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Considering long-term care insurance for middle-income countries: comparing South Korea with Japan and Germany

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ABSTRACT

Financing and provision of long-term care is an increasingly important concern for many middle-income countries experiencing rapid population aging. We examine three countries (South Korea, Japan, and Germany) that use social insurance to finance medical care and have developed long-term care insurance (LTCI) systems. These countries have adopted different approaches to LTCI design within the social insurance framework. We contrast their financing systems and draw lessons regarding revenue generation, benefits design, and eligibility. Based on this review, it seems important for middle-income countries to start developing LTCI schemes early, before aging becomes a significant problem and substantial revenues are needed. Early financing also ensures that the service delivery system has time to adapt because most middle-income countries lack the infrastructure for providing long-term care services. One approach is to start with a limited benefit package and strict eligibility rules and expanded the program as the country develops sufficient experience and more providers became available. All three countries use some form of cost-sharing to discourage service overuse, combined with subsidies for poor populations to maintain appropriate access. A major policy choice is between cash benefits or direct provision of services and the approach will have a large impact on the workforce participation of women.
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1. Introduction

Because of declining fertility rates and increasing life expectancy, many middle-income countries are now beginning to focus on how to finance and develop long-term care programs. For most middle-income countries, this is a relatively new issue necessitated primarily by the changing demographics and an increasing willingness in some cultures to allow elders to be cared for outside of the home. The provision of paid long-term care services raises many issues, including: the responsibility of families to provide services to older persons, the provision of institutional versus home care, the appropriate level of training for care providers, and many other cultural, financial and delivery system issues.

In this paper, we focus primarily on one issue – options for designing a financing system for long-term care in middle-income countries. We examine the choices in three high-income countries that use social health insurance to finance medical care to guide this discussion. In this article,

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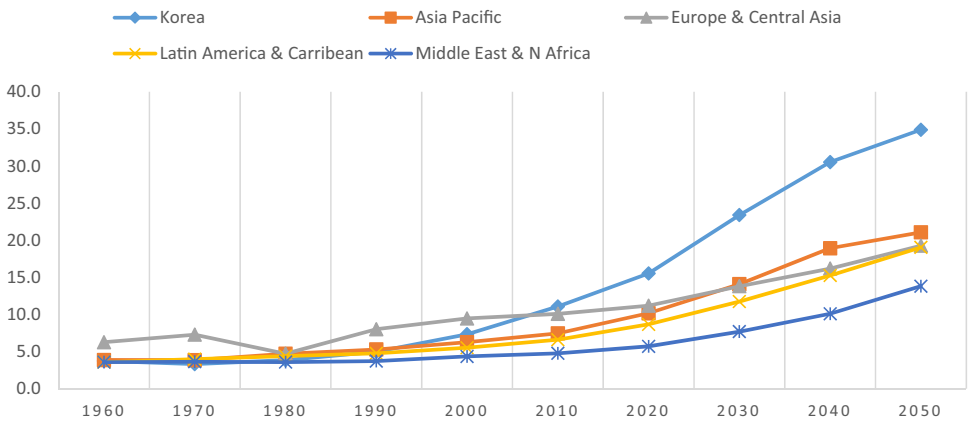

Fig. 1. Population aged 65 years and above as a percentage of the total population, in Korea and developing countries in different world regions, 1960–2050. *Source:* [3].

we focus on South Korea as an example of a rapidly aging country that is currently experiencing the demographic transition that many middle-income countries will soon experience and has recently decided to provide publicly financed long-term care insurance. We contrast the financing approach taken by South Korea with the approaches taken by Germany and Japan. The objective of this comparative policy analysis is to suggest alternative approaches to finance long term care services in middle-income countries. We focus on countries that use social insurance to finance their medical care systems because many middle-income countries use social insurance to finance their medical care systems and so will be familiar with this financing approach [1].

International trends

Fig. 1 shows the aging trends in several World Bank regions of the world. Most high-income countries already have an aging population and most have already developed or are developing long-term care systems. Most middle-income countries have some additional lead-time before the demographic transition makes long-term care a pressing economic and social problem. By 2050, approximately 20 percent of the population will be 65 or older in the Asian Pacific, Latin America, Europe, and Central Asian regions. The Middle East and North Africa regions will approach 15 percent elderly population by mid-century.

1.1. Demographic trends in South Korea

South Korea is an example of a country already in the middle of the demographic transition. The population of South Korea nearly doubled in the second half of the 20th century, from about 25.0 million in 1960 to over 47.0 million in 2000 (Table 1). The birth rate then slowed dramatically while at the same time life expectancy increased rapidly. Between 2000 and 2010, the overall population growth rate was only 0.5 percent per year; the population is projected to peak in 2030 at 53.7 million and to decrease thereafter. This trend is the result of sharply decreasing total fertility rate, which in 2010 was the lowest among OECD countries at 1.2 births per woman, as well as the increasing life expectancy, which went from 52.4 years in 1960 to 81.1 years in 2011 and is projected to grow to 86.0 years by 2040 [2].

These trends have caused a fundamental change in the population pyramid in Korea (Fig. 2). Between 1960 and 1990, the proportion of people aged 65 and over increased relatively slowly, from 3.7 percent to 5.0 percent. It is now increasing much more rapidly – having reached 11.1 percent in 2010. This trend is projected to accelerate, with the latest population projections estimating a proportion of 15.7 percent in 2020, 24.3 percent in 2030, and 34.3 percent in 2050. Perhaps more important for long-term care services is that the population aged 80 years and over is estimated to increase from 2.0 percent in 2010 to about 15.0 percent in 2050 [3].

2. Creating long-term care insurance (LCTI) in South Korea

Deciding on the appropriate LCTI approach can take years involving many interrelated decisions. The discussion of creating a LTCI system in South Korea began in 2000, when a task force was created under the Ministry

Table 1
Demographic indicators in S. Korea, 1960–2010.

	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
Population, total (millions)	25.01	32.2	38.1	42.9	47.0	49.4	51.4	52.2	51.1	48.1
Population growth rate, annual (%)	2.91	2.18	1.56	0.99	0.84	0.46	0.3	0.0	−0.4	−1.0
Population aged 65 and over (% of total)	3.7	3.3	3.9	5.0	7.3	11.1	15.5	23.4	32.3	37.4
Fertility rate (births per woman)	6.16	4.53	2.82	1.57	1.47	1.23	1.4	1.5	1.6	1.7
Life expectancy at birth, females (years)	55.5	65.6	70.0	75.5	79.6	84.1	86.5	88.6	90.5	92.2
Life expectancy at birth, males (years)	50.6	58.7	61.8	67.3	72.3	77.2	79.8	81.9	83.4	85.5

Source: [3].

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