

Health inequalities and the progressivity of old-age social insurance programs

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We quantify socioeconomic differences in mortality and long-term care (LTC) needs and evaluate redistribution of a stylized social insurance system using administrative data from the Netherlands. Employing a flexible competing risks model, we find that the income poor die earlier and use more long-term care compared to the income rich. We also find that females spend more time in LTC facilities than males. This opposite direction to the commonly found gender-health gradient is attributable to different informal care possibilities across gender. In the presence of these inequalities in health and mortality we find that pension annuities imply a regressive redistribution from the poor to the rich while benefits from LTC insurance redistribute progressively from the rich to the poor. Evaluating the optimal combination of both insurances that minimize inequalities across socioeconomic groups we show that benefits for LTC are four times the annuity pension benefits. This value is similar to the actual public LTC cost-to-social security benefits ratio in the Netherlands.