



SOCIETY OF ACTUARIES

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A Tale of Two Countries

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France is undergoing a review of its long-term care challenges and one option contemplated is to add long-term care to its social security program.

“You want to make it simple ... very simple. So simple that everybody will understand it.”

— President Franklin Roosevelt on Social Security, circa 1934, as quoted by Frances Perkins.

“Selons nous, la vie, ses évolutions, les éventuelles dégradations des conditions d’existence ne sont pas des risque assurantiels, ce sont des besoins à satisfaire.”

(We believe that life, its cycles, and the eventual degradation of conditions of existence are not insurable risks, they are necessities to fulfill).

—Guy Fischer, Vice-president du Sénat, Sénateur du Rhône, Groupe Communiste Républicain Citoyen et des Sénateurs du Parti de Gauche, January 2011. Rapport d’information fait au nom de la mission d’information sur la prise en charge de la dépendance et la création du cinquième risque.

France is undergoing a review of its long-term care challenges and one option contemplated is to add long-term care to its social security program. One thing is clear: contrary to President Roosevelt, in 2011 a French (or U.S.) president could not give the direction that was given in 1934 to Frances Perkins, who helped set up the U.S. Social Security program. No matter what solution is selected, if any, it will be complex.

The quote from Fischer in one of the comprehensive reports prepared by the French Senate on long-term care (the French Senate is not at all the legislative equivalent of the U.S. Senate) may be surprising from a U.S. perspective, but it reflects a widespread belief in France that some aspects of life cannot be securitized.

KEEP THE RASCALS OUT

For many in the United States, the word “government” (or legislative elements like the “CLASS Act”) has a negative connotation. In France the word “capital” (insurance companies) is also often mentioned with a shade of suspicion. It does not matter that in both countries everyone enjoys the inevitable effects of these basic elements of modern societies. While the rascals in both countries are different and many efforts are made to keep them at bay, they will not go away. In both countries insur-

ance companies offer significant contributions to the long-term care needs of their citizens, as well as being major actors in the macroeconomic arena.

INFORMATION

Researching long-term care from French sources is very different from researching using U.S. sources. Since the matter is of national planning in France, there is an extensive network of technocratic and national scientific resources; a wide array of studies from a few sources are available, covering not only the financial or quantitative aspect of long-term care, but also the sociological and philosophical implications of an aging society. In the United States, I tend to look at sources such as the Office of Management and Budget, the Congressional Budget Office, or the Centers for Medicare & Medicaid Services, which are very useful to study the magnitude and progress of long-term care costs. It is left to a multitude of other sources such as universities, NGOs or think tanks to shed some light about other aspects of the long-term care question.

A CLIMATIC TRIGGER

In August 2003, over 15,000 additional deaths in France (over 70,000 in Europe) were attributed to a historical heat wave. As a consequence of this climatic disaster which affected mainly the elderly and disabled, France instituted, among other programs, a day of solidarity: each year French workers give up a paid holiday, while companies pay to a fund their savings in payroll excise taxes, amounting to about .3 percent of annual payrolls. This amount, in addition to a tax on investment income, currently comes to over 2 billion Euros (at over 1.4 Euros to the U.S. dollar, the contribution should now be close to \$3 billion in U.S. dollars).

A NATION OR A STATE?

With the passing of the World War I generation, French and U.S. demographics follow a similar trend. But comparing France and the United States on demography alone would be misleading. France is now part of a 27-state European Union, and a 17-state Euro currency group. This means that France has one less tool at its disposal to manage its national programs: it cannot issue Euros, nor can it unilaterally change the central bank interest rates. Unlike U.S. states, European countries can-

not yet count on massive transfer of funds from the federal entity, such as Medicare, Medicaid, Unemployment, or Welfare. Practically all social expenses are born by each European country. Also, France has a standing army, as well as a foreign policy. For every Euro spent on education, health care, and public services, the French government spends about 23 cents on defense.

KEY DATES

1945: Social Security established. As of 2010, it consisted of four main insurance programs:

1. Health
2. Retirement
3. Family
4. Workman's Compensation

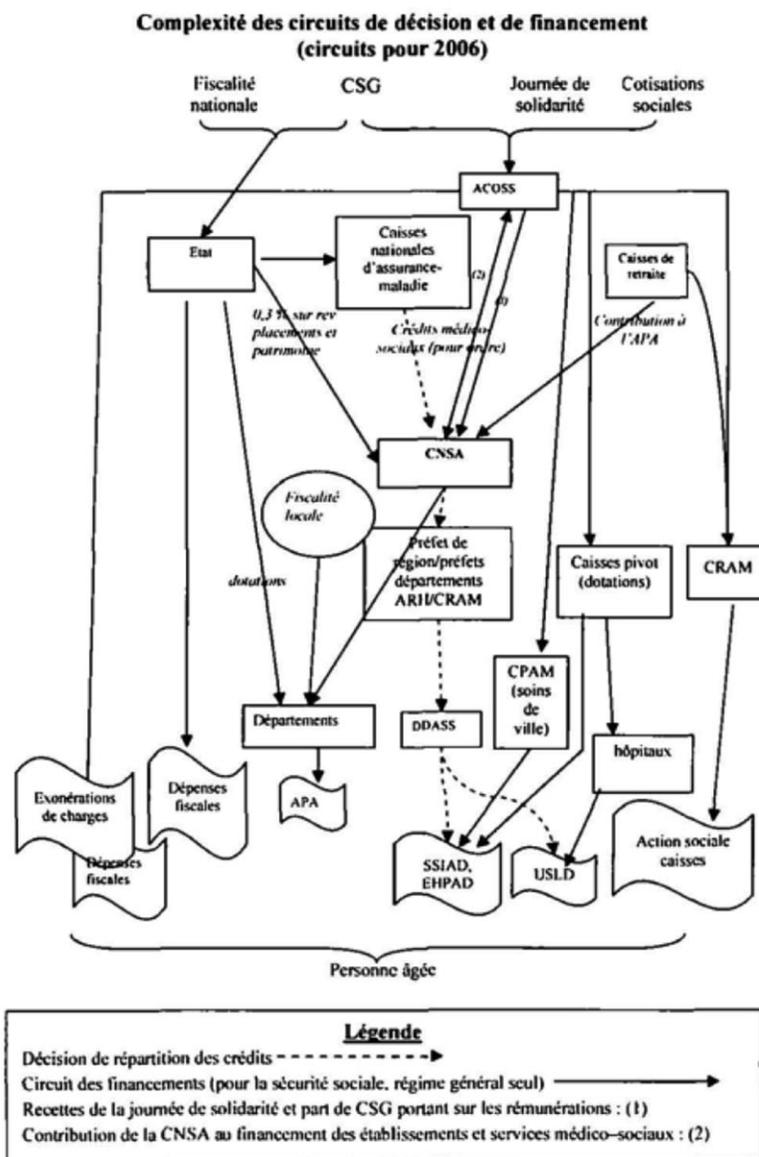
The 2008 financial crisis greatly deepened deficits of the health and retirement funds of the Social Security system, and brought the family and workman's compensation funds into debtor status.

1983: Last French currency devaluation

2002: Euro becomes the official currency.

COMPLEXITIES AND COMPLICATIONS

The following graph illustrates the maze of programs that constitutes the public long-term care financing in France, which amounts to about \$35 billion in 2010. This illustration was prepared to incite policymakers to simplify the system; however, as in matters of taxes, one can guess the outcome of such attempts.



Source: "Les personnes âgées dépendantes," "Rapport au président de la république suivi des réponses des administrations et des organismes intéressés," November 2005, p 152, <http://www.ccomptes.fr/fr/CC/documents/RPT/Rapport.pdf>

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Decoding the acronyms in the graph on page 15:

ACOSS	1994	Agence Centrale des Organismes de Sécurité Sociale
APA		Allocation Personnalisée pour l'Autonomie
ARH		Agence Régionale de l'Hospitalisation
CNSA	2004	Caisse Nationale de Solidarité pour l'Autonomie
CPAM		Caisse Primaire d'Assurance-Maladie
CRAM		Caisse Régionale d'Assurance Maladie
CSG	1990	Contribution Sociale Généralisée
DDASS		Directions Départementales des Affaires Sanitaires et Sociales
EHPAD	1997	Etablissement d'Hébergement pour Personnes Agées Dépendantes
SSIAD		Service de Soins Infirmiers A Domicile
USLD		Unités de Soins de Longue Durée

A more extensive list of acronyms is available on the LTCI website at <http://www.soa.org/professional-interests/long-term-care-insurance/long-term-care-insurance-detail.aspx>.

Another example of complexities: if the activities of a caregiver are defined as “doing housekeeping at an aged person’s residence,” it would be classified as housekeeper and not subject to reimbursement; but if the activity is listed as “helping an aged person to do housekeeping,” the activity would be consistent with a long-term care caregiver and could be reimbursed.

Other obstacles occur when long-term care programs are duplicated by programs that help the disabled or other health programs; or raise discriminatory issues such as age, health status or financial resources.

INSURANCE

According to a 2011 OECD report, 15 percent of the French population over 40 have a long-term care policy, compared to 5 percent in the United States.

2010: About 5,000,000 insureds.

Insurance policies are governed through three legal codes.

Code de la mutualité: 3,200,000 insureds

- 3,000,000: civil servants with supplementary health contracts

- 75 percent using an annual risk management (répartition)
- 25 percent lifetime risk management (viagère)

Mutuelles (very different from U.S. mutual companies) are allowed to offer long-term care services as well as insurance.

Code des Assurances: 1,500,000 insureds

- 1,300,000 standalone long-term care insurance
- 200,000: part of life or annuity contract

Code de la Sécurité Sociale: 300,000 insureds
Supplementary health contracts which are much like Medicare Supplement contracts, where a policy fills gaps not covered by the social insurance program.

About 50 different types of contracts are offered in the long-term care insurance market. Some of them cover the contract holder’s risk of having to care for a relative. Benefit levels and premiums are much lower than levels in the United States, roughly by a factor of 10.

TAXES AND SOCIAL CHARGES

Labor cost of U.S. and French workers, where the labor cost is the total employee cost incurred by an employer:

	United States	France
Take-home pay	69%	51%
Taxes	15%	11%
Social charges	16%	38%

In addition to these charges, a value added tax (TVA), roughly equivalent to a sales and service tax, can reach a level close to 20 percent. Fiscal tools are used or contemplated to encourage long-term care: reducing the TVA to 5 percent for long-term care services, waiving social charges on long-term care assistance, increasing inheritance taxes on long-term care beneficiaries, increasing social charges on retirement income to the same level as employment income. Medicaid-like asset-based aid is also used: one proposal is to offer 50 percent aid or 100 percent if the beneficiary spends €20,000 of assets over €150,000.

While the French worker takes 18 percent less take home pay (as of percent of the cost, not salary), the

American worker must contend with health and retirement costs. Health costs in the United States is about 17 percent of GDP. According to a 2010 Standard & Poor's report, by 2050 health costs in the United States and France will increase by 6 percent, and their long-term care costs will add another 1.3 percent. Both countries will see their old age dependency ratio increase by more than 50 percent. While they will follow a similar path in costs and demographics, they approach the challenges in very different ways. Of course it would be difficult to isolate other factors to see the impact of such approaches. But France seems to have a stated goal: How can its society improve the life of its dependant elderly while keeping a stated policy of equality and social well-being?

TRADITIONS

Unlike the United States, France spent most of its long history as a rural society, where families had a central economic role. These traditions are reflected in its laws. Intergenerational solidarity is embedded in the French civil code, which requires anyone to provide minimum aid (obligation alimentaire) to his or her dependents, be it child or parent. Should someone leave a parent destitute, legal action can be taken.

ACRONYMS

[Editor's Note: The author created an extensive list of acronyms found while researching and working with French LTC. We include all acronyms the author mentions in this article. Due to the amazing length of this growing list, we would like to alert the readers that the full list is posted on the LTC Section of the Society of Actuaries' website at <http://www.soa.org/professional-interests/long-term-care-insurance/long-term-care-insurance-detail.aspx>. This method will allow the author to update the list periodically. The author creates an extremely useful tool for fellow researchers.]

This is like a list of the DNA components of the French long-term care environment. Some inclusions may seem odd. for example:

- SNCF: Société Nationale des Chemins de Fer, the government owned and operated railway system.

- CGT: Confédération Générale du Travail, one of the unions to which many railroad operators belong.

When the CGT calls a strike (a recurring, predictable, occurrence in France) it can paralyze the public transportation network. This has a great impact on the French economy since it relies greatly on public transportation. If one Solidarity day can generate \$3 billion of savings on social taxes, a few days of strikes can undo all the benefits of such programs. In 2010, the CGT and other unions caused a lengthy national strike over the postponement by two years of the normal retirement age, from 60 to 62. It cost the economy about \$400 million a day.

DATA AND STATISTICS

In 2002 a national program, Allocation Personnalisée pour l'Autonomie, or (APA) was introduced. APA allows people over 60 to have access to government aid when it is established the person has reached a certain level of loss of autonomy. The magnitude of the aid is a function of the level of dependency and income; but eligibility does not depend on financial resources as is the case for Medicaid. In 2010, over one million persons received such aid, or 8.5 percent of the almost 14 million population over 60 years old. Significant data and statistics can be derived from this program. For instance, the table on page 18 is taken from a 2010 study by one of the statistical services of the government. To use a life insurance analogy, this could be regarded as a general population study. The table on page 18 shows significant differences between segments of the population, which may follow similar patterns in the United States.

FOREIGN TERRITORY

While the French long-term care system is foreign territory, it is not Hogwarts or Pandora. No witchcraft is necessary and no Na'vi will need to be disturbed. The common ground is the needs of future dependants and their caretakers, and the ability of the insurance industry to meet these needs. This is not an attempt to demonstrate the merits of the French approach. Like baseball or handball, sometimes what works in one country may not work in another; although basketball did OK. Maybe a better analogy

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Allocation Personnalisée pour l'Autonomie⁽¹⁾ (APA)**Population: Metropolitan France, extrapolated from data of 22 départements⁽²⁾****Average Length of stay and distribution of beneficiaries by gender and age at entry in the program**

APA Entry Age	Duration of APA benefits			Distribution of 2007 entrants		
	Male	Female	Total	Male	Female	Total
60-64	3 Years and 10 Months	5 Years and 5 Months	4 Years and 8 Months	4%	3%	3%
65-69	3 Years and 10 Months	5 Years and 6 Months	4 Years and 8 Months	6%	4%	4%
70-74	3 Years and 8 Months	5 Years and 5 Months	4 Years and 8 Months	10%	8%	8%
75-79	3 Years and 7 Months	5 Years and 5 Months	4 Years and 8 Months	18%	16%	16%
80-84	2 Years and 7 Months	4 Years and 6 Months	3 Years and 11 Months	27%	26%	26%
85-89	2 Years and 7 Months	4 Years and 5 Months	3 Years and 10 Months	22%	25%	24%
90-94	2 Years and 2 Months	3 Years and 7 Months	3 Years and 2 Months	10%	13%	13%
95 and older	2 Years and 1 Month	3 Years and 6 Months	3 Years and 2 Months	3%	5%	6%
Total	2 Years and 11 Months	4 Years and 5 Months	4 Years	100%	100%	100%

(1) Personalized Allocation toward Autonomy

(2) Départements are administrative regions, there are 95 in continental France. There are five other regions located overseas.

Long-term care methodologies apply current basic actuarial principles that are useful on long established insurance programs which may not be relevant to long-term care.

would be football: a very popular game in both countries, but with very different rules.

LAST WORD

I leave the last words to a great historical figure, Thomas Paine. Thomas Paine was born in England, moved to the American colonies in 1774, where he wrote "Common Sense." He moved to France in 1789, where he wrote "Rights of Man" and was a representative of a French département (created in 1789) in the national assembly. During the French Revolution, he had a close encounter with a French innovation, the guillotine, but his political opponents beat him to it. He moved back to the United States in 1802.

The following quote could now point to a hoped-for outcome of the study of the French long-term care system. There is no proven long-term care

methodology, as life insurance, health insurance, or disability insurance have. Long-term care methodologies apply current basic actuarial principles that are useful on long established insurance programs which may not be relevant to long-term care. Maybe the two countries can develop a long-term care actuarial methodology. The basic principles do not vary greatly.

"Every science has for its basis a system of principles as fixed and unalterable as those by which the universe is regulated and governed. Man cannot make principles; he can only discover them."

Note: On page 19 are references from which this article drew upon. Most, along with corresponding website links, are in French only. Translations are not available. ■

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Graph

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