Maybe ”honor thy father and thy mother”: uncertain family aid and the design of social long term care insurance

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Abstract

We study the role and design of long-term care insurance programs when informal care is uncertain. Insurance crowds out informal care, both at the intensive and the extensive margins. We consider three types of public insurance policies: (i) a topping up (TU) scheme which can be supplemented, (ii) an opting out (OO) scheme which is exclusive, and (iii) a mixed policy. OO crowds out informal care solely at the extensive margin, whereas TU involves crowding out also at the intensive margin. However, OO may exacerbate crowding out at the extensive margin. An appropriately designed mixed policy can mitigate these distortions.

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