

SUMMARY OF REPORT 2017:16

The market for assistance for persons with disabilities

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Summary

The market for assistance for persons with disabilities

The Swedish Social Insurance Inspectorate (Inspektionen för socialförsäkringen, ISF) is an independent supervisory agency for the Swedish social insurance system. The objectives of the agency are to strengthen compliance with legislation and other statutes, and to improve the efficiency of the social insurance system through system supervision and efficiency analysis and evaluation.

This report was commissioned by the Swedish Government.

Background

Since 1994 individuals with extensive needs of support due to disability may be granted attendance allowance to hire personal assistants. This reform was implemented to ensure the rights of individuals with major functional impairments to self-determination, independence, full participation and equality in their living conditions.

Certain conditions, as regards the need for help with specific, basic needs, must be met in order for the individual to be eligible for the attendance allowance. The assistance reform emphasizes the autonomy of the individual, and the recipient of the attendance allowance decides how, where and when the support is to be provided. The individual also chooses who will organize the assistance – which may be provided by an assistance company, the municipality or a cooperative. A few choose to be their own assistance provider and employ their assistants themselves.

It is the Swedish Social Insurance Agency that assesses the scope of the need for personal assistance in terms of the number of hours of assistance required per week.

There are about 16 000 recipients of the attendance allowance and they receive, on average, 120 hours of assistance weekly. The government sets the standard hourly allowance, which for 2017 is SEK 291 per hour.

Objectives

The aim of this report is to map and analyse the market of providers of assistance to individuals with disabilities who receive the attendance allowance from the government.

The main areas of the analysis are

- profitability of the companies providing personal assistance
- providers on the market
- market conditions and competition
- implications of the benefit system for the market and for providers' profitability

The total government pay-out for the attendance allowance amounts to about SEK 30 billion. This report increases the understanding of the market in which this money is used.

Methods

To analyse profitability, calculations of turnover and EBIT margin (i.e. operating margin) were made drawing on a database (Infotorg) which contains the accounting information of Swedish companies.

To analyse the conditions and barriers for effective competition a theoretical framework inspired by a model for analysing choice systems was used. The framework provides a structured analysis of the components of the market that most likely impact competition – the supply, the demand and the regulated compensation. In addition to the existing literature and data, new empirical data were collected. Two surveys were conducted, one with private assistance providers and one with assistance users. Interviews were conducted with municipal providers, and one workshop was held with representatives of both providers and users. Some data from The Health and Social Care Inspectorate were also included in the analysis.

Data from the Swedish Social Insurance Agency and Statistics Sweden were used in both parts of the study.

Findings

Given that it is the recipients who choose who is to organize their assistance, a market of providers has formed. Initially the municipalities provided most of the assistance – today, however, most of the assistance is provided by private companies. The private companies' share of the market was 66 percent in 2016. In addition, the market has grown – due to an increase in the number of people receiving the attendance allowance up to 2009, and to an increase in the average number of hours per recipient up to the present.

There are more than 1 000 companies in the market. Some are large or medium-sized but many are very small and assist only one or two individuals.

Profitability

The average EBIT margin (i.e. operating margin) of the personal assistance companies gradually decreased over the analysed period, 2007 to 2016, from its highest point of 6.9 percent in 2008 to its lowest point of 4.1 percent in 2016.

The revenues of the companies consist of the standard hourly allowance provided for each hour of performed assistance. The hourly rate is set by the Government and is paid by the Swedish Social Insurance Agency. Prior to October 2016 the allowance was paid in advance, but since then it has been paid after the assistance has been provided and accounted for.

The companies' costs consist mainly of wages to the personal assistants. The decrease in EBIT margin is related mainly to a higher increase in hourly wage costs over the analysed period compared to the increase in the hourly allowance for personal assistance. A further decrease in the EBIT margin is expected in 2017 as the discrepancy between increases in wages and the increase in the standard hourly allowance continues.

An analysis of the 20 largest market participants shows that over the analysed period their combined market share gradually declined. The number of acquisitions in the personal assistance market also declined significantly. Six of twenty of the largest companies (legal entities) are owned by private equity firms, and of these only one was acquired after 2010. Further, acquisitions by large healthcare companies have decreased; throughout the 2014–2017 period only a few such acquisitions occurred. The analysis shows that the attraction of this market has declined, correlating to the decrease in profitability and the change from payments in advance.

The low and decreasing profitability could start to pose a risk to the quality of provided services and limit the participation of the best and most sound personal assistance providers.

Market conditions and competition

Regarding market conditions and competition, the overall conclusion is that competition in the assistance market functions relatively well, despite a few limitations.

Most factors on the supply side indicate well-functioning competition between providers. The structure of the supply side – with its low market concentration, low entry and exit barriers, and small profit margins – indicates well-functioning competition between providers. On the negative side is the risk that decreasing profitability may create problems for an increasing number of companies. Another problem is that some providers push the boundaries of legitimate conduct, even to the extent of engaging in illegal operations.

On the demand side of the market are the assistant users who are aware that they have a choice of providers and who make active choices. They have access to a great deal of information on which to base their choice, but it is partly unstructured. On the negative side, switching costs also seem to impede switching between providers.

The benefit system

The overall view is that the attendance allowance system is well adapted to the assistance market. It is simple and creates incentives for cost efficiency and conditions for quality-based competition. However, one limitation of the system is that the allowance is not proportional to the variation in the cost of providing assistance. This can lead to a situation where companies prefer not to work for users whose assistance implies high costs and thus limit the range of choices available to those users. There is also a risk that the benefit system leads to a situation where a provider's ability to help users receive more benefit hours becomes an important competitive advantage.

Recommendations

The conclusion of this report is that measures should be considered within the following areas.

Concerning the implications of decreasing profitability

- The risk that companies choose not to offer assistance to users whose assistance needs imply high costs, thus limiting the range of choices available to those users
- The conditions required for reasonable wages that would make it possible to hire personal assistants, who also will want to stay in the job
- According to the findings of this report and to the purpose of the attendance allowance, decide on the scope of providers needed to assure the users a fair range of providers from which to choose

Concerning the benefit system

- Adjustments of the allowance to different levels of costs
- The actual possibilities to rationalise personal assistance
- A potential need to limit liquidity problems in vulnerable companies providing personal assistance

Concerning the existence of criminal or dubious providers of personal assistance

- The need to secure a well-functioning supervision of personal assistance providers
- The need to tighten up the requirements for permission to operate as a personal assistance provider
- The possibilities of providers to obtain financing by means of different benefits or subsidies simultaneously
- Requirements that wage disbursements are made using traceable methods of payment, to facilitate monitoring of suspected providers