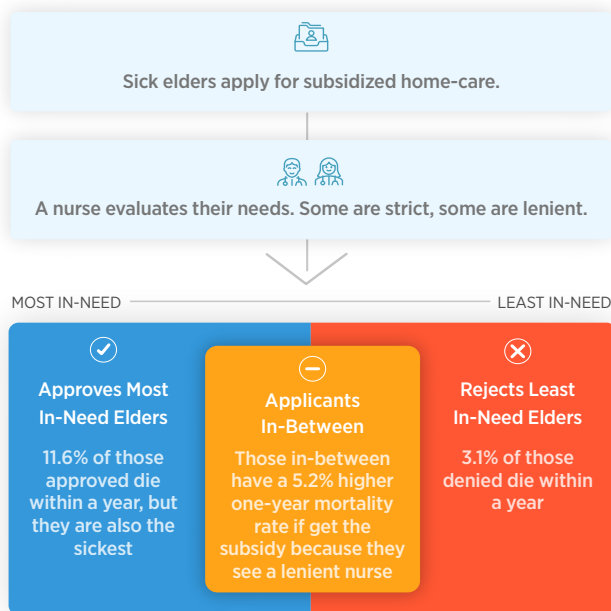


# Impacts of Home-Care Subsidies: Evidence from Quasi-Random Assignment

Based on BFI Working Paper No. 2023-139, “[Impacts of Home-Care Subsidies: Evidence from Quasi-Random Assignment](#),” by Yuval Ofek-Shanny, FAU Erlangen- Nuremberg; Avner Strulov-Shlain, University of Chicago; and Dan Zeltzer, Tel Aviv University

Applicants who receive home-care subsidies from more lenient evaluators experience large adverse health effects. Their adult children do not experience better labor market outcomes.

**Figure 1** • Process and Outcomes of Evaluating Sick Elders for Subsidized Home-Care



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The growing need for home-based care among the aging, particularly the disabled elderly, ranges from help with simple chores to extensive assistance with daily activities. This need is met through a mix of formal and informal care, with adult children often providing the latter. Subsidies for formal care can thus affect both the type of care elderly recipients get and the work availability of their adult children. Understanding these effects is key for evaluating the impacts of long-term care subsidies, which have implications for both elderly health and child labor market outcomes. In this paper, the authors examine the effects of subsidizing home-based long-term care on recipient health and their working-age children’s labor supply.

Measuring the casual effects of home-care subsidies presents a key empirical challenge which the authors overcome in their research design. The populations that are more likely to receive home-care subsidies likely differ systematically from individuals who are ineligible for subsidies in ways that are not attributable to the impacts of the

subsidies themselves. Mainly, those who receive subsidies should have poorer health.

To address this challenge, the authors exploit a unique feature of Israel's approach to determining families' eligibility for care subsidies. In Israel, subsidies are determined through assessments by individual evaluators who visit applicants' homes and score their level of need. The authors show that there is considerable variation in leniency among evaluators, with some evaluators much more likely to grant benefits to otherwise similar applicants. The authors exploit this variation and compare outcomes among families whose applications for care were assessed by evaluators of different levels of leniency.

The authors complete this analysis using comprehensive administrative data from Israel's Social Security Administration, which encompasses welfare benefit applications from 2010 to 2015, matched with tax records of the applicants, their spouses, and adult children. These data allow them to consider the impacts of care subsidies on precisely measured health and labor outcomes in a large population. They find the following:

- Subsidized home-based long-term care has notable adverse effects on recipients' health. Subsidy eligibility is associated with a 5.4 percentage point increase in one-year mortality rates, a considerable increase relative to baseline mortality of 8.5% of the applicant population. The authors further confirm that these effects are attributable to care subsidies, and not other factors, by showing that there are no impacts on mortality within 60 days of applying for care.
- By contrast, the authors find inconclusive evidence concerning impacts to the labor market outcomes of recipients' children.

The fact that would-be recipients' children don't experience greater employment or increased earnings when their parent receives a care subsidy suggests that they wouldn't necessarily have been the ones to provide their parent's care, had they been deemed ineligible for a subsidy. Alternatively, it may mean that their jobs are flexible enough that even if they provide less care after their parent receives a subsidy, it does not manifest in labor changes.

Why might a subsidy for formal home care result in greater mortality risk? One possible explanation is that formal care may crowd out self-care, particularly among recipients who exhibit sufficient functional capability for more strict evaluators to consider them ineligible for a home-care subsidy. For such (relatively) high-functioning individuals, a formal caregiver may reduce the level of independence and physical exercise, leading to lower physical fitness and health over time. An alternative mechanism, which should be consistent with increased participation of children in the labor market, is that home care by a hired caregiver substitutes for higher quality care by informal child caregivers. Finally, formal home care may also delay moving to a long-term care facility that might be better at extending life.

These results illuminate potential tradeoffs inherent to subsidizing home care. They highlight the need to further study the impact and substitution patterns related to subsidized formal home care and to acknowledge that, at least in some cases, subsidies may adversely impact recipients, as the induced substitution from self or informal care to formal care may alter both the nature and quality of care received. Therefore, these results call for heightened scrutiny concerning the unintended consequences of substituting formal for informal care.

## READ THE WORKING PAPER

NO. 2023-139 · NOVEMBER 2023

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