

How Are Long-term Support Systems Financed?

Social insurance and taxes are the most common mechanisms for financing support services.

On average, governments of member countries of the Organization for Economic Cooperation and Development (OECD) spend the equivalent of 1.7 percent of GDP on support services in 2015, including health and personal assistance expenditures ([OECD 2017](#)). Average spending has increased at an annual rate of 4.6 percent, supported by an increasing demand for services between 2005 and 2015, but constrained by fiscal pressures.

The mechanisms to finance the costs of support services can be classified into two general categories ([Costa-Font, Courbage and Swartz 2015](#)). When financing is generated before the situation of dependency, as in the case of insurance, it is called *ex ante*. When it occurs after the situation of dependency, it is called *ex post*. This latter category includes both out-of-pocket expenses for families and public spending.

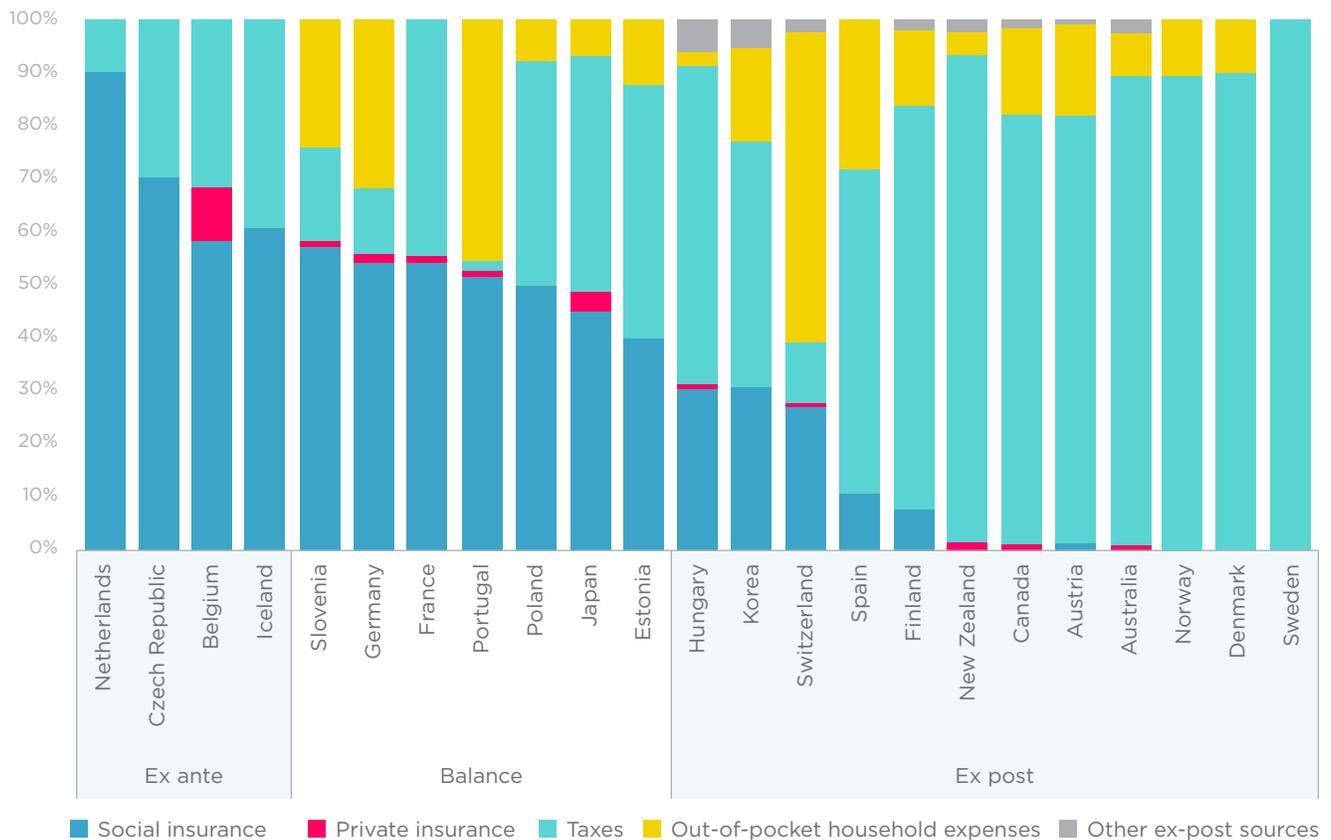
Ex post mechanisms are used more frequently than *ex ante* mechanisms, according to a study of 23 OECD countries ([Costa-Font, Courbage and Swartz 2015](#)). Social insurance and taxes are the most common mechanisms for financing support services, although it must be taken into account that these calculations

do not include the value of informal care. Private insurance is incipient in all countries, which can be explained by the fact that it is still very difficult to predict the cost of care that a person will need in the future, and by market failures, such as moral hazard and adverse selection ([Barr, 2010](#)). Finally, in some countries, including Portugal and Switzerland, out-of-pocket expenses represent a very considerable proportion of care spending.

Most countries, with some exceptions such as the countries to the right in the following figure, use a combination of mechanisms to deal with support systems. Additionally, [there has been a tendency to diversify funding sources](#). For example, Germany and Japan, which previously used only taxes, reformed their systems to include social insurance as an alternative source.

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Mechanisms to Finance the Costs of Support Services (percent)



Source: [Costa-Font, Courbage and Swartz 2015](#).

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