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Should Elder Care Be Subsidized?

Theory and Evidence from Sweden



EUROPEAN CENTRAL BANK

EUROSYSTEM



Should Elder Care Be Subsidized? Theory and Evidence from Sweden

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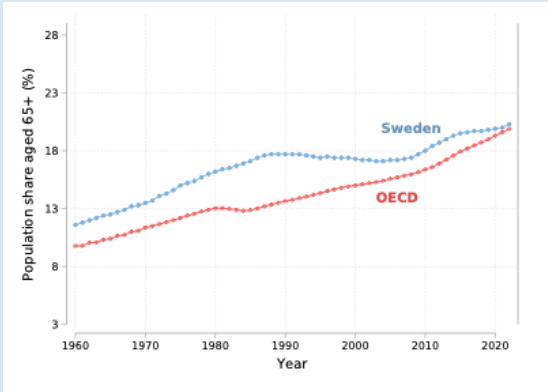
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Research Question

How to organize care for the increasing number of seniors worldwide?



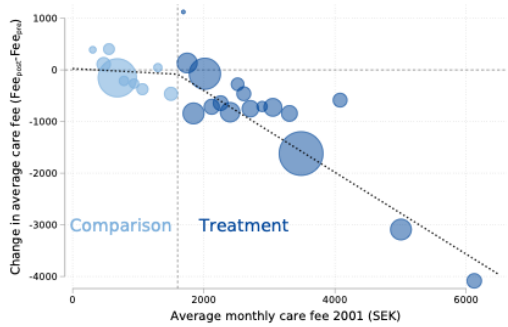
Majority of seniors will require assistance at some point of their life but:

- Formal “professional” care (nursing home + home care) expensive
- Informal “family” care hides opportunity costs in the labor market

Should we subsidize formal care more?

Empirical Method

- Use regional + time variation in difference-in-differences design:

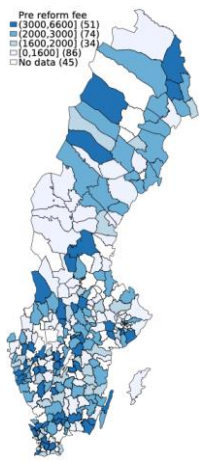
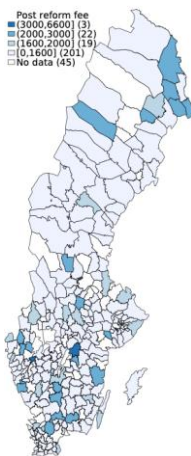


- Fees decrease** by 1,100 SEK/month (~10% of average pension)
- Data: Fees and utilization (municipality level) + administrative data

“High-cost” Reform in Sweden in 2002

Before the reform:

- 290 municipalities are in charge of formal elder care (nursing home + home care)
- Average fees vary up to 6,500 SEK per month (av. fee 2,100 SEK, ~250 USD)



After the reform:

- Unified fee schedule: Decrease in fees for 2/3 of municipalities
- How? Capped fees at 1,544 SEK/month (~182 USD)

Theoretical Model

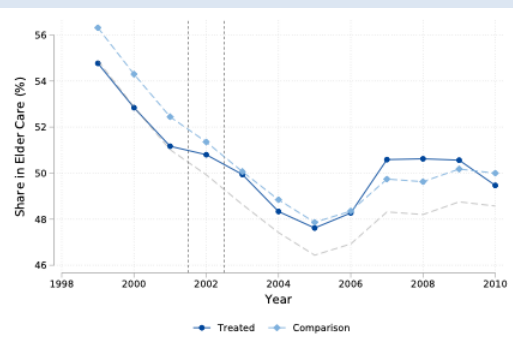
- Parents face risk of becoming dependent with long-term care costs
- Children can provide informal care but face opportunity costs
- Government **subsidy** provides **insurance** against risk of becoming dependent but must be financed from labor taxes (Baily, 1978; Chetty, 2006)

Implicit solution for **subsidy σ** balances value and costs:

$$\underbrace{\frac{\beta}{1-\beta} \frac{u'(c_s)}{u'(c)}}_{\text{Value of insurance}} = \underbrace{1}_{\text{Direct Cost}} + \underbrace{\frac{\sigma f + m}{\sigma f} \left(\frac{\sigma f}{\sigma f + m} \epsilon_{f,\sigma} + \frac{m}{\sigma f + m} \epsilon_{m,\sigma} - \epsilon_{l,\sigma} \right)}_{\text{Fiscal Externality / Behavioral Response}}$$

Results

Does subsidizing elder care affect seniors?

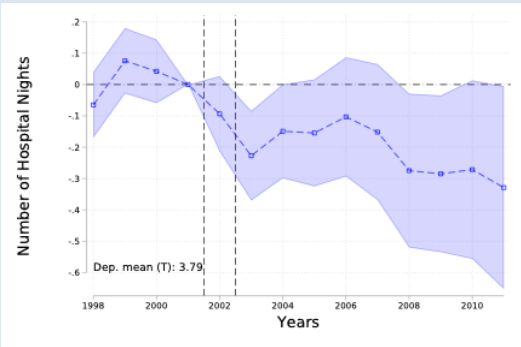


Yes, share of elderly age 80+ in **formal care increases**

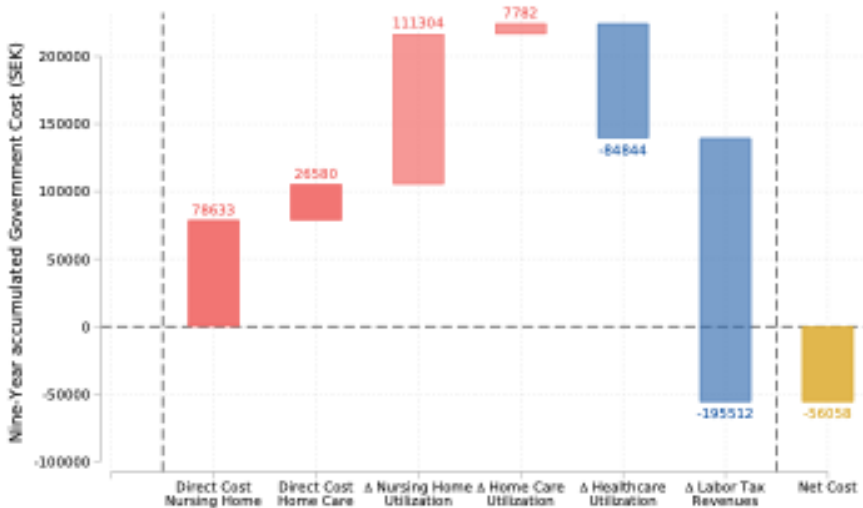
- Driven by 4.5% increase in nursing homes

At the same time, treated seniors **less hospitalized**

- Improvements in morbidity: Fewer hospitalizations for conditions preventable or treatable outside of hospital
- No effect on mortality

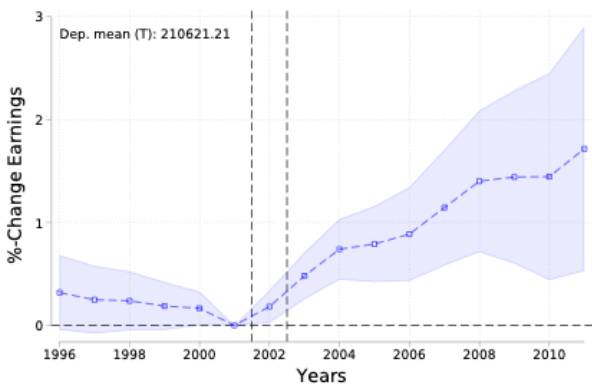


Is subsidizing care cost-effective?



- Not** in the **short-run**, but **yes**, the policy “pays for itself” **after seven years**: Fiscal externalities outweigh direct cost
- Driver: Reduced public spending on healthcare + persistent increases in tax revenues

Does subsidizing elder care affect adult children?



Yes, adult **children** whose parents are affected by the reform **increase annual earnings**

- Extensive: 0.6%
- Intensive: 1.4%

Channels:

- Children work in high-paying, less flexible jobs, such as becoming a manager
- Effect persists also after the care responsibilities have ended due to parental death
- Role of informal caregiving: After the reform, adult children less responsive to parental health shocks that require care

Policy Implications

Indirect effects of policies with intergenerational dynamics:

- Benefits of **improved health management** + **spillovers on children’s** labor supply can outweigh direct costs of subsidizing care

Time period of policy analysis matters:

- It can take time until persistent benefits outweigh initial costs

