World Bank has implemented a RAS to integrate care systems (P159331). The program not only unified and streamlined existing disparate support mechanisms (cash transfers, in-kind benefits) but also created a one-stop shop and a unified menu of services in each municipality.

V. Over time, reforms will be needed to establish a financing mechanism for Greece's long-term care system and meet the rising demand expected in the coming years. This will require increasing the resources of regional and local administrations to boost the quantity and quality of care provision. Financing schemes range from universal tax-financed service provision to strictly means-tested targeted subsidies. An alternative solution could be the introduction of a mandatory dependency insurance, similar to schemes adopted in some other countries, including Germany and Japan. Also in Estonia, the World Bank developed different financing scenarios and outlined the different service packages available under different fiscal envelopes (P158968).

[i] This note is produced by Elena Glinskaya, Ian Forde, and Florentin Kerschbaumer as an output of an "EU: Aging and Value-for-Money in Delivery of Health and Social Care services" (P172480).