Long term care policy with nonlinear strategic bequests

Chiara Canta\textsuperscript{1} and Helmuth Cremer\textsuperscript{2}

\textsuperscript{1}NHH, Bergen – Norway
\textsuperscript{2}Toulouse School of Economics (TSE) – Université Toulouse I (UT1) Capitole – France

Abstract

We study the design of long term care (LTC) policy when children differ in the degree of altruism, which determines their cost of providing informal care. Parents do not observe their children’s altruism, but they can commit to a bequests rule specifying bequests conditional on the level of informal care. Unlike in the traditional strategic bequest model parents cannot extract all the surplus from the transfer for care exchange with their children. Instead, they use a nonlinear bequest rule to screen for the children’s degree of altruism. In the laissez-faire, the help provided by less altruistic children is distorted downwards in order to minimize the rent of altruistic ones. Social LTC insurance affects these distortions and the distribution of rents between parents and children. The policy is designed to maximize a weighted sum of parents’ and children’s utility.

The optimal uniform public LTC insurance depends on the attitude towards risk of parents. Under DARA, public LTC insurance exacerbates the distortion of informal care. Consequently, the optimal public LTC coverage provides less than full insurance. The opposite is true under IARA.

A nonuniform policy, which conditions LTC benefits on bequests provides full insurance even for the risk of having children with a low degree of altruism. The level of informal care provided by less altruistic children is distorted in a direction which depends on children’s weight in the welfare function. The level of informal care always increases in the children’s’ welfare weight, irrespective of the parents’ degree of risk aversion.

Keywords: theory

\textsuperscript{*}Speaker