

2.1.4 An integrated system for the coordinated management of the social assistance system

Provincial Study Visit to Chongqing

V.1

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Abbreviations

ADB	Asian Development Bank
ADL	Activities for daily living
EU	European Union
LFS	Labour Force Survey
LTC	Long-term care
LTCI	Long-term care insurance
MIS	Management Information System
MoCA	Ministry of Civil Affairs (PRC)
MoF	Ministry of Finance (PRC)
MoHRSS	Ministry of Human Resources and Social Security (PRC)
NPO	Non-profit organization
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
TANF	Temporary Assistance for Needy Families (USA)
UK	United Kingdom

Introduction

This report forms part of Topic 2.1.4 - *An integrated system for the coordinated management of the social assistance system*.

As set out in the terms of reference, the expert participated in a provincial study visit related to Topic 2.1.4, as member of a short-term mission to Chongqing in January 2019. The purpose of this study visit was to analyse the provincial situation on the coordination of social assistance system and other social protection schemes. A detailed report on the findings from the study visit has been prepared by the Chinese expert (Dr. Guo). The current report provides policy suggestions and recommendations to MoF based on the findings of the visit. Thus the report provides a concrete synthesis or 'conclusion', linking the study visits with the relevant policies and legislation

The meetings during the visits focussed on social assistance and long-term care/elder care. The details findings of the study visit have been set out in the report by Dr Guo and will not be repeated here. As set out in the detailed report, the study visit met extensively with key figures in the local finance, civil affairs and (in relation to long-term care) human resources and social security bureau (at both municipal and district levels) and visited a range of offices and care centres. I would like to thank all those involved in the planning and implementation of that visit for the courtesy and great helpfulness. The recommendations set out in this report are primarily focussed to the Ministry of Finance and the municipal finance bureau.

In section 1, we discuss key issues in relation to the coordinated management of social assistance. Section 2 looks at management of long-term care and elder care.

1. Co-ordinated management of social assistance

Like all municipal civil affairs bureaus, Chongqing faces a number of challenges in implementing the wide range of benefits and services which are available under the social assistance system in China. We identify a number of key issues which would help to improve the co-ordinated management of social assistance. These are:

- 1) Need for comprehensive IT/MIS system linked to other databases to allow cross-checking of income and analysis of payment trends
- 2) Funding of dibao between different levels of government - how could MoF structure payments so as to allow appropriate flexibility at municipal/local level while providing incentives to ensure that key national priorities are implemented
- 3) Enhancing the use of social organisations in the provision of dibao services
- 4) Co-ordination of services between different agencies
- 5) Active labour market policies - how to begin a move towards more active labour market policies where this is appropriate (e.g. for those close to the labour market).

Comprehensive IT/MIS system

In a number of previous reports, Component 2 has identified the need to enhance IT capacity in relation to the implementation of social assistance in China. In contrast to the very sophisticated IT available in many areas of the Chinese private sector, use of IT in the social assistance system (and indeed in the social protection system more generally) remains at an early stage. It is clear from international experience in a range of developed and developing countries that IT holds enormous potential to improve the management of social protection schemes. to improve services to the people (e.g. through faster processing of claims to social assistance). These include

- to allow better control of the use of social assistance funds through comprehensive verification of claims and monitoring;
- to facilitate better management and analysis of the national social assistance system;
- to improve co-ordination of policies;
- to facilitate co-ordination of services; and
- to facilitate the establishment and control of a more unified approach to funding social assistance.

It can, for example, help to improve the verification of income in a means-tested scheme such as dibao by providing a link to other databases concerning income (e.g. income and pensions from public sources) and property (e.g. car ownership, property rights). In addition, the development of an MIS can help to ensure better management of the social assistance system by providing much better data and analysis to local management so that trends in claims for dibao can be recognised

quickly and appropriate action taken. It can also help to compare the performance of one district with another in terms of claim load, time taken to process claims, etc. This means that local management is better aware of the issues arising in a timely manner and can take appropriate action in response.

It is important that the IT system should include fund management data as well as individual client data. From a financial management point-of-view, IT can play a very useful role making timely financial data available to the finance bureau and, ultimately to the national level, so that finance officials are aware of trends in real time and can again compare performances from different areas and identify potential issues as they are arising and discuss these with the key agencies.

Indeed, Chongqing has already recognised the importance of IT and uses IT systems insofar as possible at present. Chongqing is also developing a digital platform in one district which will help to link a number of databases together and to assist in income verification. Presumably, once this has been finalised it could be rolled-out to other districts in Chongqing. This is in line with initiatives taken in a number of other municipalities and provinces.

However, while there are a number of advantages to this type of bottom-up approach (e.g. ensuring that it meets key local needs), it does run the risk that a range of different systems will be developed at a local level with limited (if any) interoperability and with limited compatibility with system utilized centrally by MoF. As we have discussed in previous reports, in establishing its IT platform in line with Chinese conditions and requirements, the Chinese authorities can also draw on the experiences of EU countries. In many cases, IT systems have been established at a national level even if social assistance administration was carried out by local authorities. For example, the Netherlands has developed a special information platform to support the implementation of social assistance. This network is used by municipalities (and related agencies such as employment agencies) to manage data in the implementation of social assistance and employment services. Public agencies such as the Tax Office, Student Data Authority, Land Registry, National Road Authority and the unemployment insurance agency (which also provides employment services) share personal information with municipalities in relation to the implementation of the Act. The system is intended to check whether a person is entitled to a benefit and to detect benefit fraud. The social assistance law set out rules in relation to control of data and standards have been developed for the municipalities to ensure data security and address privacy issues.

The Chinese situation is complex because the local levels of government have considerable autonomy in terms of the development of their individual systems. While there are many advantages to this, it does not facilitate the development of a comprehensive and co-ordinated information platform. One of the priorities for the Chinese authorities should be the need to plan the development of IT architecture in the Chinese social assistance scheme so as to ensure interoperability both within and between provinces and also between a province and MoF. This could draw on the different approaches adopted in EU countries with regional administration of social assistance such as the Netherlands and Sweden.

Funding of dibao between different levels of government

At present the system of funding of social assistance in China is quite complex with funding coming from different levels of government including (in Chongqing) from national government, municipal government and district level.

First, social assistance is usually described as covering “8 + 1” schemes (dibao, tekun [special difficulty], medical assistance, educational assistance, housing assistance, employment assistance, disaster relief and temporary assistance + disease emergency assistance). Second, while most social assistance schemes fall within the remit of the civil affairs bureaus, others are the responsibility of other agencies (such as the education, housing, and human resources and social security bureaus).¹ Third, funding comes from both central and local governments. In addition, a small part of funding comes from social and market funds, e.g. welfare lottery. This leads to a complex arrangement of funds.

In European countries there has been a tendency to consolidate funds for social assistance under one budget and to ensure that standards of public financial management (PFM) are applied. This is in line with the Chinese approach of ‘multiple channels to bring water; one reservoir to hold water; and one tap to release water’. EU countries have then ensured that the relevant rules of PFM apply to social assistance funds in the same way as to other central or local government funding. These include:

- mid-term budgeting (including structured forecasts of expenditure)²
- results-based budgeting (i.e. based on policy outcomes (or at least outputs) rather than solely on inputs),
- transparency,
- independent auditing, etc.

The Chinese authorities should consider which of these tools represent a good fit for Chinese local governments at this stage of their development. There are already good examples of how better co-ordination of funds can be achieved and these now need to be replicated more broadly in a more systematic manner.

A further issue is that the current system of funding from national level makes it difficult for MoF to ensure that key priorities are met. On the one hand, if it is very rigid as to provision of budgets, this does not allow appropriate local flexibility in order to meet specific needs. On the other hand, if MoF is very flexible, this may meet local needs but it will be difficult for MoF to ensure that national priorities are met and to ensure consistency between the operation of the social assistance scheme in different areas.

In this regard, the experience of implementing the TANF scheme in the USA may be relevant. Temporary Assistance for Needy Families (TANF) is a program that provides cash assistance and supportive services to assist families with children. It is a form of minimum social assistance like dibao. TANF is co-funded by the federal government and the states. Federal funding is provided by way of block grants. Federal law sets out the objectives of the system and imposes certain

¹ Disease emergency assistance is the responsibility of the departments of health and family planning.

² Mid-term budgeting is a tool designed to achieve the optimal social and economic outcomes within the resources available. A mid-term budget framework provides a link between national objectives, a medium term three-year rolling budget and the annual budgeting cycle.

requirements on the states which wish to participate.³ TANF funds must be used for families in financial need and who have a qualified child. Federal law also applies ‘work requirements’ so that states must ensure that 50% of all families and 90% of two-parent families must be ‘engaged in work’. TANF also has a time limitation and funds cannot be used to provide assistance to a family for more than 60 months (subject to some exceptions). In the case of non-compliance by the states with the federal rules, a certain amount of the block grant may be withheld. Otherwise states are free to set eligibility rules and to set the appropriate amount of benefit which varies greatly from one state to another.

The Chinese authorities might consider whether a somewhat similar approach would be relevant in China, e.g. where the central authorities (MoF and MoCA) might set key national standards which would have to be met if funding was to be provided.

In terms of the criteria for distributing funding based on socio-economic needs, the Netherlands, is one of the few examples of an EU country which uses financial incentives to encourage local administrations to be more efficient in their implementation of social assistance (under the Participation Act). The Dutch social assistance is nationally financed from general revenues of the central government. Dutch municipalities receive two different budget allocations: the income budget for benefits and the work budget for reintegration activities. Since benefit eligibility is centrally regulated, municipalities which implement the scheme can only affect their financial position by reducing the number of people who require social assistance (e.g. by providing better employment services), or by stricter enforcement of eligibility requirements, or both. This financing system is intended to give the municipalities a strong incentive for labour market integration of social assistance recipients.

The distribution of resources to municipalities is based on the results of a statistical analysis which calculates the likely need for assistance based on local data. The probability of claiming assistance varies by household type, ethnicity and disability. Thus, for example, single parent families, ethnic minorities, but also people with a labour disability have a higher than average chance of needing assistance. The factors taken into account in calculating the allocation to a municipality include the following data for that municipality (both at household level and area level):

Household Characteristics (e.g. single parent; presence of a person aged 15-24 years; presence of a person aged 55 years-old age pension; living in social housing; having a non-western background; education levels; person with a disability)

Area characteristics (e.g. property values; level of unemployment in the municipality; population growth in the municipality; labour market opportunities)

The model is (mostly) based on the Labour Force Survey (LFS) of Statistics Netherlands. There were transitional arrangements for the first three years, whereby the national budget available was partially divided based on the allocation model (above) and partly on the basis of expenditure in the past.

Municipalities can gain if they succeed in spending less than the allocation but have to use their own funds if their expenditure is greater. If the municipality’s benefit expenditure is higher than the target amount, the municipality has to cover the additional costs. If their social assistance payments are less, they may use these funds for other municipal purposes. Municipalities that have budget deficits under the Participation Act should in principle absorb these deficits from its own resources.

³ In theory TANF participation is voluntary though in practice all states do participate. .

However, under certain conditions, municipalities in deficit are eligible for a supplementary budget from the Ministry.

This approach attempts to use financial incentives to encourage municipalities to implement national policy rather than using traditional monitoring tools. An evaluation, which was carried out on behalf of the Ministry, found that the reform had had positive effects in these areas. For example, it found that the number of claimants had fallen by an estimated 4% as a result of the reform.

Enhancing the use of social organisations in the provision of dibao services

MoF and MoCA are currently encouraging local bureaus to use social organisations more through the contracting out of certain social assistance services.⁴ This is in line with over government policy to develop the role of social organisations in the provision of ‘public services’. Chongqing does use social organisation to provide social services although this is most well developed in the provision of elder care whereas, in relation to social assistance this is still at an early stage of development.

A review of international practice highlights a number of key points. First, contracting out of social assistance is a broader process than just procurement of services and involves an assessment of services needed and resources available, and decisions on which services to contract out, in addition to the procurement itself. This overall process is known as ‘commissioning’ in the UK . This is an ongoing and iterative process which should also aim to feedback lessons from the contracting out in order to improve services in the future. Staff of public agencies need training and capacity building in the skills needed for this broader process, e.g. analysis, costing of services, etc.

It is clear from the international experience that contracting out is not easy and is not a panacea for the provision of services. Agencies must prepare to address the challenges of contracting out and need to be provided with the resources to do so. Amongst the issues which have proved to be most challenging include developing a market and promoting effective competition; developing a fair, effective and transparent procurement system; designing contracts that specify clearly the intended outcomes, provide the appropriate balance between this and flexibility in terms of how to achieve outcomes; designing contracts that provide incentives for suppliers to achieve program goals; monitoring effectively and coordinating programs between public agencies and private bodies. Staff in public agencies require training and capacity-building in how to carry out these tasks and may also require support from external experts (e.g. financial experts).

In most countries, the ‘market’ for social assistance service is imperfect and in many cases there have been insufficient qualified tenderers to provide real competition. A large part of the work of public agencies involves building and managing the market. Like the procurement process, it is important that this be done in a fair and transparent manner. Again, civil affairs bureau staff will require training and capacity building in how to assess and develop the market for social services. A key part of this market development is likely to be capacity-building for social organisations both to allow them to compete for and comply with contracts and also to actually provide services in line with government requirements.

⁴ See the joint MoF and MoCA *Guiding Opinion on supporting the promotion and development of social organisations through government purchase of services*, 2016.

The procurement process must be designed so as to be fair, effective and transparent. The procurement process should encourage qualified organisations to tender; choose the most appropriate supplier; and be seen to operate in a fair and transparent manner. In general, competition has not been focused mainly on price and other factors such as organisational capacity and past performance have been given more weight than cost in itself. Indeed, in some case, due to lack of competition, it may be more appropriate (at least at an initial stage) to make a tied grant to an agency to provide services and to take parallel steps to develop the market for the future.

Monitoring of the services provided is essential but imposes significant burdens of public agencies (and suppliers). In order to monitor effectively public agencies require (access to) a range of skills including legal, managerial and financial. This will involve training and capacity building of public staff (even where some of the monitoring is itself contracted out) as staff must be able to oversee and monitor the process. It is important to take into account the costs of monitoring and reporting both for the public agencies and also for the suppliers in setting the fee for services.

In addition, the civil affairs bureaus will have to find effective ways to co-ordinate services. Contracting out involves a new approach to the provision of public services and public agencies must adapt their management approach to this in order to provide maximum co-ordination between services provided directly by the public agency and those contracted out.

Finally, experience has highlighted the importance of (i) involving the public in the planning and implementation of contracting out and (ii) protecting the autonomy of social organisation and NPOs in order to preserve their unique identity and status.

Taking into account these factors can help to ensure that the implementation of contracting out of social services works well in China and draws on the experience of other relevant countries.

Co-ordination of services between different agencies

As discussed above, it is necessary for the civil affairs bureaus which are primarily responsible for the management of social assistance to co-ordinate with other key agencies responsible for related policies. These include the human resources and social security bureau, the education and housing authorities, and the agencies responsible for implementing the poverty reduction program). In addition, if - as discussed below - there was to be a greater emphasis on active labour market policies, the civil affairs bureau would need to co-ordinate with labour market agencies. The finance bureaus at provincial and municipal level can play an important role in ensuring greater co-ordination. However, it may be too much to expect the finance bureau in itself to be able to address all co-ordination issues and a more structured response will be required both in relation to planning and implementation of policies.

One approach, which has been developed in EU countries is 'joint commissioning' of services. Commissioning is defined as a strategic approach to assessing needs, resources and current services and developing a plan of how best to use available resources to meet these needs. Where a number of different agencies are involved, commissioning is carried out jointly. This can involve, for example, one agency (in China the bureau of civil affairs) being the lead agency for social assistance with a pooled budget.

We understand that there are already good examples of co-ordination in different areas of China which can be used as models. Indeed, in Chongqing we saw the excellent public service centres where a wide range of public services are co-located in accessible street-level offices. However, long-term co-ordination needs to go beyond co-location to ensure that policies are planned and delivered in a coherent and co-ordinated manner.

Active labour market polices

Finally, under the heading of social assistance, we discuss developing more active labour market policies. In many areas of China, there is relatively little emphasis on this approach to date. Research has shown that well-designed employment programs can reduce claims for social assistance and increase employment. For example, in the UK general evaluations have found a positive impact for employment measures both on reducing inflows to social assistance and in increasing exits to job from social assistance. Nonetheless, the EU experience indicates that linking social assistance and employment is not an easy approach nor one which can be completed in the short-term. It requires the investment of resources (both human resources, IT and appropriate back-to-work measures). It also requires identification of the relevant policies in the national (or regional context) and the development of appropriate solutions. For example, what will work in an EU context may not be appropriate in a Chinese context (and indeed what will be appropriate in one area of China may not be appropriate in another).

A first step is the need to understand both the Chinese social assistance (dibao) population and the local labour market and how to link the two. While it appears that 60% of dibao recipients might be considered to be not incapable of work (i.e. they are not classified as elderly, disabled or students) this does not mean that they have a realistic prospect of being employed. It is first necessary to have a clearer understanding of the 'employability' of the local dibao population.

Employability can be seen as relating to the skills and capacities that allow a person to be employed (or self-employed). It should be seen as a continuum (rather than a dichotomous ranking) ranging from those with high employability who are close to the labour market to those with low employability who are far from it. In order to assess employability, we also need to understand the needs of the local labour market (and the short-term future needs). What type of employees do local employers need, what type of skills are they looking for, etc? Thus, a combination of characteristics and factors can lead to individual dibao claimants having a greater or lesser employability. These include (1) individual characteristics of claimants, both alterable and unalterable; (2) contextual factors such as family, location, social and institutional; (3) local-level labour demand; and (4) macro-level labour demand.

Some of the good practices which have been identified in EU countries include

- Unified offices for both social assistance and employment services (one-stop-shop),
- Providing appropriate levels of trained staff in order to deal with the needs of claimants;
- Developing an appropriate IT framework so that linkages between social assistance and employment services can be operationalised and monitored effectively;
- The use of 'social organisations' to provide contracted services.

In some countries, such as the UK, social organizations are often contracted by the public authorities in the provision of employment services (such as jobsearch support, job placement, in-works supports, etc.). As discussed above, the Chinese government is currently encouraging the

use of social organisations in the delivery of social services and this could be a very useful option in the area of employment services in order to avoid the costly development of public services and to make use of the expertise of social organisations which are often very well-informed about labour market needs in their local area.

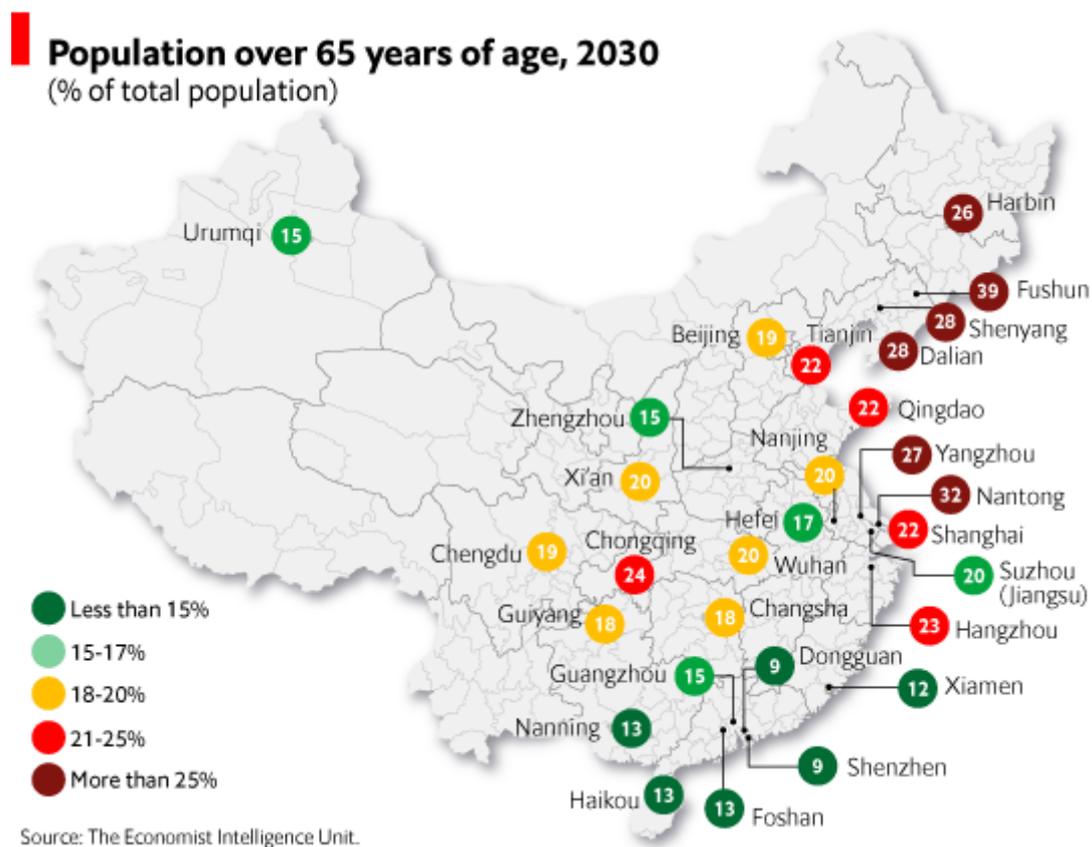
However, it will be important for Chinese policy makers to consider the local context and whether these particular solutions provide a 'good fit' in a Chinese context. Given the regional variations in the Chinese labour market and the varying capacities of local governments, it would seem highly appropriate to adopt a pilot approach in this area working with local governments with greater capacity in order to identify what works in different areas (and with different target groups) with a view to, in the longer-term, expanding this type of approach more broadly.

2. Co-ordinated management of long-term care and elder care

As has been discussed in other reports from Component 2, the ageing of the population and the consequent increased demand for long-term care and, specifically for elder care is one of the key social policy challenges facing China. China is going through a very rapid process of ageing in a number of decades, a process which took over 100 years in many EU countries. The traditional model of family care is coming under pressures due to changes in family structure, employment patterns and migration. As a recent ADB study points out ‘overreliance on family members for care services would aggravate the decline in the labor force’.⁵

Chongqing is one of the cities which already has a relatively high proportion of older people in the population. By 2030, it is estimated that 24% of the Chongqing population will be over the age of 65 (see map below).

Map 1: Proportion of population over 65 in major cities, 2030



Chongqing has already taken a range of measures to respond to this challenge including the development of a network of community based elder-care centres. Chongqing is also one of the pilot sites for the long-term care program.

⁵ Asian Development Bank, *Ageing and Implications for Elderly Care Services in the People's Republic of China*, September 2018.

Based on our visits to a range of facilities and discussions with key policy makers in the finance, civil affairs and human resources and social security bureaus, we identified for key policy areas:

- 1) Need for policy to be based on long-term assessment of needs (demographic trends, likely levels of need, assessment of services which will, be required)
- 2) Institutional responsibility
- 3) Importance of prioritising community (rather than institutional) services
- 4) Funding - how to fund services in the medium-long term, including the appropriate balance between co-payments and different levels of government, etc.

Long-term assessment of needs

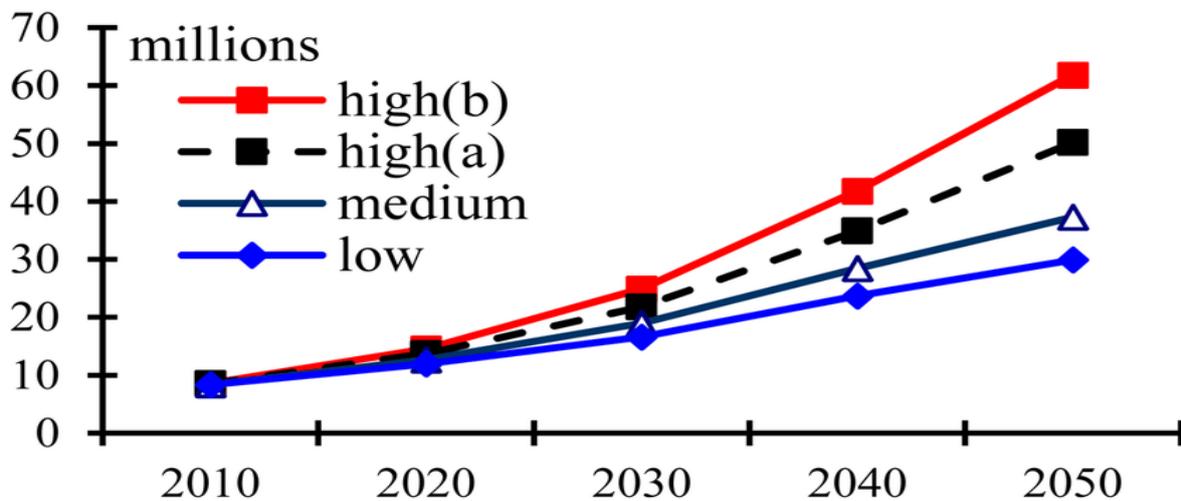
As highlighted in the above map, there is a significant variation amongst Chinese cities in the level of age-dependency. This variation is even greater at the provincial and county level; and between urban and rural areas. Therefore, it is important that plans in relation to meeting long-term care needs should be based on a thorough assessment of needs. Of course, the age of the population (demographic trends) is one important variable but it is by no means the only one. Other key issues include the likely levels of need, availability of family care, assessment of services which will, be required, etc. These type of assessments help to inform policy as to the appropriate direction of policy. The recent World Bank study - *Options for Aged Care in China* -provides an overview of the factors which need to be taken into account in assessing the likely need for care.⁶ Given the variations in demographic, employment and migration patterns in China, these type of assessments also need to be made at a local level.

Not only will the number (and proportion of older people) increase but the need for care will also increase significantly. Care needs and costs are closely related to the health status of older adults. This is usually assessed based on activities for daily living (ADL), including bathing, dressing, eating, toileting,etc. Recent projections show that there will be a significant rise in the number of older Chinese people with restrictions on normal activity.⁷

⁶ World Bank, *Options for Aged Care in China: Building an Efficient and Sustainable Aged Care System in China*, 2018, chapter 1.

⁷ Indeed the projections suggest that the number of disabled older people is likely to increase not just in absolute terms but as also a proportion of the older population (due in part to the ageing of the older population itself and increased urbanisation).

Figure 1: Projected numbers of older people with disabilities (measured by ADL) in China, 2010-2050



Source: Zeng et al, 2015.⁸

Institutional responsibility

At present in Chongqing, both the civil affairs bureau and the human resources and social security bureau are involved in developing policy in relation to LTC and elder care. Historically, the civil affairs bureau has been the lead agency in relation to elder care and is responsible for elder care centres and related policies. However, given its responsibility for social security, the human resources bureau is the lead agency in relation to the LTC pilot. We understand that similar divisions of responsibilities occur in other areas of China in relation to LTC/elder care. Indeed, as highlighted in the recent World Bank report a wide range of other government agencies are also involved in the broad LTC/elder care field.

As we have discussed in relation to social assistance, it is in the nature of social policies that they cut across departmental responsibilities. However, it will be important that, in relation to such a key policy issue, that there is a clear lead agency and a structured method of ensuring that all the relevant agencies work together in a coherent and consistent manner. We suggested above that the model of 'joint commissioning' of services could play a useful role in facilitating such co-ordinated management. This is an approach which has been adopted in a number of EU countries

As noted above, commissioning is defined as a strategic approach to assessing needs, resources and current services and developing a plan of how best to use available resources to meet these needs. Where a number of different agencies are involved, commissioning is carried out jointly. Where a number of different agencies are involved, commissioning can be carried out jointly. There are a wide range of different approaches to this ranging from co-ordinated commissioning where two (or more) agencies commission separately with independent budgets and priorities but with close liaison through lead commissioning where one agency acts as the lead agency with an

⁸ Zeng, Y., Chen, H., Wang, Z., & Land, K. C. (2015). 'Implications of Changes in Households and Living Arrangements for Future Home-Based Care Needs and Costs for Disabled Elders in China'. *Journal of Aging and Health*, 27(3), 519–550. The details of the different scenarios are set out in Annex 1.

integrated pooled budget. This allows a single view of priorities and shared resources but requires mutual trust between the agencies involved.

In the context of the general move in China to contract out more services to social organisations, joint commissioning could be used as one method to improve the co-ordination of policies between different agencies at a local level. In relation to the development of LTC/elder care policies, this might involve, for example, one agency (in China perhaps the bureau of civil affairs) being the lead agency with a pooled budget. This would allow a single view of priorities and shared resources but requires mutual trust between the agencies involved.

Prioritising community services

In China, as in many EU countries, historically the State has tended to be responsible for the provision of institutional care services, such as care homes while family and community services have been primarily a family responsibility. There is a risk, therefore, that when it comes to scaling-up policies to respond to new demands, we turn first to institutional services. However, at least in EU countries, there is extensive evidence that people want to go on living in their homes and communities for as long as possible. Therefore, the main demand is for community-based services which will facilitate people in living at home (with family members or their own). Indeed we saw good examples of elder care centres in Chongqing which were located in residential areas and which provided day care services, including meals and other services. Support for family and community-based services needs also to address measures to support informal carers in providing care services.

However, although successive Chinese government policies have recognised the importance of home and community-based care, the recent World Bank review concluded that ‘the development of home- and community-based services has been limited while residential care facilities are booming’.⁹ Similarly, the ADB study concludes that ‘home- and community-based care services are critically underdeveloped in the PRC, while residential care services have been rapidly expanding in recent years’. Therefore, there is a need to set goals and to provide public subsidies in such a way as to encourage the support for home and community-based services. For example, public subsidies need to be reformed to focus more on services and away from beds.

Funding

A final key issue is the question of funding. Amongst the issues mentioned during our discussions in Chongqing was the issue of funding for the development of new policies, given the New Normal economy. In particular it was suggested that the existing medical insurance scheme did not provide an appropriate financial basis for long-term care but, at the same time, it would be difficult to establish a new LTCI in the current economic conjuncture. This highlights the needs for national leadership and a long-term approach to meeting long-term care costs.

This issue raises the question as to how should responsibility for caring for an elderly person's needs be shared among the individual, the family, the market and the State? In most if not all countries, families and individuals are encouraged to provide insofar as possible for care costs.

⁹ World Bank, *Options for Aged Care in China: Building an Efficient and Sustainable Aged Care System in China*, 2018.

However, research in EU countries shows that relying solely or mainly on family care is not always a viable option as care needs increase and the number of family members available to care declines. No doubt this is also the situation in China. In addition research shows that reliance on the market also cannot provide a comprehensive solution. In EU countries an increasing proportion of people face catastrophic out-of-pocket LTC expenditures. For example, it has been estimated about ten percent of people in England who reach age 65 were likely to spend more than \$160,000 out-of-pocket on LTC in their remaining lifetimes.

Private LTCI can have a role to play for some but again this is likely not to provide a comprehensive solution due to adverse selection and limited risk pooling. Again research shows that even if LTC insurance premiums that covered the full costs of LTC were actuarially fair, they would still be unaffordable for large sections of the population.

Thus it is a question of trying to achieve an appropriate balance between the roles of the individual and family, the market and the State. Most EU countries have or are developing public systems to meet LTC costs. These have been discussed in previous reports and will not be repeated here. To achieve a balance between public care and private responsibility, the solution that many EU countries are implementing is towards the involvement of the individuals in the cost of care at the time when they needed. Cost-sharing is required in all EU countries, in part to discourage people from seeking public support in place of informal care. In most EU countries, cost-sharing requirements are both income and asset based.

In this context, a number of key questions about the design of public LTC have been discussed in previous studies by Component 2. These include

- Should the State support be focussed on those least able to afford LTC costs (safety-net approach), or should there be a more general approach (social insurance approach)?
- Should public LTC programs provide assistance only after a person's out-of-pocket expenses exceed a threshold (catastrophic social insurance) or should they meet 'normal' costs (probably after some cost-sharing)?
- Should LTC services being financed with general revenues; or dedicated taxes and contributions (social insurance)?
- Should eligibility being defined using an entitlement principle or a budget-constrained one?

Any discussion of the sustainability of long-term care must also consider the need to influence the demand side (i.e., the needs of an ageing population) through prevention, rehabilitation, and adaptations to the living environment

We will not repeat these discussions here but we recommend that it is important for the Chinese government to take a view on these issues at a national level so that provincial and municipal governments can then make decisions based on their own local needs.

Annex 1: Scenarios for ADL projections (Figure 1)

The **low** scenario assumes that there will be slow increases in life expectancy (medium morality) with a generally greater improvement in the prevalence of ADL disability among the elderly population (i.e., assuming compression of morbidity). Specifically, this scenario assumes that the age-sex-rural/urban residence-marital status-co residence with children specific probabilities of ADL status transition from “active” into “disabled” will decline by 1% annually in the projection period after 2010, while transitions from “disabled” into “active” will increase by 1% annually in the projection period after 2010.

The **medium** scenario assumes that there will be slow increases in life expectancy (medium morality) and the general health of the elderly population will remain stable (i.e., assuming dynamic equilibrium model). This scenario assumes that the age-sex-rural/urban residence marital status-co-residence with children-specific ADL status transition probabilities remain unchanged.

The **high(a)** scenario assumes that there will be more rapid increases in life expectancy (low morality) and the general health of the elderly population will remain stable (dynamic equilibrium). This scenario specifies that the age-sex-rural/urban residence-marital status co-residence with children-specific ADL status transition probabilities remain unchanged.

The **high(b)** scenario assumes that there will be more rapid increases in life expectancy (low morality) and the general health of the elderly population will deteriorate in the future (i.e., assuming expansion of morbidity). More specifically, the age-sex-rural/urban residence marital status-co-residence with children-specific ADL status transition probabilities from “active” into “disabled” will increase by 1% annually, while the transition probabilities from “disabled” into “active” will decrease by 1% annually in the projection period after 2010.