Comments on ‘Financing Long Term Care through Housing in Europe’

by

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What is at stake?

- Housing : large share of household wealth in many countries
  - Housing properties: utility value, illiquidity, indivisibility, risk-return
  - No (evidence of) significant downsizing of home equity at older age
- Life expectancy projections:
  - people living longer; dependence at older ages
  - burden on public/social security financing ; underdeveloped market for LTC private insurance (adverse selection, cost uncertainty, market structure)
- Coupling housing and ageing : getting revenues from housing ownership to finance ageing, and more specifically, long term care expenses
- Questions :
  - identifying the size of the problem (is ageing/LTC an issue?)
  - identifying the size of the solution (is home equity enough to cover the increase in LTC needs ?)

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Method

- SHARE
- estimating a disability transition model in 9 EU countries (AU, BE, DE, DK, ES,FR, IT, NL, SW)
- simulating disability trajectories of 65+ (conditionally on socio-demo-economic variables)
- estimating the cost of LTC
- simulating the lump-sump payments to be extracted form reverse mortgage for dependent individuals with no partner
- computing the proportions of individuals that are able to pay for their LTC needs

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General comments

- useful piece of work ; growing literature on the use of reverse mortgage to finance retirement but not LTC specifically (except few papers on US data)
- very clear and very precise on each step
- comprehensive (baseline scenario + robustness tests with varying assumptions)
- (I guess)→ paper that has already received comments / improvements → decreasing marginal productivity in commenting...

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Variables of interest

- health status : 2 ADL as a cut off; correlation between ADLs ? Robustness check
- home equity : overestimation (true in France? ISF...)

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LTC costs

- hours; monetary assessment (labor cost); assumption: constant cost on the 2013-2051 simulation period: no labor productivity improvements (low skilled workers) vs. health care robotics
- labour cost (table 4): gross or net? That is: the price of care for the individual or the total cost of LTC ? (which makes a difference if we view housing wealth as a substitute to public aid)
- decreasing vs. increasing prevalence of dependence among the elderly
- « net » cost: distinguishing « pure » LTC and regular assistance to elderly (e.g. driving); in a policy-oriented research, the distinction could be relevant

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Reverse mortgage contracts

- consistency between the assumption of a 8 % interest rate on loan and the assumption of a 0 % increase in housing prices; 8 % includes risk premia (longevity, **interest rate risk** and **risk on housing price)**
- who buys the contract ? The dependant person or his/her family in case of mental disability ; conflict of interest for the family → (theoretical) possibility of contingent contract
- (ever mentioned) endogeneity problem: lack of public coverage explains self effort (savings/wealth accumulation) or high level of savings explains low public assistance; optimistic message of the authors : at least for a reasonable period of time, an a reasonable fraction of population, private wealth can cover LTC needs → nice idea of a « deductible » on public LTC assistance
- page 16 : « Institutionalized individuals are not initially sampled in most countries »

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