## C3: When designing long-term care subsidies, consider the behaviour they incentivise

*How public institutions support long-term care through reductions in out-of-pocket costs has important implications that depend on how subsidies are designed. The choice between universal and means-tested long-term care subsidies addresses a fundamental targeting question: should public support be directed towards individuals with lower income and/or wealth, or allocated solely on the basis of care needs? When designing subsidy schemes, governments should consider the behaviours they incentivise. BB-Future simulations emphasise that subsidy design can have substantial effects on both formal care uptake and the financing of care.*

**Recommendation**

- **Use means-tested subsidies when the primary objective is redistribution rather than expanding formal care use.** If fiscal resources are constrained and the goal is to protect lower-income households while ensuring access to formal care, means-tested subsidies should be considered. BB-Future simulations suggest that these subsidies mainly shift the financing of care from private to public sources, while having a more limited effect on overall formal care uptake.
- **A universal reduction in user charges is recommended when the primary objective is to expand formal care use.** Unlike means-tested subsidies, universal subsidies are more likely to increase the uptake of formal care by lowering its cost for a broader population. Eligibility should continue to be based on assessed care needs. However, the magnitude of the effect will vary across Member States depending on the availability, accessibility, and perceived quality of formal care services, as discussed in *Policy Recommendation C2*.
- **Support informal and formal home care when appropriate and preferred by care recipients.** Caregiver allowances can encourage informal care by reducing its financial cost relative to residential and other forms of formal care. For people with less intensive care needs, this may allow care to be delivered in a setting that better matches individual preferences. Affordable formal home-care services can complement family caregiving and provide a substitute when informal care is unavailable or insufficient, helping to reduce reliance on nursing homes.

**Why this matters**

When families decide between informal care, formal home care, and residential care, they consider both financial and non-financial costs. These include caregiving time, lost earnings, out-of-pocket expenses, family resources, and preferences for different forms of care. Public support affects these trade-offs and, through the design of subsidy schemes and other policy instruments, can influence both the type of care chosen and how care is financed.

A targeted, means-tested reform is expected to protect households with limited financial resources without substantially increasing overall formal care use. The main effect is not to change care arrangements, but rather to change how care is financed. By contrast, a universal reduction in out-of-pocket costs is expected to affect care arrangements by making formal care relatively more affordable than informal care. Other options, such as subsidising formal home care or supporting informal caregivers directly, should also form part of the policy toolkit.

**Universal price support is more likely to change care arrangements**

The BB-Future microeconomic model is used to simulate a universal 20 percent reduction in the out-of-pocket cost of formal care, as shown in Table 1. The reduction increases the uptake of formal care by making it relatively more affordable than informal family care. Universal price support is therefore most appropriate when the primary policy objective is to encourage a shift from informal to formal care.

The size of the response is expected to vary across countries, as discussed in Policy Recommendation C2. Existing user charges, preferences for family care, and the availability of formal care services all influence the extent to which formal care use increases. Policymakers should therefore take these expected behavioural responses and cross-country differences into account when designing subsidy schemes.

**Means-tested support changes who pays for formal care**

By contrast, a 20 percent increase in means-tested support primarily increases the publicly financed share of formal care while reducing the privately financed share, as illustrated in Table 1. The main policy benefit is to reduce the financial burden on households with limited resources, while generating only a modest increase in overall formal care use. In other words, the reform mainly shifts the financing of care from private to public sources, rather than substantially increasing the uptake of formal care.

| *Country* | *Status quo* | | *Universal subsidy reform* | | *Means-tested subsidy reform* | |
|---|---|---|---|---|---|---|
| | **OOP-financed formal care** | **Means-tested public support** | **Δ OOP** | **Δ means-tested** | **Δ OOP** | **Δ means-tested** |
| ***France*** | 61.7% | 12.4% | +5.3 pp | -0.8 pp | -3.4 pp | +4.0 pp |
| ***Germany*** | 61.8% | 10.2% | +2.8 pp | -0.8 pp | -1.5 pp | +1.6 pp |
| ***Italy*** | 32.1% | 3.1% | +6.3 pp | -0.5 pp | -1.1 pp | +1.2 pp |
| ***Sweden*** | 90.5% | 0.7% | +3.6 pp | -1.8 pp | -3.2 pp | +2.9 pp |

Table 1: Shares of total care provided as formal care financed out-of-pocket (OOP) and through means-tested public support, and the effects of universal and means-tested subsidy reforms on those shares; the remaining care is informal. Source: Barczyk, Kredler and Fan Yang (2026).

Thus, when the primary policy objective is financial protection or redistribution, means-tested subsidies are generally the more appropriate instrument. They are less suitable when the main objective is to encourage a broad shift from informal to formal care.

Policymakers should also recognise that means-tested subsidy design can influence economic decisions beyond care arrangements, including precautionary saving and asset accumulation. The rationale is that households may move between privately financed formal care, informal care, and publicly financed care as resources are depleted over time. These decisions depend on factors such as parental wealth, pension income, and the opportunity cost of family caregivers.

In particular, care recipients with sufficient income and assets may initially rely on privately financed formal care or informal care supported through family transfers. Publicly financed care may become relatively more attractive once private resources are exhausted. As a result, changes in means-testing

rules can affect not only who finances care, but also household saving behaviour and, ultimately, the type of care that is chosen.

This illustrates that means-tested support is not a single policy design. Member States must decide whether eligibility should be based on income, assets, or both; whether resources should be assessed at the individual or household level; and which assets, if any, should be exempt from assessment. These design choices can influence both the behavioural response to the policy and the distribution of its benefits across households.

**Support care at home through both informal-care and formal home-care subsidies**

When informal care is subsidised, family caregivers receive financial compensation for the care they provide. Such allowances can encourage informal caregiving and reduce reliance on nursing homes and other forms of formal care. They should be considered when informal care is preferred by care recipients and can adequately meet their needs. Policymakers should, however, also take into account the costs borne by caregivers, including reduced labour-market participation and foregone earnings, as discussed in Policy Recommendation B5.

When the policy objective is to support ageing at home, but informal care is either unavailable, insufficient, or not preferred, targeted subsidies for formal home care should also be considered. Evidence from the BB-Future project suggests that, under the 2050 demographic scenario, low- and middle-generosity countries would experience higher formal home-care use and lower nursing-home use if they adopted Sweden's home-care price schedule.

**Main message**

Means-tested subsidies are best suited to redistribution and financial protection. Universal subsidies are best suited to increasing formal care use. Where both objectives matter, a universal needs-based entitlement can be complemented by additional targeted support. If the goal is to reduce reliance on nursing-home care, policymakers should also consider supporting informal care and formal home care when care needs can be met outside institutional settings.

**The analysis in this document is based on the following BB-Future sources:**


- Bakota, I., D. Barczyk, Y. K. Koh, M. Kredler and F. Yang (2026) 'Estimation and fit of two models of caregiving', Deliverable 3.4, BB-Future, available at: https://www.bb-future.eu/deliverables/
- Barczyk, D., Y. Koh and M. Kredler (2026) 'Preference heterogeneity versus economic incentives: what determines long-term care arrangements in Europe?', SSRN Working Paper, available at: https://doi.org/10.2139/ssrn.7126885
- Barczyk, D., M. Kredler and F. Yang (2026) 'Universal versus means-tested long-term care subsidies', BB-Future Digest 12, 7 August, BB-Future, available at: https://www.bb-future.eu/wp-content/uploads/2026/08/BB-Future-Digest-12_07082026.pdf.