Mikko Kautto and Jarna Bach-Othman (eds.)

Disability and employment – lessons from reforms

Finnish Centre for Pensions, Reports 2010:4

REPORTS

Mikko Kautto and Jarna Bach-Othman (eds.)

Disability and employment – lessons from reforms

Finnish Centre for Pensions, Reports
2010:4

Finnish Centre for Pensions
FI-00065 Eläketurvakeskus Finland
Tel. +358 10 7511 • Fax +358 9 148 1172

Eläketurvakeskus
00065 ELÄKETURVAKESKUS
Puhelin 010 7511 • Faksi (09) 148 1172

Pensionsskyddscentralen
00065 PENSIONSSKYDDSCENTRALEN
Tfn 010 7511 • Fax (09) 148 1172

Multiprint Oy
Helsinki 2010

ISBN 978-951-691-132-1 (printed)
ISBN 978-951-691-133-8 (PDF)

ISSN-L 1238-5948
ISSN 1238-5948 (printed)
ISSN 1798-7490 (online)

FOREWORD

This seminar report consists of presentations made at an expert seminar titled *"How can disability schemes support employment goals: lessons from reforms"*. The seminar was arranged in Helsinki in October 2009. The occasion was inspired by the political goal of increasing the effective retirement age in Finland by three years by the year 2025. Prolonging working careers is important for the financing of the pension system, for securing labour supply in times of changing age structures and for the sustainability of public finances.

Postponing retirement is an ambitious target, and a key issue concerns efficient ways to achieve the goal in a relatively short period of time. In Finland, measures were considered in two working groups during 2009, one devoted to pension policy, the other to working life. The theme of the seminar – and this publication – lifts up messages for further political deliberation.

First, approached from the pension system, it is clear the target necessitates considering the role of the disability pension schemes. In Finland a large part of exits from the labour market and entries into the realm of pensions occur via the disability pension system. It is also a known fact that after being granted a pension, few return to work. The question then is whether it is possible to limit the flow into a permanent disability pension? Or perhaps, whether it is possible to increase job opportunities for those who face health problems and reduced work ability?

This raises a second, perhaps more important question that is at the heart of working life: why do so many end their active years in sickness, poor work ability and disability? Here the question is also related to prevention, but the policy areas to be addressed become more manifold. To name some of the most important ones, the workplace, management practices, health services, occupational health system, rehabilitation and different income security schemes need to be scrutinized. The joint interest is of course in the process, and in the roles of different actors in making the totality work efficiently, in providing care and income security for those in need, and in promoting work for those capable to work.

These questions are not new, but they have become more urgent in ageing societies and at a time of economic turbulence. The worries are shared across OECD countries. In the seminar, the focus of interest was on the Netherlands, Denmark and Sweden. Why these countries? They were judged as countries with similar issues

and goals, wherein implemented reforms have been of considerable magnitude. Luckily this reference group also offers a wonderful opportunity to share lessons, seize good practices and warn about pitfalls. This reference is why our seminar with the subtitle lessons from reforms was arranged. It is evident that there are no simple success stories to be copied, and that postponing retirement does not happen overnight. But there exists the opportunity to ponder the experiences of others and consider how to make good ideas work in a different context.

I hope the report provides useful material for such considerations. I thank our speakers Christopher Prinz from the OECD, Wim van Oorschot from the University of Tilburg, the Netherlands, Kirsten Brix Pedersen from the Labour market authority in Denmark and Leif Westerlind from the Ministry of social affairs, Sweden for sharing their expertise on the subject and for their contributions to this seminar report. I also wish to appreciate the enthusiastic input of Raija Gould, Mika Vidlund, Jarna Bach-Othman and Marika Sahlberg from the Finnish Centre for Pensions, who formed a good team for planning and arranging the seminar. Joanna Nylund and Lena Koski deserve thanks for editing the language of the report.

Mikko Kautto, head of research department, the Finnish Centre for Pensions, Finland

ABSTRACT

This seminar report focuses on policies directed at preventing inflow into disability and sickness benefits and promoting employment among those with partial work capacity. The report consists of several articles in which common challenges for the OECD countries are described. Experiences from reforms as well as examples of good practices are presented from countries that have carried through considerable reforms during the last years. Common concerns for the countries presented in this report – The Netherlands, Denmark, Sweden and Finland – are the widespread use of disability pensions as an early exit pathway from the labour market and the scarce re-entry to employment from benefits. A shared concern is also the increased number of young people ending up on disability pensions because of mental health problems. The report concludes with a short review of the employment of disability pension recipients in Finland and a summary of key messages from reforms in the different countries.

ABSTRAKTI

Seminaariraportissa tarkastellaan sairauspäiväraha- ja työkyvyttömyysetuuksille siirtymisen ehkäisemiseksi ja osatyökykyisten työllistymiseksi toteutettuja toimenpiteitä eri maissa. Raportti koostuu artikkeleista, joissa kuvataan OECD-maiden yhteisiä haasteita tällä alueella ja esitellään uudistuskokemuksia ja hyviä käytäntöjä maista, joissa on viime vuosina toteutettu mittavia reformeja. Raportissa käsiteltyjen maiden – Alankomaiden, Tanskan, Ruotsin ja Suomen – yhteisiä huolenaiheita ovat työkyvyttömyyseläkkeiden käyttö yhtenä pääasiallisena varhaisena työstä poistumisen reittinä sekä etuudensaajien vähäinen paluu työelämään. Yhteinen ongelma on myös mielenterveysongelmien perusteella myönnettyjen eläkkeiden yleistyminen nuorilla aikuisilla. Raportin lopuksi tarkastellaan lyhyesti osatyökykyisten työllistymiseen liittyviä ongelmia Suomessa ja esitetään yhteenvetona eri maissa toteutettujen uudistusten avainviestit.

EXECUTIVE SUMMARY

This seminar report focuses on policies directed at restricting inflow into disability and sickness benefits and promoting employment among those with partial work capacity. First, the introduction deals briefly with employment rates of older workers and the ages of exit from the labour market in different countries. Secondly, some key lessons and good-practice examples arising from the OECD's Sickness, Disability and Work review are summarised. In the following articles experiences from the Netherlands, Denmark and Sweden, which are countries that have implemented major reassessment of their sickness and disability policies in recent years, are presented. The experiences of these countries are particularly interesting from the Finnish point of view, since the social partners agreed in 2009 to find ways to postpone retirement and to raise the average effective retirement age. The disability pensions play a major role in this context. The report concludes with a short review of the shared challenges in these countries and sheds some light on policies that appear to work.

Employment rates of older workers and exit from the labour market

In order to ensure adequate labour supply and long term financial sustainability of pension systems many OECD countries are seeking to increase the labour force participation of older workers. The countries represented in this report, Denmark, Sweden, the Netherlands and Finland, all have relatively high employment rates in a European comparison. On average, they also have longer periods of active and working life than other EU countries. However, in comparisons of exit ages from the labour market, these countries do not fare that well. To a great degree, the gap between the effective and the official retirement age reflects the existence of early retirement schemes. A common concern is that disability pensions function as a major route to early retirement and that re-entry to employment from benefits is scarce. In addition to the challenge of maintaining the relatively high employment rates, the four countries also need to tackle the more challenging questions on how to improve employability of groups currently outside or at the margins of the labour market. A significant part of this target group consists of people with reduced work capacity.

Lessons from Reforms and Lack of Change across the OECD Countries

Disability benefit schemes have generally not been reformed to the same degree as other benefit schemes even if recently a lot has been done in many countries and the focus is increasingly on benefit system change. Denmark, Sweden and especially the Netherlands all belong to those countries that have gone or are going through a series of comprehensive reforms. Compared to those three countries, Finland faces more of an early-retirement disability problem.

The reforms carried out in the different OECD countries can be grouped along three key challenges– creating employment-oriented sickness and disability benefits, making employers and medical professionals part of the solution and getting the right services to the right people at the right time. General lessons that can be drawn from the OECD review are among other things that the incentives and responsibilities for the main actors – workers, employers and public players alike – are not good enough, a fragmented institutional structure with too many and badly connected parts is a big barrier for any improvement and that prevention, health/sickness management and early intervention are essential for both workers and the unemployed.

Even if knowledge transfer and learning from good-practice policy elsewhere is possible in the field of disability and sickness policy, it is still limited for reasons such as lack of rigorous evaluations of effectiveness and the long time-lag until an effect of a policy change could be measured.

Disability Benefit Reforms in the Netherlands

Debates on disability in the Netherlands have been dominated by a concern over the relatively high numbers of disability benefit claimants and the costs related to this. The Dutch spending on disability benefits has been well above the EU-15 average level on a permanent basis. Reforms of the disability benefit schemes started more than twenty years ago but it is only recently that reform measures seem to result in a structural decline of the number of beneficiaries. Clearly, the reforms imply a retrenchment of disability entitlements for disabled workers, and they have reconstructed substantially the incentive structure for both employers and employees with respect to their rights and duties regarding short-term and long-term disability. Employers now carry the costs involved much more directly than before.

Although the numbers of disability benefits are declining, and while increasing emphasis has been placed on what disabled workers can do instead of what they cannot do, the actual labour participation of disabled people has gone down in the course of the 21st century. Also a new 'numbers problem' is evident in regard to the Dutch disability benefit. This time, the problem concerns the explosive increase of young people claiming disability benefits.

Reforms to stop people from ending up on disability pensions in Denmark

Employability enhancement has been part of Danish employment policy since 1990, but the focus of initiatives has shifted. In 2003 a disability pension reform was carried out. The aim of the reform was to ensure that everyone with an ability to work also had the opportunity to use this ability on the labour market, primarily in jobs on normal terms or, if this was impossible, in so called flex jobs. The target group for flex jobs is people under the age of 65, who suffer from a permanent reduced ability to work.

One of the focus areas in Denmark has been increasing absenteeism due to sickness. The Danish Parliament recently adopted a new Sickness Benefits Act, which launches a number of initiatives to strengthen efforts made by enterprises, municipalities, unemployment insurance funds, GP's and the sick employees themselves to maintain an attachment to the labour market.

Denmark has seen a marked increase in the number of flex jobs, without an appreciable corresponding drop in the number of people on disability pensions. Some years ago, the Government set up a Labour Market Commission, which recommended special development programmes for the individuals who are at risk of ending up on disability pension and that the flex job scheme should be more targeted towards people with a limited ability to work, and so that subsidy levels better motivate employers and people in flex jobs to increase working hours, when possible.

Changes to reduce sickness absence in Sweden

During the major part of the last three decades, sickness absence volumes in Sweden have been among the highest in OECD countries. This trend has been broken only in recent years.

During the 2000's a number of reforms have been implemented to reduce sickness absence. The government's emphasis has been on the so called employment line and the importance of early intervention. In 2008 a new sick leave process – the rehabilitation chain- was established. The purpose of the new sick leave process is to provide incentives for a more active sick leave process and to prevent the risks of long periods of sick leave and ensuing permanent estrangement. The new sick leave process has fixed time periods concerning how the insured person's work ability shall be assessed. Since 2008 early retirement is granted only when individuals have suffered a permanent reduction of their work ability, and when all rehabilitation possibilities have been tried or deemed unbeneficial in the restoring of the work ability.

The goal has been to reduce the number of people going on sick leave, and to ensure that those who do go, stay on sick leave for a shorter period of time than before. These objectives have been reached. Sickness absence volumes have decreased heavily, without a corresponding overflow to unemployment.

LIST OF AUTHORS

Jarna Bach-Othman
Senior Advisor at the Finnish Centre for Pensions, Finland.

Kirsten Brix Pedersen
Head of section in The National Directorate of Labour, Denmark.

Mikko Kautto
Head of research department at the Finnish Centre for Pensions, Finland.

Wim van Oorschot
Professor of Sociology at Tilburg University, the Netherlands.

Christopher Prinz
Senior Economist in OECD's Employment Analysis and Policy Division and leader of the Sickness, Disability and Work review.

Leif Westerlind
Senior Adviser at the Ministry of Social Affairs, Sweden.

CONTENTS

Mikko Kautto and Jarna Bach-Othman
1 Disability and employment – introduction to the report 13

Christopher Prinz
2 Sickness, Disability and Work: Lessons from Reforms and Lack of Change across the OECD Countries 23

Wim van Oorschot
3 Disability Benefit Reforms in the Netherlands 1980-2006, Retrenchment and reconstruction 35

Kirsten Brix Pedersen
4 What is Denmark doing to stop people from ending up on disability pensions? 53

Leif Westerlind
5 Changes to reduce sickness absence in Sweden 61

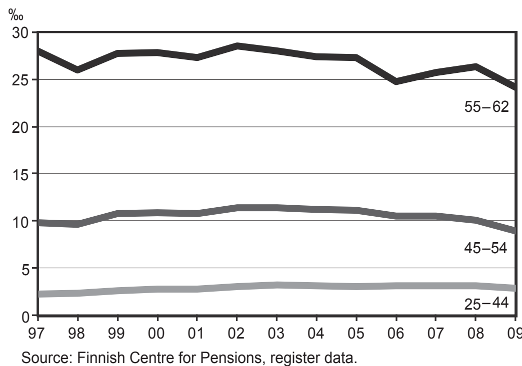
Mikko Kautto
6 Conclusions – lessons for consideration 72

Box 1. The use of disability benefits in Finland in brief.

At year-end 2009, over 260,000 persons living in Finland were receiving disability pension. This means 7.6 per cent of the population aged 16 to 64 years. During the last decades, the recipiency rate has decreased: in 1990 it was 9 per cent. The yearly number of new recipients of disability pension has fluctuated, yet in the 2000s it has remained rather stable. In 2009, about 26,000 persons living in Finland ended up on a disability pension.

A disability pension may be granted as a residence-based national pension and/or as an earnings-related pension. A national pension is paid to those with only a small earnings-related pension or with no working career at all. More than 90 per cent of all disability pensioners receive an earnings-related pension. All those who have been employed even for a short period of time are covered by the earnings-related pension scheme.

Box Figure 1. *Inflow rate of earnings-related disability pensions in three age groups in Finland, 1997–2009.*



The number of new disability pensioners per thousand non-pensioners in the working age population is equal for men and women, but considerably higher in older than younger age groups. In 2009, in the earnings-related pension scheme, it was 9 per mill in all but only 3 per mill for the age group 25–44, and as high as 24 per mill for those aged 55–62 (Box Figure 1).

Two disease groups, mental disorders and musculoskeletal diseases, each cover around one third of the causes of new disability pensions. The most common single diagnosis is depression: in 2009 over 16 per cent of new earnings-related disability pensions were due to depression (See Box 2).

In the earnings-related pension scheme, a disability pension may be granted as a partial pension. In 2009, the share of partial pensions of the disability pension inflow was 18 per cent. Since the mid 1990s, the use of partial pensions has been growing especially among older female employees in the public sector. Partial disability pensions are most often granted on grounds of musculoskeletal diseases.

Compared to the reference countries, Denmark, Sweden and the Netherlands, the inflow rate of disability benefits is higher in Finland. Furthermore, the share of partial benefits is smaller in Finland than in Sweden and the Netherlands. (Nososco 2009; OECD 2008; OECD 2009b.)

Mikko Kautto and Jarna Bach-Othman

1 Disability and employment – introduction to the report

The aim of this seminar report is to present experiences from policies and practices that aim to prevent unnecessary retirement on a disability pension. The policy areas to be addressed are manifold. Benefit policies may come into mind first, but the health services, occupational health system, rehabilitation and different other income security schemes need to be scrutinized as well. The workplace and management practices also affect how work capacity develops. The joint interest is of course in the process, and in the roles of different actors in promoting employment among those with partial work capacity – occasionally also while receiving a benefit. Furthermore, the compilation gathers experience from measures created to facilitate the return to work of disability pension recipients.

To discuss disability and employment at the same time does not go without controversy. After all, a starting point for welfare states has been that disability, understood as incapacity to work, is a legitimate reason to withdraw, stay, and remain outside employment. Further, from a social rights perspective, incapacity to work has been acknowledged as a justified reason for unconditional social protection. Thus, to consider employment issues among the disabled may raise concerns regarding the principles of social protection.

However, there are degrees of incapacity to work, and it is evident that attitudes and cultural factors, as well as work environments, together with supporting policies, may make a big difference. The issue at stake is thus whether the potential work input of people with partial work capacity is addressed properly, and whether there exist opportunities to support the remaining work capacity in a more employment-friendly way.

Policies have been changing everywhere. Some modifications to policy packages have become commonplace, while others are being planned and implemented. When new policy bearings are envisaged, one necessarily faces the question of whom employment-geared ideas should be directed at and what the realistic ways to promote employment for the target groups are, taking into account their poorer health and work capacity? This is the tricky theme discussed in this report.

According to OECD experience, the Netherlands, Denmark and Sweden are countries that have implemented major reassessment of their policies and practices to increase employment of people with partial work capacity. They have reformed their sickness and disability benefit systems with similar goals in mind. Measures taken have included tightening the eligibility criteria, restricting benefit duration, focusing on the remaining work ability instead of on loss of work capacity, increasing regular assessment of work ability and increasing employer responsibility regarding the costs of sickness and disability benefits (OECD 2009b).

For Finland, the experiences from reforms in the above-mentioned countries are interesting for a particular reason. In March 2009, the social partners in Finland agreed to find ways to postpone retirement and to raise the average effective retirement age by three years from the current 59.4 years by 2025. Disability pensions play a major role in this context. The current average age for retiring on a disability pension is 52 years, whereas the lowest age for receiving an unreduced old age pension is 63 years. Therefore, measures aimed at reducing the inflow into disability pensions well before the statutory pensionable age and supporting employment of those with partial work capacity are important factors in achieving the goal. There should be lessons to learn.

The rest of the introduction puts these countries and Finland into a comparative perspective by picking up some key figures from international statistics on employment patterns. While such statistics cannot reveal how people with partial work capacity are being integrated into the labour market, they do reveal that we are addressing a group of countries with higher than average employment and that the three countries chosen as references do perform slightly better than Finland.

1.1 Employment rates among the older workers

In a comparative perspective, the European employment pattern is markedly different to other OECD countries. In many European countries, the labour force participation rates decline noticeably after reaching 54 years of age. Only one third of those who have turned 61 are still in employment, either full-time or part-time, in the EU area. The other third draws a pension, and the rest are either unemployed or inactive for various other reasons.

Increasing the labour force participation of older workers has been a common goal for many OECD countries in order to ensure adequate labour supply and long-term financial sustainability of pension systems. As pensions are often based on one's work history and salary level, employment is also a way to achieve better pension adequacy. At present, many assessments indicate that the number of years in active employment is not enough to sustain the increasing number of years spent in retirement or inactivity (European Commission 2009).

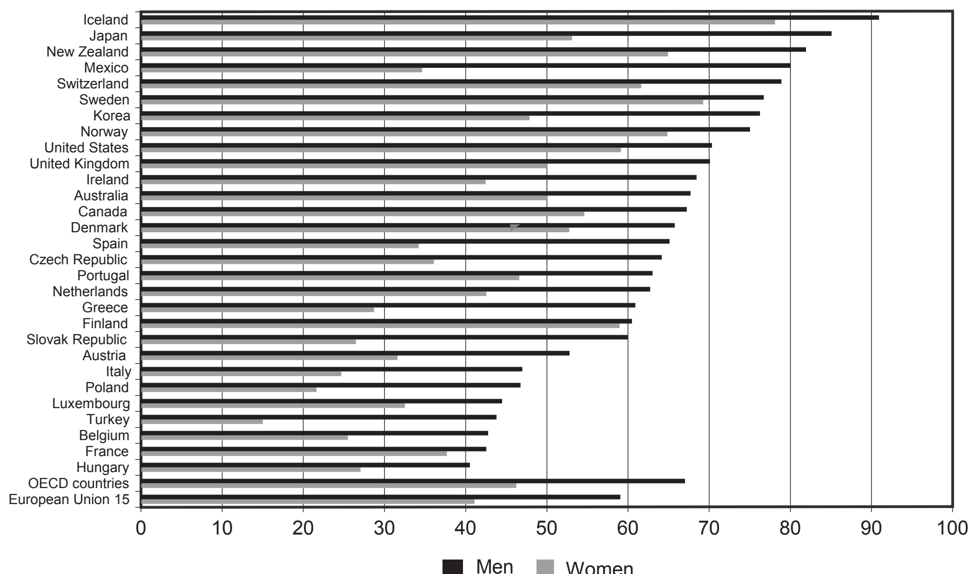
So far, the early exit from the labour market seems to have been a one-way street: few older workers return to employment once they have exited the labour market (OECD 2006). However, during the last decade there has been a positive trend in the employment rate of older workers. In many OECD countries, the employment rate of workers aged 55 to 64 has increased considerably, even though there is still great variation between different countries. In many countries the increase has been mainly caused by the strong growth in the employment rates of women, albeit employment rates of 55+ women in some countries are still very low. Another major explanation for this positive development in employment rates is that the elderly workers have been able to keep their jobs and continue at work. Re-entry to employment either from unemployment or from early exit benefits has been scarce.

According to latest statistics, the employment rate in 2008 of older workers (55-64 years) was 56.3 per cent on average in the OECD compared to just 50.3 per cent in the year 2000 (Labour Force Statistics 2008). In the EU15 countries, the average employment rate was clearly lower in 2008: 49.9 per cent. The highest employment rates of older workers among the OECD countries are close to or over 70 per cent in 2008, e.g. in Sweden and Norway. Many countries lag far behind these figures with rates as low as 34 per cent in Belgium and 35 per cent in Italy. Many EU countries fail to reach the Lisbon strategy target of a 50 per cent employment rate of older workers by the year 2010. By 2008, only twelve EU countries had achieved this goal.

The countries represented in this seminar report perform rather well in crude employment comparisons. Especially Sweden stands out with a very high employment rate, for both sexes. Also in Denmark and the Netherlands the employment rate is high, but there is a marked difference between the sexes: women's employment rate is clearly lower than men's. In Finland, the employment rate is also relatively high,

and the difference between men and women is the smallest of the four countries.

Figure 1. *Labour force participation rate (%) of older workers (55–64 years) in 2008.*



Source: Labour Force Statistics, OECD.

1.2 Active years in employment

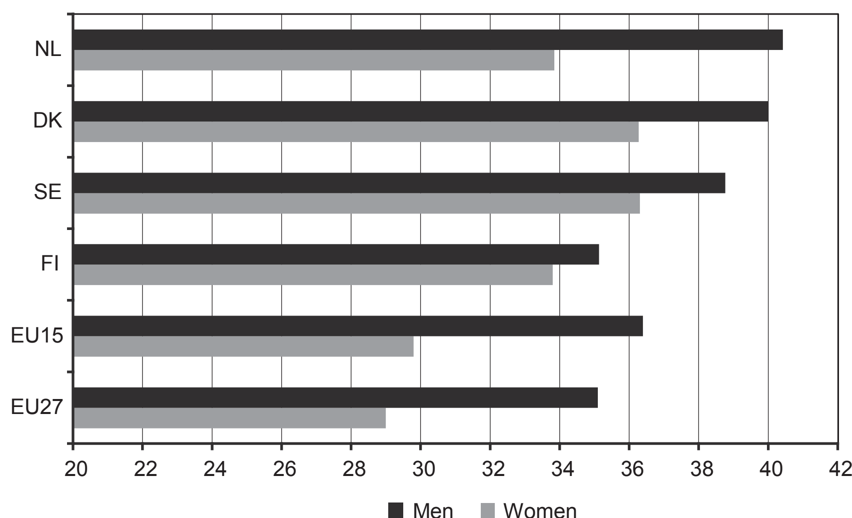
Crude employment rates offer but a starting point – more important is the overall time spent in employment over the life course. In recent comparisons, the term "active years" refers to the number of years that an average person at a certain age is expected to be at the use of the labour market. "Duration of employment" refers to the number of years that a person at a certain age is calculated to be employed.

The duration of active working life varies greatly between the different EU countries. According to a fresh study, the EU average for a 15-year-old person is 34.2 active years during his/her lifetime and consists of 31.8 years of employment (Vogler-Ludwig, 2009). According to the study, the longest period in active working life, 39.9 years, can be found in Sweden. Denmark and the Netherlands came close to this level, and also Finland was high in the comparison, finding itself in sixth place among the EU countries.

The order of countries in the duration of employment over the life cycle parallels with the ranking of the number of active years. In the comparison, the same three countries, Denmark, Sweden and the Netherlands, stand out from the rest. As could be expected, the longest durations of employment were found in Denmark, 38.2 years, and in Sweden, 37.6 years. The Netherlands came very close to Sweden. In Finland, the duration of employment was clearly shorter, 34.5 years, although it was the sixth highest among the EU countries.

Figure 2 shows employment expectancy measured separately for men and women, as the overall figures are hiding big gender differences. Gender differences in the EU are clearly visible. In Sweden, the difference was 2.5 years and in Denmark, 3.7 years. In the Netherlands, the gender differences are among the biggest (more than 6 years). The difference between men and women in the expected duration of employment was the smallest in Finland of all EU countries, only 1.3 years.

Figure 2. *Employment expectancy (in years) at age 15 in Sweden, Denmark, the Netherlands, Finland and the EU, men and women, 2007.*



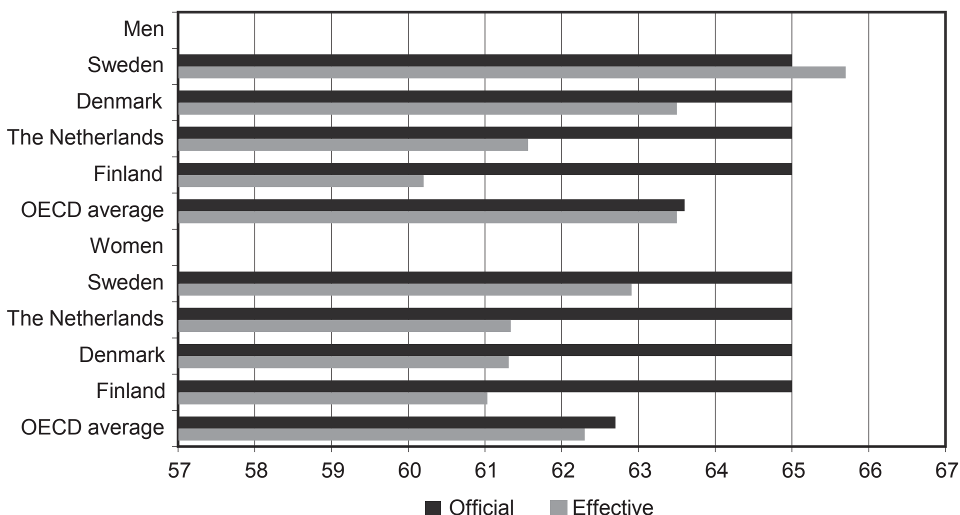
Source: Ludwig-Vogler 2009 (Data provisions).

1.3 Ages of exit from the labour market

The average effective age at which workers withdraw from the labour force is well below the official retirement age in many OECD countries, both for men and

women (figure 3). The age is defined as the average age of exit from the labour force during a 5-year period (OECD 2006). Although living longer, in the OECD group women typically retire from the labour force a few years earlier than men, much due to different legal retirement ages.

Figure 3. *Average effective age of exit from the labour force and the official retirement age in Sweden, Denmark, the Netherlands, Finland and the OECD, men and women, 2002–2007.*



Source: OECD 2006.

This indicator reveals bigger differences between the countries we are interested in. For men, Sweden is placed relatively high in the ranking. Denmark is close to OECD average, but the Netherlands falls short of the OECD average. Finland is at the poorer end of the list, well behind OECD average. Moreover, the discrepancy between the effective exit age and the official retirement age appears most pronounced in Finland.

For women, the comparative figures look more similar. The effective age of exit is higher in Sweden than in the other three countries. As official retirement ages are similar, the gap between the two ages is also smaller in Sweden. In the light of the OECD figures, women in the Netherlands, Denmark and Finland leave the labour market rather soon after the age of 60, a year or so earlier than the OECD average.

1.4 Starting points for the report

This peek into comparative employment statistics has pointed to the fact that Denmark, Sweden, the Netherlands and Finland all have relatively high employment rates in a European comparison. On average, they also have longer periods of active and working life than other EU countries.

However, in comparisons of exit ages from the labour market, these countries do not fare as well. Furthermore, there are also clear country differences, and Finland could perhaps learn from countries included in this report. To a great degree, the gap between the effective and the official retirement age reflects the existence of early retirement schemes.

For some time, a common concern has been that disability pensions function as a major route to early retirement in many OECD countries, including Finland. After comprehensive reforms during the last few decades, disability policy has moved in many countries from passive compensation to active integration (OECD 2003). To postpone retirement and to control inflow into disability benefits, as well as to increase the labour force participation of people with partially reduced work capacity, many countries have reformed or are in the process of reforming their disability pension schemes. Since a disability pension is usually preceded by a long sick leave period and sickness benefits, health, rehabilitation and sickness benefit policies, as well as changes made to them, are also of vital importance here.

The countries examined in this report have had several early retirement schemes and routes out of the labour market, and despite closing some of them and restricting access to others, their existence is consistently being emphasised in comparative surveys, the latest one being the OECD's *Sickness, Disability and Work* comparison (see OECD 2008). For instance, the report pointed out the danger of disability benefits being used as an early retirement pathway in Finland as other early retirement schemes have been or are being gradually abolished. Further, one of the conclusions was that the Finnish disability pension system still has characteristics that inhibit rather than promote employment.

Developed welfare states rely on high levels of employment. Ageing populations and challenges to fiscal sustainability put a strong demand to perform even better in employment comparisons. In other words, as our sample of countries already have relatively high employment rates, also for older workers and for both sexes,

they not only need to keep up such performance, but they also need to tackle the more challenging questions on how to improve employability of groups currently outside or at the margins of the labour market. A significant part of this target group consists of people with reduced work capacity.

Against this brief background, the rest of the report presents ways and reforms to improve employment among people with partial work capacity among the OECD countries. This synopsis of reforms is provided by Christopher Prinz's article. Articles summing up experiences from the Netherlands, Denmark and Sweden, by Wim van Oorschot, Kirsten Brix Pedersen and Leif Westerlind respectively, follow. The report ends with a concluding chapter that highlights some common elements in the reforms. These may serve as a checklist when considering possibilities to make the disability schemes more employment friendly.

References

European Commission (2009) Joint Report on Social Protection and Social Inclusion 2009. European Communities.

Labour Force Statistics 2008. OECD. http://stats.oecd.org/index.aspx

NOSOSKO (2009) Social tryghed i de nordiske lande 2007/08. Nordisk Socialstatistisk Komité. Kobenhavn.

OECD (2003) Transforming Disability into Ability. Policies to promote work and income security for disabled people. Paris.

OECD (2006) Live Longer, Work Longer. Ageing and Employment Policies. Paris.

OECD (2008) Sickness, Disability and Work: Breaking the Barriers. Vol. 3: Denmark, Finland, Ireland and the Netherlands.

OECD (2009a) Sickness, Disability and Work: Breaking the Barriers – Sweden. Will the Recent Reforms make it? OECD 2009.

OECD (2009b) Sickness, Disability and Work: Keeping on track in the economic downturn. Background paper. http://www.oecd.org/dataoecd/42/15/42699911.pdf.

Vogler-Ludwig, Kurt (2009) Monitoring the duration of active working life in the European Union. Final Report. European Commission. Employment, Social Affairs and Equal Opportunities DG.

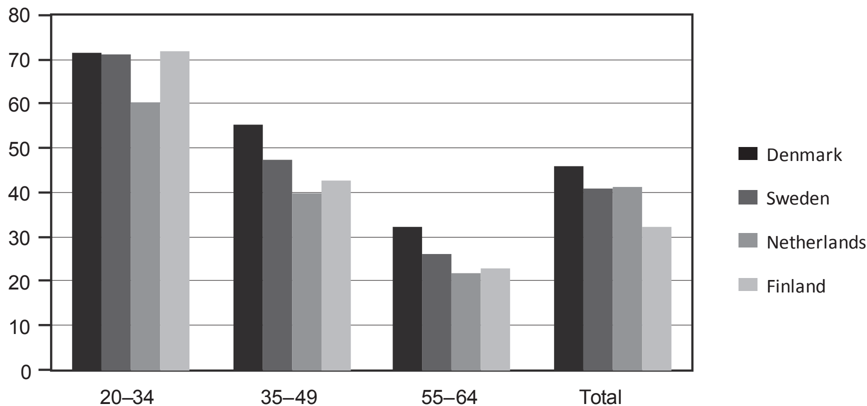
Box 2. Disability pensions due to mental health reasons.

The share of disability benefits based on mental illness has grown steadily in many countries in recent years. In Denmark, Sweden and the Netherlands over 40 per cent and in Finland over 30 per cent of new disability benefits are granted on the basis of a mental disorder (Box Figure 2). In Finland, the number of disability pensions due to depression nearly doubled in ten years, although it has recently begun to decrease.

Mental work disability is most prevalent in younger age groups: in 2007, in Denmark, Sweden, the Netherlands and Finland, 60–70 per cent of all new disability pensions were due to mental disorders (Box Figure 2). However, because of the higher risk of work disability in older age groups, the number of those ending up on a disability benefit on the grounds of mental illness is much greater among older than younger adults.

The problems of benefits related to mental disorders are accentuated by the fact that the benefits tend to become permanent and only few people return to work. Besides a decline in well-being, this means marginalization and a great loss in working years for younger beneficiaries in particular.

Box Figure 2. *Share of disability pensions due to mental disorders of all new pensions by age group in Denmark, Sweden, the Netherlands and Finland, 2007.*



Source: OECD 2009b.

Christopher Prinz[1]

2 Sickness, Disability and Work: Lessons from Reforms and Lack of Change across the OECD Countries

This article draws on a series of study visits and comparative reports produced in the context of OECD's Sickness, Disability and Work review, which will be completed in 2010 (www.oecd.org/els/disability). Details on policy outcomes and policy challenges in 13 Member countries, including Finland, can be found in OECD reviews (2006, 2007, 2008, 2009a, 2009b, 2010a, 2010b) and Prinz and Tompson (2009). The main purpose of this article is to summarise some key lessons arising from the review and sketch out some good-practice examples to inform the ongoing reform debate and process in Finland. Occasionally, reference is made to the policies and experiences of the four OECD countries, which were discussed at the seminar in Helsinki (Finland, Denmark, Sweden and the Netherlands).

2.1 What is the problem and what are the causes behind the problem?

Virtually all OECD countries are facing two big problems. First, rates of employment of people with disability or partial work capacity are very low (Figure 1) – 40-45% in most countries in the OECD including the Netherlands, and slightly above 50% in Denmark, Finland and Sweden.[2] Added to this, these employment rates have fallen slightly in the past decade in a majority of countries, despite a booming economy (data refer to pre-crisis years). Employment rates of people with disability have also fallen in Denmark and Sweden, while they have increased slightly in Finland and the Netherlands – albeit less so than the rates of people without disability, hence, in relative terms the labour market position of people with disability has worsened.

1 Christopher Prinz is a senior economist in OECD's Employment Analysis and Policy Division and leader of the Sickness, Disability and Work review (Christopher.Prinz@oecd.org).

2 The higher employment rate of people with disability is in part a consequence of the higher proportion of people claiming to have a disability; hence, presumably the average person with disability in Finland is less severely hampered by the health condition than the corresponding person in other countries.

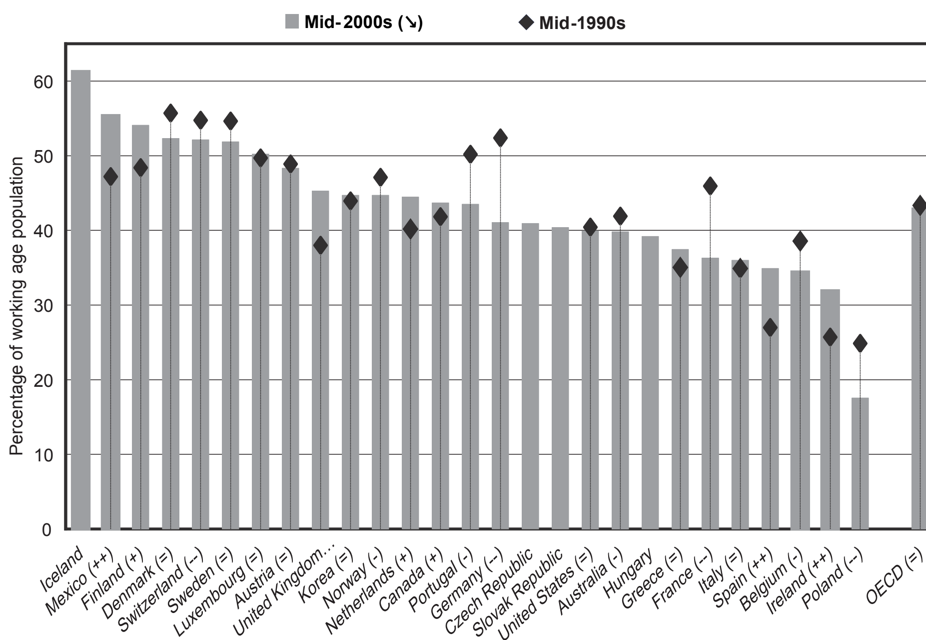
Secondly, most OECD countries struggle with widespread early labour market exit onto disability benefit schemes (Figure 2). Across the OECD, 6% of the working-age population receives a disability benefit, with Denmark (7%), Finland and the Netherlands (8%) and in particular Sweden (over 10%) all facing beneficiary rates significantly above the OECD average. However, following reforms, both the Netherlands and Finland have recently managed to bring beneficiary rates down by some 1–2 percentage points from even higher initial levels (only three OECD countries have seen drops larger than this during the past decade). Denmark and Sweden have not had such success with their disability reforms: beneficiary rates have increased substantially in Sweden, and they have stayed constant in Denmark despite a fast increase in the number of recipients of other health-related benefits (especially recipients of flex-job subsidies) which were designed to keep people with partial work capacity away from long-term disability benefits.

There are several reasons behind these trends, but two developments stand out as being of particular importance. First, more and more demanding workplaces and high work intensity leave behind many of those people disadvantaged in the labour market because of a combination of low levels of qualification, low competitiveness and low productivity. At the same time, niche jobs for those people are disappearing. Anti-discrimination legislation and employment quotas have been widely used responses to this, but neither is very effective nor of any help for those without a job. Such employment rates of people with disability have worsened rather than improved.

The major explanation for the high and in most countries still increasing use of disability benefits is policy. Reforms of other benefit schemes have increased the pressure on disability schemes. Unemployment and social assistance schemes were reformed comprehensively in many countries, with a new and rigorous activation approach, and pension schemes also went through far-reaching reform often including the abolition or gradual phasing-out of early retirement schemes. Disability benefit schemes were generally not reformed to the same degree and are in many cases becoming or have become the working-age benefit of last resort – because other benefit schemes are increasingly inaccessible.

Figure 1. *Employment rates of people with disability are low and have been falling in many countries.*

Employment rates of the working-age population with self-assessed disability in 27 OECD countries,mid-1990s and mid-2000s.



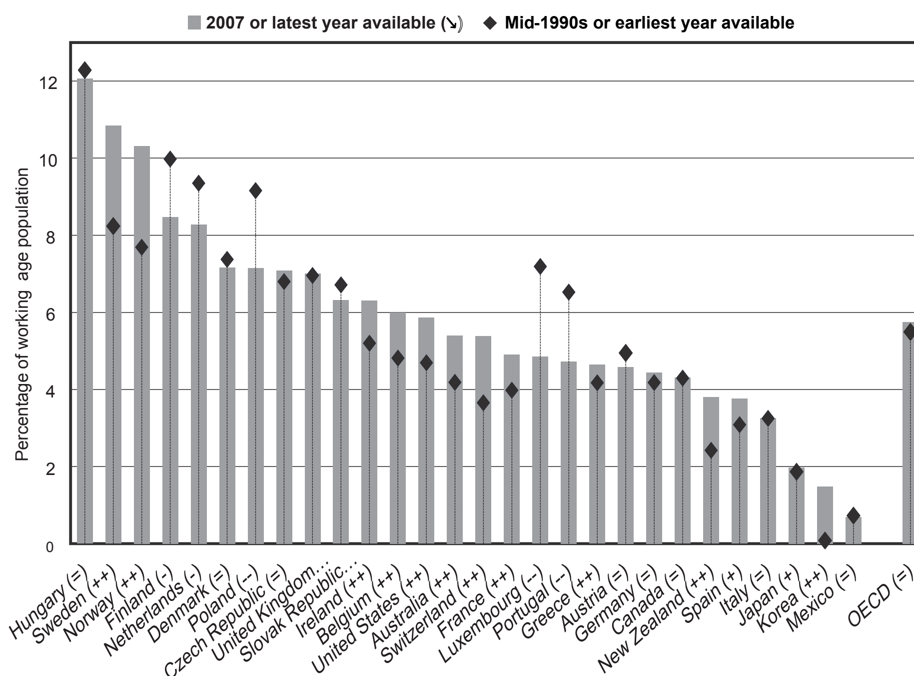
Notes: (↘) in the legend relates to the variable for which countries are ranked from left to right in decreasing order. (++)/(--) refers to a strong increase/decline of 2% or more; (+)/(-) refers to a moderate increase/decline between 0.75% and 2%; (=) refers to a rather stable trend between -0.75% and 0.75%; percentages refer to the annual average growth rate in employment rate of persons with a disability. OECD refers to the unweighted average of the 27 countries; the mid-1990s average is an estimate based on the 23 countries for which data are available.

Source: EU-SILC 2005 (wave 2) and ECHP 1995 (Wave 2), except: Australia: SDAC (Survey of Disability and Carers) 2003 and 1998; Canada: PALS (Participation and Activity Limitation Survey) 2006; Denmark: LFS 2005 and 1995; Finland: ECHP 1996; Korea: National Survey on Persons with Disabilities, 2005 and 1995; Luxembourg: EU-SILC 2004; Mexico: ENESS (National Survey of Employment), 2004 and 1996; Netherlands: LFS 2006 and 1995; Norway: LFS 2005; Poland: LFS 2004 and 1996; Spain: EU-SILC 2004; Sweden: ECHP 1997; Switzerland: LFS 2005; United Kingdom: LFS 2006 and 1998; United States: SIPP (Survey of Income and Program Participation) 2004 and 1996 (waves 4 core data).

In short, the OECD reports conclude that disability policies and institutions in place are not good enough to change the situation. Disability systems are in dire need of reform; in particular, most actors (workers, employers, doctors, public authorities) do not have the right incentives.

Figure 2. Disability benefit recipiency rates are high and still increasing in many countries.

Disability benefit recipients in percent of the population aged 20-64 in 28 OECD countries, mid-1990s and latest year available.



Notes: (↘) in the legend relates to the variable for which countries are ranked from left to right in decreasing order. (++)/(--) refers to a strong increase/decline of 2% or more; (+)/(-) refers to a moderate increase/decline between 0.75% and 2%; (=) refers to a rather stable trend between -0.75% and 0.75%; percentages refer to the annual average growth rate in employment rate of persons with a disability. OECD refers to the unweighted average of the 27 countries.

Source: Administrative data provided by national authorities.

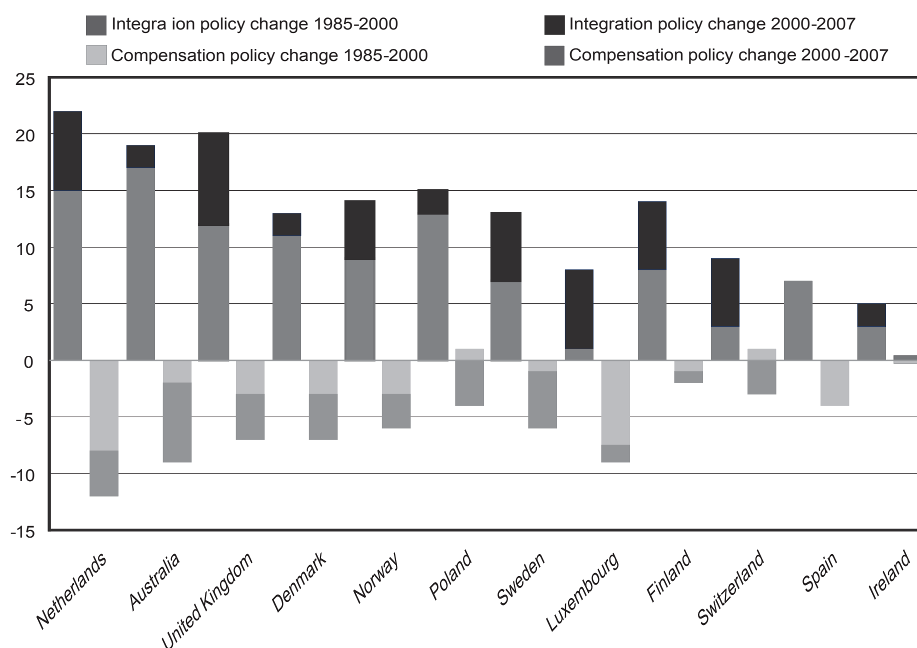
2.2 Are OECD countries actively trying to rectify the situation?

Low labour market participation of people with disability and high public spending on disability benefits are an increasing concern across the OECD and drivers for change. A lot has been done recently in many countries to address key problems in this regard. This is captured in Figure 3 in an attempt to quantify, summarise and compare disability policy change (see note to the figure for a technical

explanation). Typically, the reform process started with a broadening of and better access to active labour market programmes. In many cases, the intensity and depth of reforms has recently increased. Moreover, the direction of reform is also changing gradually, with more and more countries also focusing on benefit system change. This is promising, since only a comprehensive and coherent reform – of both benefit systems and employment policies – can be expected to lead to better results. However, the political economy of reform continues to remain a big issue and explains what has, or has not, been done.

Figure 3. *Disability policy is moving in the same direction almost everywhere.*

Changes in compensation and integration policy scores 1985–2000 and after 2000.



Note:This policy typology was originally developed for OECD (2003). Details about he approach and its strengths and weaknesses are described therein. In short, a disability policy index is proposed consisting of two dimensions, the generosity and accessibility of benefits (the "compensation policy" dimension) and the generosity and accessibility of employment policies (the "integration policy" dimension). The higher the integration score, the more developed the integration and employment policies are; the higher the compensation score, the more generous and accessible the benefit system is.

Source: OECD (Sickness, Disability and Work reports).

Denmark, Sweden and especially the Netherlands all belong to those countries that have gone or are going through a series of comprehensive reforms. However, all three countries were also starting from a position that was "worse" (in terms of outcomes) than on average across the OECD, i.e. they were in dire need of reform. Compared to those three countries, Finland faces more of an early-retirement disability problem.

2.3 Can countries learn from reforms in other OECD countries?

A main objective of the OECD work on sickness and disability policy is to stimulate and facilitate knowledge transfer and learning from good-practice policy elsewhere. Is learning possible in this field? The answer to this question is "Yes, certainly". Countries sometimes have in place very different systems and procedures, but they all deal with the same basic challenges, including for instance monitoring sickness absences, assessing work capacity, providing rehabilitation and employment supports and granting benefits. Lots of learning and knowledge transfer is possible within these policy components. Prinz and Tompson (2009) have tried to address the question whether or not policy learning is actually happening. They conclude:

"… the reform trajectories of those OECD countries that have overhauled sickness and disability benefit schemes suggests that the diffusion of reform *across* borders has, until recently at least, largely had the character of what we here describe as "imitation": given limited evidence concerning what really "works", when it comes to designing policies that provide adequate income security while still encouraging labour-force participation, it is not surprising that officials and politicians would look abroad for possible models, exchange experiences and experiment. The kind of evidence-based lesson-drawing that we refer to here as "learning", by contrast, tends to take place *within* countries…"

There are a number of reasons for why cross-border policy learning in the field of sickness and disability policy is still limited. First, rigorous evaluations of the effectiveness of reforms or of single measures (e.g. vocational rehabilitation programmes) are scarce and in most cases non-existent. Secondly, reforms are sometimes comprehensive and the impact of single features and measures difficult to disentangle and identify. Thirdly, policy implementation and enforcement is

lagging far behind policy intention; hence, there is a very long time-lag until an effect of a policy change could be measured. Finally, typically those countries with the poorest initial outcomes have seen the most innovative and far-reaching reforms so it will take a long time for them to become forerunners in outcomes; it is a long way from a laggard to a vanguard position. All this makes an assessment of good policy and successful change very difficult.

2.4 What have countries done to improve outcomes?

There are many ways to cluster sickness and disability policy reform efforts across the OECD. In the following, reforms are grouped along the three key challenges as identified in the course of the thematic OECD review – roughly corresponding to measures aimed at the three key actors: workers, employers (and doctors), and public authorities. Good-practice examples are only listed very briefly – details on those approaches can be found in the comparative country reviews.

2.4.1 Creating employment-oriented sickness and disability benefits

Assessing capacity not incapacity

Good-practice examples: flex-job assessment (Denmark), work capacity assessment (several countries), treat people with partial capacity as unemployed (more recently also in Australia and Luxembourg), capacity assessment for unemployed with temporary work incapacity (Australia), partial sickness benefit (Nordic countries).

Strengthening individual responsibilities

Good-practice examples: cooperation requirements (Switzerland), regular interviews (United Kingdom), training obligation (Luxembourg), compulsory vocational rehabilitation and rehabilitation plan before a benefit payment (several countries), reassessment of current beneficiaries below a certain age (Netherlands), renewed benefit reapplication (Poland).

Making work pay

Good-practice examples: compensation for earnings loss (Luxembourg, Denmark), wage supplement (Netherlands), in-work benefits of some form better phase-out of benefits with increased earnings (several countries, e.g. Ireland), unlimited suspension of benefit entitlements (Sweden).

2.4.2 Making employers and medical professionals part of the solution

Enforcing prevention and monitoring responsibilities

Good-practice examples: absence monitoring and systematic follow-up by employer and/or a public authority (e.g. Denmark), rehabilitation plan with the employer (e.g. Netherlands), redeployment procedure (Luxembourg), medical inspection (e.g. Spain for absences longer than "expected"), occupational health services (Finland, Netherlands; soon Sweden).

Strengthening financial incentives for employers

Good-practice examples: experience-rated premiums to work injury schemes (several countries), experience-rated premiums to disability schemes (Netherlands, Finland), longer full/partial wage-payment periods for employers in case of sickness (several countries), experience-rated premiums in private sickness/disability insurance (Canada, Switzerland), hiring incentives to balance higher job retention costs.

Enabling employers doctors and benefit authorities

Good-practice examples: targeted support to employers with personal contact in the public employment service in exchange for sickness monitoring and training offers (Norway), employer-run employment circles or networks (Netherlands (regional) and Sweden (sectoral)), absence duration guidelines for practitioners (Sweden, Spain), special medical services for the benefit authority (recently also in Switzerland).

2.4.3 *Getting the right services to the right people at the right time*

Improving cross-agency cooperation and coordination

Good-practice examples: reciprocal information exchange (Switzerland), cross-funding of public employment service activities by the social insurance authority (Sweden), bringing together, in shared premises, the key institutions including the municipalities (several countries, e.g. Netherlands), merging the employment service with the benefit authority (United Kingdom, Norway).

Engaging with clients systematically and targeted to the individual's needs

Good-practice examples: one-stop-shop approach with a single entry point into the system (various countries in various forms), customer-oriented services with special advisers (United Kingdom), earlier intervention (several countries, e.g. Switzerland), new lower-level measures accessible for those with mental illness (Switzerland).

Addressing incentives for public authorities and service providers

Good-practice examples: outcome-based funding of services to improve service quality and efficiency (Australia, Netherlands, United Kingdom), performance targets (Switzerland), benchmarking across regional authorities via transparency of outcomes (Denmark, Switzerland), direct financial incentives for public authorities (e.g. for municipalities in Denmark)

4 Conclusions: Lessons learned in the course of the OECD review

The following general lessons can be drawn from the OECD review:

i. Policy matters: Several countries that have recently gone for a more comprehensive reform, including benefit system reforms, have sometimes seen spectacular declines in the annual number of new disability benefit claimants. Employment outcomes, however, seem to be harder to address by system reform.

ii. Successful reform requires a various number of steps: good scientific evidence on the need for reform; the development of a comprehensive reform package; reaching consensus on the proposal; and, finally, rigorous policy implementation.

iii. Changing the mindset of all actors – of policy makers as much as of workers, employers, doctors, caseworkers and assessors – can be cumbersome but is a very necessary process. Otherwise implementation of comprehensive reform will fail.

iv. Incentives and responsibilities for the main actors – workers, employers and public players alike – are not good enough. Better incentives are the key, or perhaps the missing link, to successful reform and better outcomes.

v. A fragmented institutional structure with too many and badly connected parts is a big barrier for any improvement. However, existing structures are difficult to dismantle.

vi. Prevention, health/sickness management and early intervention are essential, for both workers (with a key role for employers) and the unemployed (in this case, with a key role for the public employment service and other public agencies).

vii. Better management of the inflow into longer-term health-related payments is likely to pay bigger dividends, but also for those on such benefits already also more can be done. Hence, it makes good sense to concentrate reform efforts on reducing new benefit claims initially, but later on policy should also address the large stock of people on benefits already.

viii. In the current economic downturn job retention of those with partial work capacity is of particular importance: such, luckily, necessary short-term inter vention is largely in line with long-term structural reform.

Bibliography

OECD (2006), *Sickness, Disability and Work: Breaking the Barriers – Vol. 1: Norway, Poland and Switzerland*, OECD, Paris.

OECD (2007), *Sickness, Disability and Work: Breaking the Barriers – Vol. 2: Australia, Luxembourg, Spain and the United Kingdom*, OECD, Paris.

OECD (2008), *Sickness, Disability and Work: Breaking the Barriers – Vol. 3: Denmark, Finland, Ireland and the Netherlands*, OECD, Paris.

OECD (2009a), *Sickness, Disability and Work: Breaking the Barriers. Sweden: Will the recent reforms make it?* OECD, Paris.

OECD (2009b), *Sickness, Disability and Work: Keeping on track in the economic downturn,* Background Paper for the High-Level Forum in Stockholm 14–15 May 2009, OECD, Paris.

OECD (2010a), *Sickness, Disability and Work: Breaking the Barriers. Canada: Opportunities for collaboration,* OECD, Paris (forthcoming).

OECD (2010b), *Sickness, Disability and Work: Overcoming a Disability Benefit Culture,* A synthesis of findings for OECD countries, OECD, Paris (forthcoming).

Prinz, Christopher and William Tompson (2009), "Sickness and disability benefit programmes: What is driving policy convergence?" *International Social Security Review*, Vol. 62/4 (Special issue on Policy Learning and Social Protection).

Box 3. Disability pensions and sickness benefits in brief – the Netherlands.

The new disability pension scheme, WIA, has been in force since 2006. It consists of two benefits: the IVA benefit, which is paid to people whose earnings capacity is reduced permanently by at least 80 per cent, and the WGA benefit, which is paid if the earnings-capacity is partially or temporarily reduced. For the WGA benefit, the earnings capacity has to be reduced by at least 35 per cent. The benefits are earnings-related. The IVA benefit is 75 percent of the previous wage up to a maximum amount. The level of the WGA benefit depends on whether the beneficiary works or not. After an initial benefit of 3-38 months, it is possible to receive a wage supplement or a follow-up benefit, depending on the work income.

IVA benefits are financed through employer contributions. In addition to employer contributions, WGA benefits may be partly financed by employee contributions.

The ability to work is assessed broadly and includes any commonly acceptable work in the labour market. If there is a chance that the earnings capacity of an IVA beneficiary might improve, the eligibility for the benefit is reassessed yearly during the first five years.

The Netherlands has also a special disability benefit for young people (WAJONG). This benefit is tax-financed and flat-rate.

Employers are responsible for paying sickness benefit to employees for a maximum of two years. The benefit is at least 70 per cent of the salary during the past year. There are no partial sickness benefits.

Wim van Oorschot[3]

3 Disability Benefit Reforms in the Netherlands 1980–2006, Retrenchment and reconstruction

3.1 Introduction

For the last two decades, debates on disability in the Netherlands have been dominated by a concern over the relatively high numbers of disability benefit claimants and the costs related to this. Reforms of the disability benefit schemes started more than twenty years ago, and some of the more drastic reforms had an immediate and noticeable impact on the number of claimants. However, these impacts were set off by specific economic and labour market developments. It is only recently that reform measures seem to result in a structural decline of the number of beneficiaries.

In this article, I will present and discuss the main developments in the number of disability claimants in the Netherlands, as well as explain and discuss the implemented benefit reforms. Some of the reforms imply a direct retrenchment of the benefit entitlements of disabled workers, while other reforms have reconstructed the system in such a way that the responsibilities are shifted towards individual employers and employees. In the concluding section, I will discuss critically some of the consequences that the reforms have for the labour market position of (partly) disabled workers.

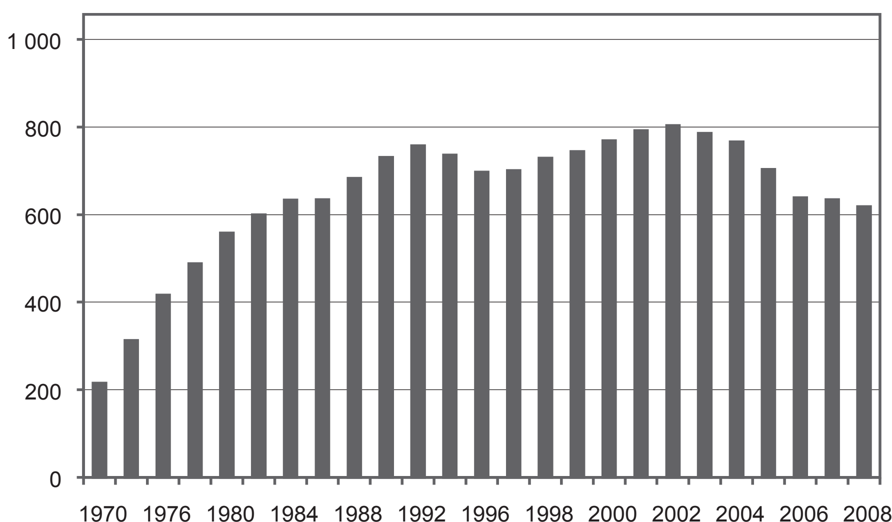
3 Wim van Oorschot is a Professor of Sociology at Tilburg University in the Netherlands.

3.2 Developments in the number of Dutch disability claimants

In 1967, the Dutch Disability Insurance Act (WAO)[4] introduced a national income protection scheme for disabled people, covering all employees in the Netherlands and offering earnings-related benefits, with a guaranteed duration until retirement age. Along with the WAO scheme for employees, schemes for self-employed people and for young handicapped persons were introduced. The WAO act was based on the principle that "every citizen has a right to self-realisation and to equality of chances"[5]. For this reason, the WAO did not distinguish between disability incurred in the workplace ('risque professionel') and disability incurred elsewhere ('risque social'). The definition and measurement of disability was broad, giving the scheme a low access threshold. When, in the course of the 1970s and early 1980s, oil price shocks led to economic recession, employers had to lay off many workers, causing a large labour surplus. For employees as well as for employers, the WAO was seen as a far more desirable option than the time-limited unemployment benefits, and access was easy, especially for redundant older workers[6]. As Figure 1 shows, the annual number of disability benefits paid out to disabled employees tripled from 1970 to the early and mid-1980s. Since then, the Dutch Government has introduced a continuous stream of measures in an attempt to stabilise and bring down the numbers of WAO claimants. However, a resulting decline in the mid-1990s was set off by various trends, such as the strong growth in employment in the second half of the 1990s. This growth was especially due to a rapid and substantial increase in the labour participation of Dutch women (known as 'the Dutch job miracle') since, on average, women workers face a higher risk of disability than men. The growth is also due to the steady ageing of the Dutch work force. It is only in recent years that a structural decline seems to have set in.

4 WAO: Wet op de Arbeidsongeschiktheidsverzekering
5 TK (Minutes of Parliament) 1962–1963, Arbeidsongeschiktheidsverzekering, Memorie van Toelichting.
6 Cie. BUURMEIER, Enquete naar het functioneren van de organen belast met de uitvoering van de sociale verzekeringswetten, Commissie Buurmeier (The Hague, SDU, 1993).

Figure 1. *Number of WAO-benefits (x 1,000: end of year).*



Source 1970–2006: Kroniek van de Sociale Verzekeringen 2008, UWV, The Hague
Source 2007–2008: Kwantitative Informatie 2008, UWV, The Hague

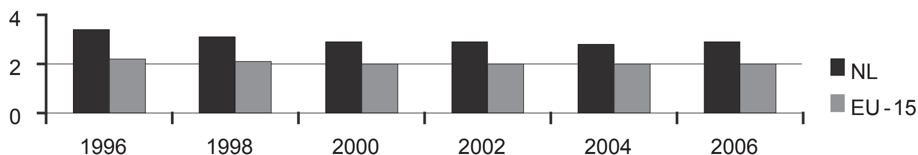
Note: Figures for the situation after 2006 include the WAO and the new WGA and IVA benefits (see Box 2 and related text for an explanation of the benefit types).

An extra number of approximately 150,000 has to be added to the annual numbers of WAO benefits in Figure 1, representing the benefits paid out to disabled self-employed and young handicapped persons. During the 1990s, it was feared that the total number of disability claimants would exceed one million, a number that served in the debate as a diabolic threshold that should never be crossed.

That the Dutch experienced the disability benefit numbers as highly problematic can be understood when the figures are compared to the number of claimants of other Dutch benefits and to average EU figures. The high annual figures in the course of the 1990s of 700,000 – 800,000 disability claims paid out to (partly) disabled Dutch employees can be compared to much smaller average figure of about 250,000 Dutch persons claiming unemployment benefits and 350,000 claiming social assistance. As for a comparison with EU figures, Figure 2 shows that the Dutch spending on disability benefits has been well above the EU-15 average level on a permanent basis. In Finland, the disability problem seems even more compelling than in the

Netherlands because, since 1994, the annual spending levels in Finland have been approximately 0.5 per cent higher.

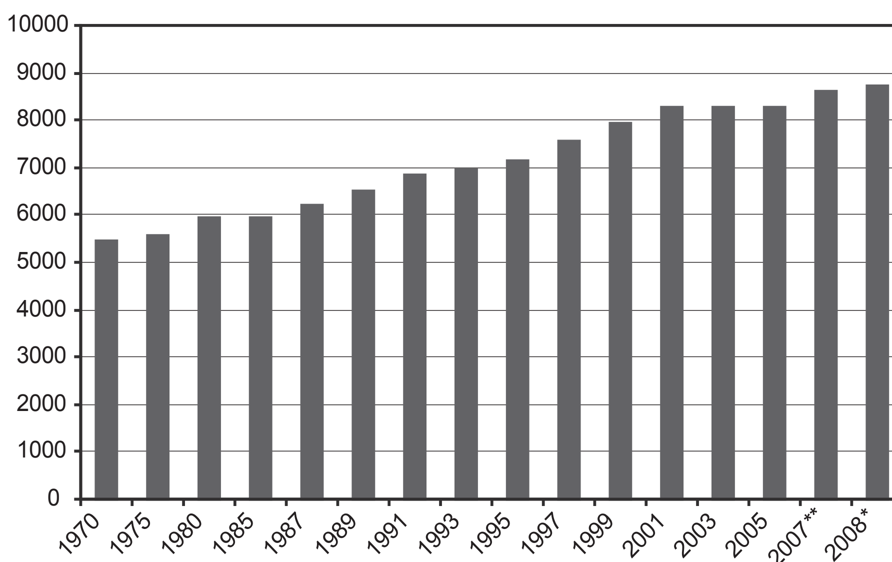
Figure 2. *Disability benefit spending (% of GDP).*



Source: Eurostat, *ESSPROS*, online data portal, 19-02-2009.

Figure 3 shows the growth in the number of employed persons in the Netherlands. This figure is steadily increasing, testifying to the fact that the Dutch economy recovered well from the crisis in the 1980s. However, the figure also shows that there was a particularly strong upswing in employment at the end of the 1990s and the beginning of the 21st century. As Figure 1 shows, there was also a strong increase in the number of disability claims during this period. As mentioned above, this is related to the fact that the employment increase mainly concerned women entering the labour market *en masse* (be it mostly in part-time jobs). When we compare Figures 1 and 3 for the most recent 5-year-period, we see that the rise of employment is now combined with a drop in disability claims, despite the ageing of the working force. This would suggest that the reform measures taken, which I will describe below, have been quite successful in bringing down the (relative) number of disability claims. Whether the measures taken were successful in other respects is an issue I will discuss at the end of this paper.

Figure 3. Number of employed persons x 1,000.



Source: Dutch Statistical Office website, CBS.nl, 05-11-2009.

3.3 Reforms of the Dutch disability benefit schemes

From the end of the 1970s to the beginning of the 1980s, the Dutch system of disability-related income benefit schemes for employees distinguished between income protection in case of 'short-term' incapacity – covered by the sick pay scheme ZW[7] – and of 'long-term' incapacity – the disability benefit scheme WAO proper. The sick pay lasted for a maximum of one year, after which employees with enduring impairments or health problems could enter the disability benefit scheme. Additionally, there where separate benefit schemes for young handicapped persons and for self-employed persons with long-term health problems.

7 ZW: Ziektewet

In my discussion of the reforms, I will concentrate on the schemes for employees – ZW and WAO – since they have been the ones with problematic numbers of claimants. I will discuss sick pay ZW first, since it is the portal through which employees can enter the WAO disability benefit scheme[8] after one year of sickness.

3.3.1 Short-term disability: sickness

Before the start of the reform period in the early 1980s, the Dutch sick pay scheme, ZW, was a pay-as-you-go funded national social insurance scheme, offering an 80 per cent wage-related benefit, which was paid out for a maximum of one year. After the expiration of ZW, people could claim the WAO disability benefit. Contributions for the sick pay scheme were paid by employers and employees at single, nationally fixed percentages of the wage bill. Box 1 shows the subsequent reforms, which I will discuss briefly.

BOX 1

REFORMS of the Dutch sick pay scheme ZW

1985	replacement rate from 80 to 70 per cent
1992	TAV: premium differentiation
1994	TZ: privatisation of first 6 weeks of sick leave ARBO: statutory contracting of 'arbo-dienst'
1996	WULBZ: privatisation of full sick pay year
2002	Gatekeeper Act: scheduled and statutory employer's and employees obligations for work re-insertion
2004	Extension of sick pay period to 2 years

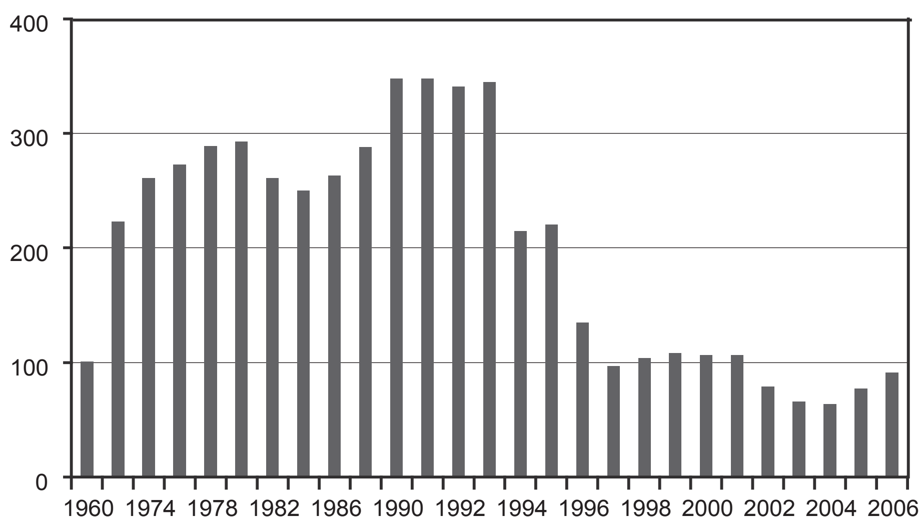
8 For a discussion of Dutch disability benefit developments and reforms which includes all schemes, see: Bakker Tauritz, B. & Landheer, W. (2006) "Curing the Dutch disease? Employers' role in reducing disability receipt in the Netherlands", in: P. Kemp, A. Sunden, B. Bakker Tauritz (2006) Sick societies? Trends in disability benefits in post-industrial welfare states, ISSA, Geneva, pp. 109–138.

Since sick pay ZW is the portal to the entitlement for a WAO disability benefit, the Dutch Government has tried to reduce the inflow and stay in the ZW scheme. In an early reaction to the soaring WAO claims figures following the oil price shocks, the earnings replacement ratio in all Dutch social insurance schemes, including sick pay, was reduced from 80 to 70 per cent in 1985. However, the main revisions to the ZW were not introduced until 1992 with the Act on Reducing the Disability Volume (TAV)[9], which differentiated the hitherto single national contribution rates along sectors of industry in order to create some incentive for sectors with high sickness absenteeism to reduce sick pay claims. Since this was rather inefficient, a major revision was carried out in 1994, when the Act on Reducing Sickness Absenteeism (TZ)[10] made employers responsible for paying sick employees at least 70 per cent of their wage for the first six weeks of absence (two weeks for companies with less than 15 employees). In effect, this meant that benefits for the initial weeks of sickness became privatised and were no longer a charge on the national sickness fund. Employers either now paid wages to sick employees directly or, as most did, reinsured the risk with a private insurance company. The TZ also imposed a second obligation on employers, namely the reduction of sickness absenteeism, by requiring all firms to develop and implement sickness absence prevention and control policies. For this they had to contract the services of private, for-profit so-called 'arbo-diensten', or 'working conditions services'. The privatisation of the first weeks of sickness benefit had an immediate and significant effect. As Figure 3 shows, the number of sick pay years (that is, the total duration of all benefits paid out in a single year) fell from 345,000 in 1993 to 215,000 in 1994. Although there is a natural floor to sickness absenteeism, the Government hoped that further privatisation would result in further decreases and extended the period of employer responsibility for sickness benefits to one year. The measure, known as the WULBZ, the Act on Extension of Wage Pay in Case of Sickness[11], came into effect in March 1996. Again, absenteeism decreased substantially.

9 TAV: Terugdringing Arbeidsongeschiktheids Volume.
10 TZ: Terugdringing Ziekteverzuim.
11 WULBZ: Wet Uitbreiding Loondoorbetaling bij Ziekte.

Although the WULBZ implied the practical abolition of the national ZW sickness benefit, ZW still covers specified categories of the population, such as pregnant women, (partially) disabled workers and people on temporary contracts and apprentices – an estimated 15 per cent of the population previously covered. However, for the majority of Dutch workers, ZW has been replaced by the employer's obligation under civil law to replace earnings during sickness leave. Thus, ZW has in effect been transformed from a fully-fledged national insurance scheme into a safety net for specific vulnerable groups.

Figure 4. *Number of sick pay years (x 1,000).*



Source: *Kroniek der Sociale Verzekeringen 2008*, UWV, The Hague

Note: The figures before and after 1996 are not strictly comparable since, after the privatisation, employers no longer have the legal duty to report sick pay claims.

After the privatisation of sick pay and the resulting decrease in sick pay claims, further reforms were implemented, which aimed not so much to control inflow but to stimulate outflow of claimants in order to prevent ensuing claims for the WAO disability benefit at an early stage. The Gatekeeper Act of 2002 laid clear guidelines for employers and employees for a series of concrete activities that should be applied in order to stimulate an employee's return to work as soon as possible. These guidelines include using the services of an 'arbo-dienst' right from the first week of sickness and drawing up a concrete plan for re-insertion after eight weeks.

If the employer or employee does not cooperate sufficiently in this plan, either the employer has to pay the ensuing WAO disability benefit or the employee will not be entitled to such a benefit, according to the discretion of the national social insurance administrative body, the UWV[12]. In order to further limit the inflow into the WAO disability benefit, the sick pay period was extended from one to two years in 2004.

3.3.2. Long-term disability

Before the reform period, the WAO disability scheme was a pay-as-you-go funded national social insurance scheme, offering an 80 per cent wage-related benefit, which was paid out for as long as the disability lasted (that is, until the age of 65 years at the maximum, at which time the disability benefit was replaced with old-age pension). Disability was assessed as the degree to which a health problem or impairment results in the loss of earnings capacity. The scheme paid out benefits if the loss was 15 per cent at the minimum. Contributions for the scheme were paid by employers and employees at single, nationally-fixed percentages of the wage bill. Box 2 shows the subsequent reforms, which I will discuss briefly.

As shown in Box 2, soon after the 80 per cent to 70 per cent reduction of the earnings replacement ratio in 1985, the most important change in the WAO scheme was the abolition in 1987 of the provision that prescribed full compensation for the reduced labour market prospects of partially disabled workers. Partially disabled people without a job used to receive a full earnings-related disability benefit on the grounds that their labour participation chances were virtually non-existent. It was this provision, combined with the unlimited duration of the WAO benefit, which made claiming the WAO benefit much more attractive than claiming unemployment benefit. After this change, partially disabled workers without a job were only entitled to a partial, rather than a full, wage-related disability benefit, and had to combine this with a time-limited unemployment benefit (WW). Once entitlement to this unemployment benefit was exhausted, partially disabled workers had to apply for means-tested social assistance, which often meant a sharp reduction in income. Furthermore, in 1987, the disability status of all claimants between the ages of 18 and 35 was re-assessed, resulting in about half of them either loosing their benefit or having it reduced. This was the first massive re-assessment of existing claims. Others would follow.

12 UWV: Uitvoeringsorgaan Werknemersverzekeringen.

As Figure 1 shows, the measures taken did not prevent a further increase in the number of disability benefit claimants. As a reaction to this, two major pieces of legislation were implemented in the early 1990s. The first of these, the 1992 Act on Reducing the Disability Volume (TAV), aimed at increasing incentives for employers to prevent disability benefit claims. It introduced a 'bonus-malus-system', offering employers a subsidy if they recruited a disabled worker for at least a year. In addition to this one-off subsidy, a 20 per cent wage subsidy was also introduced. At the same time, a fine or 'malus' was introduced for employers who terminated the employment of an employee who became disabled. The fine turned out to be very unpopular with employers, and the administrative boards experienced considerable practical difficulties in implementing this measure, leading to its abolition in 1995. In 1993, a second piece of legislation, the Act on Reducing Disability Claims (TBA)[13], which attempted to reduce the inflow by sharpening the definition of disability and its practical assessment, was passed. Under the TBA, disability was determined in a more medical rather than a social sense. Firstly, the act stipulated that the relationship between defect and loss of work capacity, which in the Dutch system is measured as the degree of loss of earnings capacity, has to be 'directly and medically objective', in an attempt to limit the supposedly generous subjectivity of the insurance doctors who assess disability. Secondly, whereas loss of earnings previously had been calculated on the assumption that the incapacitated worker could continue to earn a living by doing 'suitable work', defined as work suited to the worker's educational level and previous type and level of employment, the TBA required that it be calculated on the basis of 'generally accepted work', a much broader concept, which is not related to education or to former employment. As a result, more jobs were now regarded as being 'available' to the disabled, thus making it more difficult for any worker to be assessed as incapacitated.

13 TBA: Terugdringing Beroep op de Arbeidsongeschiktheidsregelingen.

BOX 2

REFORMS of the Dutch disability scheme WAO

1985	replacement rate from 80 to 70 per cent
1987	Partial benefits for partially disabled Re-assessment 1: of claimants between the ages of 18 and 35
1992	TAV: bonus-malus for employers 20 per cent wage subsidy for newly-hired disabled workers
1993	TBA: sharpening disability assessment Re-assessment 2: of claimants below the age of 50 Duration of wage-related benefit depending on age
1998	PEMBA: premium differentiation across sectors
2004	Re-assessment 3: of claimants below the age of 55
2006	WAO abolished, WIA established: IVA for > 80 per cent disabled, for 5 years, 75 per cent wage-related benefit WGA for > 35 per cent and < 80 per cent disabled, wage-related benefit with level depending on degree of disability and duration depending on age; extra com-pensation if working

Thirdly, the TBA stipulated that every existing WAO claimant under fifty years of age had to be re-assessed in accordance with the new standard. In the first two years after its implementation, this rule resulted in a withdrawal of the full WAO benefit in 50 per cent of all reassessed cases. Those who had their WAO benefit withdrawn were declared to be fully unemployed rather than (partially) disabled and thus had to rely on the unemployment benefit, with its limited duration. Fourthly, the TBA introduced age as a criterion for assessing the level and duration of benefit payments. As a result, the WAO benefit no longer stood at 70 per cent of previous earnings for as long as incapacity to work lasted, but was limited to a maximum of six years for people over 58 years (after which they became entitled to the state pension, AOW). For younger people, the period in which the WAO benefit was earnings-related was shorter than six years. When the earnings-related

benefit expired, people received a lower level 'follow-up benefit' for as long as their disability lasted. The difference between the previous level of 70 per cent and the age-related 'follow-up benefit' became known as the 'WAO gap' (*WAO-gat*). Through collective labour agreements, this gap has been 'repaired' for an estimated 60 per cent of employees, by means of (semi) private insurance.

At first, these 'volume' policies of the early 1990s, including TAV, TAB and the second re-assessment, resulted in a decrease of the number of claimants, but as Figure 1 shows, the effects did not last for very long. They were set off by a strong increase in employment (the Dutch 'job miracle of the second half of the 1990s), as well as by the fact that the Dutch civil servants joined the WAO scheme (previously, they had their own system). In a further attempt to control the inflow of WAO claimants, the Act on Premium Differentiation and Market Regulation (PEMBA)[14] was passed in 1998. Like the TAV, it aimed to promote employers' individual responsibility for the prevention of disability and for the (re)integration of disabled workers. Under PEMBA, employers' contributions to the WAO scheme, which used to be the same for all employers, were differentiated according to risk, i.e. to the number of disability claims coming from individual firms and from different sectors of industry. As a result, firms and sectors of industry that generate more disability claims pay higher contributions. They can cut costs by preventing disability claims through improved working conditions or by adapting workplaces for disabled employees.

Figure 1 shows that PEMBA did not have a visible and immediate effect on the number of WAO claims. It is only after 2002 that the number starts to drop, to a level in 2006 equal to what it was in the beginning of the 1980s, but now in a situation with a larger labour force[15]. There is some debate whether and to what degree the drop is the result of lagged effects of PEMBA and/or the effect of introducing the Gatekeeper Act, which introduced strong controls on re-insertion of sick employees in the stage of sick pay. Certainly, the extension of the sick period from 1 to 2 years has had an additional effect, as well as the third re-assessment of all claimants below the age of 55 in 2004.

14 PEMBA: Premie-differentiatie en Marktwerking bij Arbeidsongeschiktheidsverzekeringen.

15 This means that the percentage of the work force with a WAO benefit has dropped: from about 13 per cent in the end of the 1990s to about 10 per cent in 2006.

The drop in the number of claimants did not prevent the Government from abolishing the WAO benefit scheme completely in 2006 and replacing it with WIA[16], which contains two new schemes. One of the schemes, the IVA[17], focuses on fully disabled workers (that is, on those with a loss of earnings capacity of at least 89 per cent). The scheme pays out a 75 per cent wage-related benefit for a maximum period of 5 years, after which the claim has to be re-assessed. The other scheme, the WGA[18], focuses on partially disabled workers and pays out a wage-related benefit when the disability is at least 35 per cent, compared to the 15 per cent under WAO, and when the duration is 38 months at the maximum. After expiration, a non-working disabled person will receive a minimum flat-rate benefit, while a partially working disabled person will receive a wage on top. The work and work re-insertion character of WGA is much stronger than that of WAO, since it is seen as a scheme for workers who are partially fit for work, while WAO was a scheme seen for those who where fully or partially unfit for employment. There are no statistics yet to evaluate the effect of WIA on the inflow of people on a disability benefit.

4 Discussion

Clearly, the reforms imply a retrenchment of disability entitlements for disabled workers, and they have reconstructed substantially the incentive structure for both employers and employees with respect to their rights and duties regarding short-term and long-term disability.

Much more directly than before, employers now carry the costs involved. They do not share part of the sick pay premium costs with employees anymore, since employers are responsible for paying up to two years of sick leave and the disability scheme includes premium differentiation. In addition, under Gatekeeper, employers have a more direct responsibility for the work (re)insertion of sick and disabled employees, with the possible penalty of having to pay the long-term disability benefit in case of negligence. The Government had anticipated reactions of employers who would want to screen the health status of new employees much more closely in order to prevent the high costs related to possible health and impairment problems.

16 WIA: Werk en Inkomen naar Arbeidsvermogen.
17 IVA: Inkomensverzekering voor volledig en duurzaam arbeidsongeschikten.
18 WGA: Werkhervatting gedeeltelijk arbeidsongeschikten.

In 1998 it introduced the Act on Medical Examinations (WMK)[19], stipulating that the medical examination of job applicants is forbidden, with the exception of situations in which special fitness demands are a job requirement. However, evaluation studies[20] have shown that chronically ill and (partially) disabled people experience greater difficulty in (re)entering jobs because employers screen new employees' health status more stringently and that the chances of workers with a poor health status being fired have increased. It has also been found that the number of temporary labour contracts, which are used as a means of screening new employees' 'sickness leave behaviour', nearly doubled, while the practice of employers hiring workers through employment agencies to reduce their responsibility for sickness pay also rose significantly.

Employers have reacted to the reforms in other ways, as well. There has been a large-scale move towards reinsuring with private companies against the risk of sickness absenteeism, and employers have intensified their guidance and control practices in relation to sickness absence. A trend towards a more active sickness absence policy is clearly noticeable in many Dutch firms and institutions.

The incentive structure for employees has changed, as well. Although WULBZ, the new sick pay scheme, has no effect on the amount of sick pay that employees are entitled to (which is still 70 per cent of the wage), as it does not mean a shortening of the sick pay period (instead, the duration has been extended from one to two years), it has become more difficult for employees to stay at home sick, or to be eligible for a disability benefit. Under the Gatekeeper Act, employers and arbo-services more directly attempt to re-insert sick workers as of week one, and the assessment procedures for the long-term disability benefit have been made much more stringent. In addition, the duration of the wage-related WAO benefit has become much shorter on average, as the duration is dependent on the age of entry.

However, although the numbers of WAO disability benefits are dropping, and while increasing emphasis has been placed on what disabled workers can do instead of what they cannot do, the actual labour participation of disabled people has gone down in the course of the 21st century. In 2000, approximately 53 per cent

19 WMK: Wet op de Medische Keuringen.

20 SCP, Sociaal en Cultureel Rapport 1996 (Rijswijk, Sociaal en Cultureel Planbureau, 1996); SCP, Rapportage Gehandicapten 2000 (Rijswijk, Sociaal en Cultureel Planbureau, 2000).

of all disabled workers had a job (full-time or part-time), but this figure declined to about 42 per cent in 2005.[21] In the same period, there was a trend towards a marginalisation of disabled workers, indicated by an increasing proportion of them working in small part-time jobs. After careful analysis of the possible economic and demographic reasons for these trends, Besseling et al (2007) conclude that the adverse effects of changes in the incentive structure for employers, for whom it has become more costly and risky to employ people with health problems, are stronger than the welfare-to-work approach underlying the new disability scheme, the WIA. In other words, with the reforms, the incentives for employers have been such that employers have become more reluctant to employ workers with health problems.

Finally, I should mention that, at present, a new 'numbers problem' is evident in regard to the Dutch disability benefit. This time, the problem concerns the explosive increase of young people in the scheme for young handicapped persons, the WAJONG[22]. In the course of the 21st century, the yearly inflow nearly tripled, while the number of claims rose from about 100,000 in 2000 to 160,000 in 2007. The reasons for this development are various, but the most important ones seem to be the following: new mental health related problems in the autistic spectrum are increasingly diagnosed and seen as a reason for a benefit, and municipalities have financial incentives to refer young persons to the (national) WAJONG scheme instead of to the (municipal) social assistance benefit scheme.[23]

21 Besseling, J, de Vroome, E., Klein Hesselink, J., Sanders, J. (2007) "Beter aan het werk: trendrapportage ziekteverzuim, arbeidsongeschiktheid en werkhervatting", Sociaal en Cultureel Planbureau SCP, Figure 8.3, p. 190: In the same period also the overall labour market participation dropped, but relatively much less.

22 Wet Arbeidsongeschiktheidsvoorziening Jonggegehandicapten.

23 See: Suijker, F. (2008) "Verontrustende stijging Wajong", in: Economisch Statistische Berichten, 11 January, pp. 24–27.

List of abbreviations

IVA: Wet Inkomensverzekering voor Volledig en Duurzaam Arbeidsongeschikten (Act on Income Insurance for Fully and Permanantly Disabled People)

PEMBA: Wet Premie-differentiatie en Marktwerking bij Arbeidsongeschiktheidsverzekeringen (Act on Premium Differentiation and Market Regulation with Disabilty Insurance)

TAV: Wet Terugdringing Arbeidsongeschiktheids Volume (Act on Reducing Disability Volume)

TBA: Wet Terugdringing Beroep op de Arbeidsongeschiktheidsregelingen (Act on Reducing Disability Claims)

TZ: Wet Terugdringing Ziekteverzuim (Act on Reducing Sickness Absenteeism)

WAJONG: Wet Arbeidsongeschiktheidsvoorziening Jonggehandicapten (Disablement Provision for Young Handicapped People)

WAO : Wet op de Arbeidsongeschiktheidsverzekering (Disablement Benefits Act)

WGA: Wet Werkhervatting Gedeeltelijk arbeidsongeschikten (Act on Work Resumption by Partially Disabled People)

WIA: Wet Werk en Inkomen naar Arbeidsvermogen (Act on Work and Income by Workcapacity)

WMK: Wet op de Medische Keuringen (Act on Medical Examinations)

WULBZ: Wet Uitbreiding Loondoorbetaling bij Ziekte (Act on Extension of Wage Pay in Case of Sickness)

ZW: Ziektewet (Sickness Benefit Act)

Box 4. Disability pensions and sickness benefits in brief – Denmark.

In Denmark, the disability pension scheme was reformed in 2003. The scheme is residence based. In the new system, the assessment of disability is based on an overall work capacity left for any type of work. Partial benefits were abolished in the 2003 reform. The benefits are flat rate benefits.

A disability pension can be granted to a person aged 18–65, and the municipalities are responsible for granting the pensions. To be eligible for a pension, the work capacity has to be reduced permanently so that the insured cannot support him/herself even with a part-time job or with different kinds of subsidies. Temporary benefits do not exist.

In the work ability assessment, the remaining work capacity is strongly emphasized. The medical factors that restrict work capacity are not specified. In addition to health, other elements, such as work experience and social network, are taken into account in the assessment. A person receiving a disability pension may work, as long as the income does not exceed a certain upper limit. To support the employment of people with partial work capacity, the income limit was raised in 2008.

The employer is responsible for paying the sickness benefit during the first 21 days of sickness. In practice, and based on labour market agreements, the employees are entitled to a full pay for the whole period of sickness in many branches. The sickness benefit can be paid for a maximum of 52 weeks during 18 months. The benefit can also be partial and, if necessary, the payment period can be extended. Unlike in the other Nordic countries, the employee's protection for dismissal is weak in Denmark: the employee can be dismissed because of sickness during the sickness benefit period.

Kirsten Brix Pedersen[24]

4 What is Denmark doing to stop people from ending up on disability pensions?

4.1 Introduction

Every day the slogan "The slightest contact to the labour market is better than none at all" flashes across the website of the Danish Labour Market Authority. There is good reason for this. It puts focus on the fact that a core principle in employment efforts is that employability enhancement initiatives always take precedence over passive assistance. If an individual has the ability to work, and this can be utilised on the labour market, then efforts must be made in this area, not on passive assistance.

4.2 About employability enhancement

Employability enhancement has been part of Danish employment policy since 1990, but the focus of initiatives has shifted underway. The original aim of employability enhancement was that people on public assistance with full ability to work should make an effort themselves in return for this assistance.

Denmark has seen a trend where, for example, an increasing number of people of working age have been unable to work full time on the ordinary labour market because of sickness. The number of people on disability pensions has been increasing and, together with the Danish early retirement pension scheme, under which people can leave the labour market because of burn-out or fatigue before they reach the state retirement age, this has meant a drop in the percentage of the population who is active on the labour market.

In line with falling unemployment, this has led to an increasing focus on providing as many people with a limited ability to work as possible with the opportunity to engage in an active life on the labour market. In 2003, this increased focus resulted in a disability pension reform. The aim of the reform was to ensure that everyone with an ability to work also had the opportunity to use this ability on

24 Kirsten Brix Pedersen is Head of section in The National Directorate of Labour in Denmark.

the labour market, primarily in jobs on normal terms or, if this was impossible, in flex jobs. Thus, an individual cannot receive a disability pension if he can cope with a flex job. The basis for these efforts is the individual's ability to work, and focus is placed on the individual's resources rather than his limitations. In other words, we look at what the individual can do or can be helped to do, rather than at what he cannot do. Therefore, the individual's ability to work on the labour market always forms the basis for case processing.

The concept of the ability to work is now used in all case processing, and it ensures cohesive efforts and a full assessment of all resources so that, as far as possible, the individual can be helped back into the labour market. This also means that the medical assessment is only included in the decision as part of an overall assessment of the individual's total resources. Therefore, before granting a disability pension today, the individual is subject to a more protracted process under which work trials and tests examine the possibilities of retaining the individual's attachment to the labour market. The point of departure is always the shortest possible route back to work.

To some extent, the entire target group has a limited ability to work, either as a result of sickness or disabilities. Some people can overcome these limitations with assistance and support, by designing the workplace so that it takes any special needs into account, by providing help in commuting to and from work, and/or by offering personal assistance to cope with the challenges at the workplace. For others, their limitations may mean that they are unable to work within their normal field, but that, with the right help and retraining, they can work in an entirely different field. In this context, we can offer what we call a rehabilitation programme under which, over a number of years, an individual attains competencies to work in a new field. Finally, there is a group of people whose sickness or disabilities are truly a limitation, no matter what type of work we are talking about, but who can still work on reduced hours. A flex job could be a possibility for this group of people.

4.3 Flex job

The flex job scheme was introduced in 1998 as part of efforts to promote a more inclusive labour market. Since then, the scheme has been adjusted several times. Today, it is a well-known tool in Denmark, used to retain and re-integrate people

with reduced ability to work on the labour market.

The target group for flex jobs is people under the age of 65, who suffer from a permanent reduced ability to work. In order to qualify for a flex job, the person concerned must be unable to cope with a job on normal terms. The scheme has been far more successful than expected. There are many reasons for this.

Seen in isolation, the flex job scheme is a "win-win situation" for the parties involved: the employee, the employer *and* the trade unions.

- The employer is granted a subsidy for the person's reduced ability to work of either one half or two-thirds of the starting pay.
- In most cases, people employed in a flex job receive pay for thirty-seven hours per week, even though they are able to work only for a reduced number of hours, or full time with reduced efficiency.
- Generally, people employed in a flex job must receive the same pay as stated in collective agreements.

In addition, the flex job scheme provides more hands on the labour market, which – crisis or no crisis – will be needed in a few years' time due to demographic developments. Studies show that people employed in a flex job relate their job satisfaction to the fact that they can stay on the labour market in a job that resembles a regular job, while their specific health situation is taken into consideration.

The basis for one of the adjustments was the reform of disability pensions, which means that only people who are unable to cope with a flex job are entitled to a disability pension. Consequently, the rules on flex jobs have been greatly improved to encourage the creation of more flex jobs, so that fewer people would be granted disability pension.

4.4 Developments in the area

Unfortunately, the reform has not had the effect that we had hoped for. Generally, more people are receiving permanent benefits. The number of people in a flex job receiving unemployment benefits has greatly increased. Today, about 50,000 people are employed in a flex job. At the same time, about 11,000 people, who are entitled to a flex job, are receiving unemployment benefits. Yet, there has not been a decline in the number of people receiving disability pension. This is not the least because

more young people under the age of 40 are receiving disability pension because they are suffering from a mental disorder.

The figures show a drop in the number of unemployed people in flex jobs since 2007. The current financial crisis has not changed this in any significant way. Another important reason for adjusting the rules was that surveys have shown that, in far too many cases, decisions made about flex jobs by municipalities have been made on an inadequate basis. Therefore, the assumption has been that there might be people in the flex job scheme who could cope with a job on normal terms, if they were rehabilitated. In this way, the weakest groups might be prevented from qualifying for a flex job. We are very aware of this. As a result, we are considering whether there is a need for further changes in the flex job scheme to limit access to flex jobs for people who are able to cope with a job on normal terms.

Overall, there is no doubt that, in employment terms, the flex job scheme is a step forward. The scheme has not merely meant that there are more hands on the labour market. It has also meant that many people have a much greater quality of life, because they are part of the working community and feel that they are needed, despite their reduced ability to work.

However, it is clear that there is still a need to curb the number of people moving into long-term, passive support and to strengthen retention in the ordinary labour market.

4.4.1 Sickness absence

One of the focus areas in Denmark has been increasing absenteeism due to sickness. We know that there is a high risk that those with long periods of absenteeism due to sickness end up on disability pension. The Danish Parliament recently adopted a new Sickness Benefits Act, which will enhance efforts to provide people reporting sick with the help necessary to retain their jobs and to prevent them from becoming excluded from the labour market. The new Act launches a number of initiatives to strengthen efforts made by enterprises, municipalities, unemployment insurance funds, GP's and the sick employees themselves to maintain an attachment to the labour market.

In the future, the employer must conduct an interview with a sick employee within four weeks in order to clarify when and how the employee can return to work. No later than at the end of the eighth week of sickness, the municipality must

contact the workplace and initiate a dialogue on the possibilities of the workplace taking the sick employee back to work, either fully or gradually. In order to clarify the best way in which the sick employee can continue working again, the employee's GP can draw up a 'report of possibilities', focusing on the work functions that the sick employee can carry out, despite his sickness.

In order to enhance municipalities' opportunities to provide early and targeted help to get the sick employee back to work, anyone who cannot restart work part time can be offered help to retain his attachment to the labour market. This type of assistance may contain guidance on the upgrading of skills or on-the-job-training. Exercise, coaching and psychological help can also be included in the plan for getting the sick employee back to work. It is hoped that these new initiatives for sick employees will help divert them from the road to disability pension.

4.4.2 Flex jobs and disability pensions

As I have already mentioned, Denmark has seen a marked increase in the number of flex jobs, without an appreciable corresponding drop in the number of people on disability pensions. Naturally, this has caused some concern about how to reverse this trend.

Some years ago, the Government set up a Labour Market Commission, which has just published the results of its work. Among other things, the Commission has focused on the fact that current efforts have not been good enough to prevent people with temporary sickness from ending up on disability pension. The Commission has also indicated that the individual should have better opportunities and more encouragement to improve his ability to work, especially in the flex job scheme.

The main recommendations from the Commission have therefore been to introduce special development programmes for the individuals who are at risk of ending up on disability pension. The Commission also recommends that the flex job scheme be changed so that it is more targeted towards people with a limited ability to work, and so that subsidy levels better motivate employers and people in flex jobs to increase working hours, when possible.

The issues highlighted by the Commission are also central issues in the debate between the political parties behind the disability pension reform. In particular, there has been a focus on efforts to prevent the granting of a disability pension to people with mental disorders. In 2008, 48 per cent of people starting on disability pensions had mental disorders as their primary diagnosis. This represents an increase of 16 percentage points since 2001. The percentage is increasing within all age groups, but the young are particularly hard hit. More than seven out of ten of those under the age of 40 starting on disability pension suffer from a mental disorder.

Denmark is not the only country in the world that finds people with mental disorders increasingly appearing in disability pension statistics. Many other European countries have witnessed an increase in the number of people dropping out of the labour market because of mental disorders, and the OECD has paid much attention to the problem. This should be seen in the context of psychiatrists having told us that many mental problems can be relieved over time. Studies have confirmed that people with reduced ability to work believe that they will get better in time. For example, one study showed that one-third of those on disability pension believe that they possessed a better ability to work. However, another problem is that the weakest are overlooked in the flex job system as it is today, and that, as expected, the labour market has not become inclusive enough for as many as possible to be able to get a job without public support, for example what we call agreement-based light jobs, in accordance with the social chapters in collective agreements.

We are well aware that, at the moment, we are in a very difficult economic situation. Unemployment is growing, and even though the worst is hopefully over, it can be hard to explain why we should focus on those with a limited ability to work when there are so many others waiting for a job on the ordinary labour market.

The answer is probably not either/or, but both. As we begin to see economic growth again, the unemployed will find work automatically. But those with a limited ability to work will only find work if we start to help them now to overcome the challenges they face. It is all about increasing and improving employability-enhancement efforts, ensuring the right form of rehabilitation and increasing employers' responsibilities and incentives to include people with a reduced ability to work. We have to take developments seriously and adapt our system regularly to match the trends we are facing. As I pointed out, we are well aware of the problem in Denmark, and our work continues.

Box 5. Disability and sickness benefits in brief – Sweden.

In Sweden, disability pensions are part of the health insurance scheme. The benefits are financed by employer contributions. There are two types of benefits: activity and sickness compensation. The activity compensation may be granted to young people aged 19 to 29 if their work capacity is reduced by at least one quarter for at least one year. The activation compensation is always granted as a temporary benefit. The sickness compensation is for people aged 30 to 64, whose work capacity is permanently reduced by at least a quarter. The reduction of work capacity is assessed against all work available in the labour market, and wage subsidy employment arranged for people with disabilities is also taken into account. The work capacity is reassessed every three years.

Sickness and activity compensation can be paid as income-related benefits and so called guarantee benefits, if the previous income from employment was low or there was no income. Benefits can be paid as full, three-quarter, half or one-quarter partial benefits, depending on how much the work capacity has been reduced. Temporary benefits were discontinued in July 2008. When sickness or activity compensation has been paid for at least one year, the beneficiary can try working without losing the entitlement to the benefit. The compensation can be made “dormant” for a maximum of 24 months or for the remaining period for which the benefit has been granted.

When an employee falls ill, the employer pays sick pay during the first fourteen days. The first day forms a waiting period, when no compensation is paid. The sick pay is 80 per cent of the employee’s salary. In practice, and based on contracts, the pay is higher in various branches. After fourteen days, the sickness benefit may be paid up to 364 days during a period of 450 days. This period can be extended in certain cases. Like disability pensions, the sickness benefit can also be paid as a three-quarter, a half or a quarter partial benefit.

Leif Westerlind[25]

5 Changes to reduce sickness absence in Sweden

5.1 Development of sickness absence

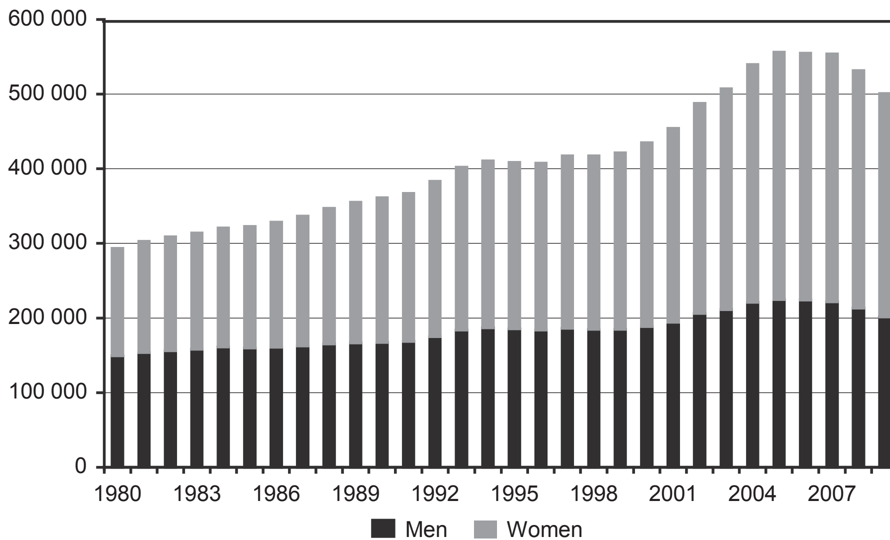
The payment of sickness benefits has varied greatly over time. A considerable rise in the sickness absence volumes at the end of the 1980s and the early 1990s took a turn downwards in the mid-1990s. During the period 1997–2002, sickness absence volumes doubled again. After yet another change in the development, and following the top figures in 2002, sickness absence volumes have been reduced by more than half.

Figure 1. *The number of sickness absences at the end of each month from January 1998 to August 2009.*

25 Leif Westerlind is a Senior Adviser at the Ministry of Social Affairs in Sweden.

However, this does not provide us with a correct image of sickness absences in Sweden. During the major part of the last three decades, the number of early retirements[26] has increased. A large part of the reduction in sickness absence volumes during the period 2003–2005 was due to an increasing number of early retirements of persons on sickness absence.

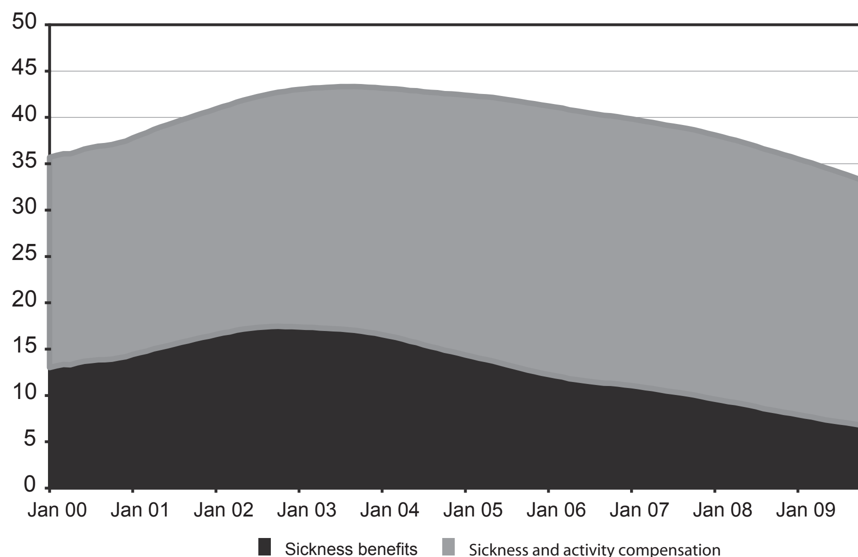
Figure 2. *Number of persons on early retirement during the period 1980-2009.*



A more correct description of how sickness absences have developed can be achieved by using the so-called sickness rate. This rate contains the number of days for which sickness benefit, rehabilitation allowance and early retirement has been paid. The sickness rate represents the average number of days per year for which persons aged 16–64 have received health insurance benefits.

26 The term 'early retirement' refers to disability pensions throughout the text. As of 2003, there are two benefits, the activity compensation for persons aged 19–29 years and the sickness compensation for persons aged 30–64 years.

Figure 3. *The sickness rate since January 2000.*



During the major part of the last three decades, sickness absence volumes in Sweden have been among the highest in OECD countries. This trend has been broken only in recent years.

5.2 Social insurance survey

In October 2006, the state social insurance survey presented its final statement *Mera försäkring och mer arbete* (”More insurance and more work”). The survey was commissioned by the former social democratic government, with Anna Hedborg, former social democratic Minister of Social Insurance and CEO of the former National Swedish Social Insurance Board, as the reviewer.

The survey's description of the problem can be summarised as follows:

- Health insurance has become too "soft". Other factors than health-related problems have been allowed to affect the exploitation of health insurance. One of the main factors is the situation on the labour market. Consequently, the result has varied vividly over time and per region in a manner that does not mirror the changes and differences in the health situation.
- All types of sickness cases have lasted longer, which has resulted in an increasing estrangement from the labour market.
- The lack of stability has led to frequent changes in rules in foundational areas, such as the levels of compensation and the question of who is entitled to compensation.
- Citizens cannot count on equal treatment. There is room for coincidence and individual circumstances, which is not compatible with a due legal process.
- Active inputs of various types usually come very late or not at all, and for many, going on sick leave is like descending into a black hole of waiting.
- There are no regulations stipulating how long the insured shall have to wait for Försäkringskassan ("Insurance Fund") to deliberate whether the insured can perform other tasks for the same employer or tasks normally available on the labour market.

Therefore, the survey presented a number of changes:

- More people must find their way back from sickness to work, and much more rapidly. A period of unemployment may be required before the person on sick leave can find new, more suitable work. The task of insurance schemes is to facilitate the rearrangement, and the changes must aim at anchoring what is desired and natural in the changes taking place.
- The focal point in the sick leave process must be advanced occupational health care. Guidelines for sick leave periods and a more formalized deliberation of work capacity may play important roles in providing the sick leave process with more firmness.
- One practically inevitable change is that a clear time limit is set for the sickness benefit. The extreme sick leave periods in Sweden are unique, as is the fact that there is no upper limit on the number of days for which sickness benefit can be received. A time limit must be combined with certain well-defined, rarely occurring exceptions and a stricter consideration of the entitlement to permanent benefits. The exceptions must be based on a very clear notion that the person on sick leave will return to work. For example, it may be a question of a long-term and demanding medical treatment process, which must be allowed to take its time.

5.3 Reforms in 2002–2006

In its budget proposal for 2003, the then reigning social democratic government stipulated as its goal to cut sickness absence volumes by half within five years. Sickness absence referred here to sickness absence for which a sickness benefit was paid from Försäkringskassan.[27] There was one restriction. The average number of granted new early retirements during the period was not to exceed the number of granted new early retirements in 2002. However, this was a fairly generous restriction, since the number of granted new early retirements was large in 2002.

The government emphasised that the handling of health insurance was to become more insurance-like (i.e., more restrictive), and that regional differences in the implementation of the health insurance must be reduced. To create this, the 21 formerly independent insurance funds and the National Swedish Social Insurance Board were combined into one, united authority: Försäkringskassan.

In 2005, it was also decided that employers would participate in the financing of the sickness benefit. Fifteen per cent of the sickness benefit paid to the employee was to be financed by the employer in the form of a specific fee. However, the fee was to be collected only for full-time sickness absence. This co-financing was abolished by the government that came into office in 2006, because it was felt that the fee made it more difficult for those who were suffering from a chronic disease or had been ill for a long period of time to return to work.

5.4 Reforms since 2006

While being in the opposition, the parties that formed the new government after the elections in 2006 had criticised the former government for doing too little to reduce estrangement from working life. Heavy criticism was directed toward a concealment of the actual unemployment rate via an intense increase of early retirements.

27 Even periods of sick pay with the employer were formally included in the goal, but it had no practical significance because of, among other things, incomplete official statistics of such absences.

5.4.1 Employment line

The government that came into office in October 2006 emphasised the employment line in health insurance. This means that all who can work shall be obliged to support themselves and shall be given the opportunity to do so.

The motives presented for the employment line was that society depends on everybody's work input to handle the challenges that the country will face henceforth in a globalised world and in the competition for the labour force. It is also important for the individual to be able to support him/herself. An increasing number of younger persons retired early during the 1990s, many of them women. For these individuals, a long-term estrangement from working life also leads to relative poverty and social estrangement.

In large part, the government reached the same conclusions that the social insurance survey reached, and many of the implemented changes were essentially based on this survey.

The starting point was that the health insurance must provide financial security for a person who suffers from an illness or injury and therefore cannot support him/herself by working. The focus must also be on active investments to facilitate the return to work of those on sick leave. Therefore, the health insurance must provide incentives to recover the individual's work ability and to offer more routes back to work.

5.4.2 Emphasis on early intervention

The government has emphasised the importance of early intervention.

In Sweden, with its uniquely long periods of sick leave from an international point of view, sick leaves of three months have been viewed as short, and many of the parties involved have often been passive. However, during recent years, it has become increasingly evident that sick leaves in themselves may be dangerous and increase the risk of estrangement. Already after three months on sickness absence, the risk of not being able to return to work increases considerably for the person on sick leave.

5.4.3 The new sick leave process – the rehabilitation chain

The purpose of the new sick leave process is to provide incentives for a more active sick leave process and to prevent the risks of long periods of sick leave and ensuing permanent estrangement.

The new sick leave process has fixed time periods concerning how the insured person's work ability shall be assessed (deliberated). The deliberation consists of three steps. During the first 90 days, the work ability will be assessed (deliberated) against the employee's ordinary work tasks. As of the 91st day, the assessment (deliberation) will be extended to cover other tasks for the employer, and as of the 181st day, the work ability will be assessed against the total labour market. The deliberation against the total labour market can be postponed to day 365, but only if there is a well-founded reason to assume that the person on sick leave can return to the employer's employment within this period of time. Exceptions can be made in connection with serious illnesses, such as cancer, and if the person has suffered from, for example, considerable disability (e.g. paralysis) as the result of an accident or a stroke.

Work ability was deliberated in stages earlier, as well, but without fixed time limits. Only once it was established that a person on sick leave was unable to return to his or her previous work, was it deliberated whether the person could manage other tasks for the employer, and only once that possibility was ruled out, was it examined whether there was other suitable work on the labour market for the person in question. Since most of the persons on long-term sick leave have so-called symptom-based ailments, which makes it difficult to determine what causes them, it has been difficult to reach a definite conclusion concerning the possibility of the person returning to his or her former work tasks. 'Wait and see' was usually the only alternative – perhaps a new treatment would yield results?' This resulted in prolonged sick leave periods, and the original rehabilitation potential was lost.

It was often an extreme strain for the insured persons, who, after years of sick leave and for them unknown reasons, were suddenly assessed according to other criteria and thus lost their sickness benefit. The idea behind the new sick leave process is that it is clearer and more predictable for all parties involved. A person on sick leave now knows from the beginning of a sickness what deliberations will be made. Other parties involved, e.g. Försäkringskassan, health care officials and the employer will also be more meticulous about the time.

A number of changes have been made to facilitate the rearrangement to other tasks whenever possible. A permanent employment is often of great importance when someone wants to, for instance, lease an apartment or borrow money. This adds to reducing the desire to leave such an employment even if the individual is no longer able to perform any work for the employer due to sickness. Therefore, an expanded right to leave of absence has been introduced, and the Swedish Public Employment Service will work also with employees who need to change work assignments and, in certain cases, unemployment benefit will be paid even though the employment remains in force.

Time limit on sickness benefit

As of 1 July 2008, sickness benefit can be paid for a maximum period of 364 days within a time frame of 450 days. A person who, after this period of time, is unable to perform any work offered on the labour market may receive an extended sickness benefit (at a slightly reduced rate) for another 550 days. However, exceptions to these rules are made in connection with serious illnesses, such as cancer, or when the person is treated in a hospital or in a few other, special cases.

As of 1 January 2010, insured persons who cannot receive extended sickness benefit but have some work ability will be offered an introductory course to working life through the Swedish Public Employment Service, in order to enable their return to working life.

Early retirement shall be granted only in case of permanently reduced work ability

The government has desired to stop the development that has led to an increasing number of early retirements. Therefore, the new rules state that early retirement shall be granted only when individuals have suffered a permanent reduction of their work ability, and when all rehabilitation possibilities have been tried or deemed unbeneficial in the restoring of the work ability.

Special rules for those who were on early retirement prior to 1 July 2008

It was the government's impression that the previous set of provisions has led to the early retirement of people who are still capable of working. Therefore, the government wanted to offer these people the possibility to return to work. However, it was considered that this would not be possible if individuals who tried to return to work did not stand to gain much financially in doing so and risked losing their early retirement. To rectify this, specific regulations were stipulated for those who, prior to 1 July 2008, were granted an early retirement without a time limit. Such persons can earn a basic sum (slightly more than SEK 42,000) per year without it affecting their early retirement pension. Additional income will reduce the paid early retirement pension by 50 per cent. If the persons cease to receive earned income, the early retirement will be paid again, without reductions, regardless of the reason why the employment ceased.

5.4.4 Further measures to reduce sickness absence

Financial incentives for health and medical care

Annually, the government grants a subsidy to the regional councils, who are responsible for health care, to support measures taken to reduce sickness absences. The amount of the subsidy is SEK 1 billion which, to the most part, is divided in relation to how successfully the local council in question has been in its attempts to reduce sickness absence volumes within the province. Thereby, incentives have been created for local councils to place a certain priority on the sickness absence issue.

Rehabilitation warranty

The Government, the Swedish Association of Local Authorities and Regions[28] have agreed on a rehabilitation warranty. The warranty concerns the medical conditions that are most common in connection with long-term sickness absences: pain in the neck, shoulders and back, as well as light and medium-level psychological problems. The rehabilitation warranty includes such medical treatments which have proven

28 The Swedish Association of Local Authorities and Regions is an interest organisation for all Swedish municipalities and local councils. The local council is responsible for the healthcare in its own geographical area.

beneficial in the process of returning to work. The purpose of the rehabilitation warranty is to provide the patient with assistance at an early stage in the curing or reduction of the pain. The treatments also include cognitive behavioural therapy to assist the individual in handling his or her situation at work and in life in general.

Support for insurance medical decisions

The National Board of Health and Welfare has compiled recommendations concerning the length of sick leaves for various diagnoses. The purpose of these recommendations is to assist doctors and handlers at Försäkringskassan. These recommendations also provide patients with a more realistic notion of the length of sick leaves, and they help prevent medically unfounded sick leaves.

Subsidy to occupational health care

To provide employers and employees with a competence benefit mainly during the first 180 days of sick leave, the government has appropriated SEK 550 million for a subsidy to occupational health care.

The subsidy has been designed to stimulate employers to use occupational health care to identify persons on sick leave who require investments at the workplace, and to help coordinate such investments.

Work for people after sick leave

It is not enough for persons on sick leave to want to return to work. Employers also need to want to employ them. To stimulate employers to employ persons who have been away from working life for a long time due to sickness, employer fees have been reduced so that employers can make a deduction equalling double the employer fee for the employment of a person who has been on sickness absence for at least one year. The deduction can be made for the same length of time that the employed has been away from working life due to sickness.

5.5 Effects

To summarise, a number of measures have been implemented to change the attitude to sick leave and to influence the behaviour of individuals and other actors. The goal has been to reduce the number of people going on sick leave, and to ensure

that those who do go, stay on sick leave for a shorter period of time than before. These objectives have been reached. Sickness absence volumes have decreased heavily, without of a corresponding overflow to unemployment.

However, concerning the effects of the various measures, our data is limited. Perhaps the collected measures have created a change in the attitude to sickness absence. The more insurance-like handling of the cases by Försäkringskassan and stricter regulations presumably have affected the expectations on health insurance, which is likely to have had a considerable impact on the development of sickness absence volumes.

Mikko Kautto

6 Conclusions – lessons for consideration

The aim of this seminar report has been to present experiences and evaluated good practices by which retirement on a disability pension could be prevented and reduced. Another aim has been to gather experience from measures that facilitate the return of disability pension recipients to work, and encourage employment while receiving a benefit. The focus of interest has been on the Netherlands, Denmark and Sweden; countries with similar goals, wherein implemented reforms have been of considerable magnitude.

In this chapter of conclusions, we will briefly review the shared challenges and shed some light on the special characteristics of the situation in Finland. Key messages from experiences elsewhere are then summarised. Towards the end of the conclusion, we will look separately at the common features of reform experiences in different countries.

6.1 Problematic areas associated with the Finnish disability pension scheme

Based on a recent OECD comparison, the central problems experienced by developed industrial countries have been identified as high costs resulting from disability, long-term usage of disability benefits, low employment rate among the disabled or partially disabled, as well as the quantitative increase in disability pensions due to mental health reasons, particularly among women and young people.

Similar problems have been identified in Finland. Retiring on a disability pension is relatively common. At the end of 2009 there were 260,000 disability pension recipients in Finland. In 2009, new disability pension retirees numbered 26,000. As the share of mental health reasons has grown and there are more younger people on disability benefits, long-term losses of work contributions as well as higher costs have generated concern. (see Box 2.)

A recent survey carried out at the Finnish Centre for Pensions (Gould and Kaliva 2010) sheds more light on the employment of disability pension recipients. According to the research report, work among recipients of full-time disability

pension is rare. 95% of recipients do not work at all, 4% work occasionally and only 1% work regularly. A large number, nearly a third, of partial disability pension recipients also do not work. 10% work occasionally, nearly 60% work regularly. However, a reservation must be made regarding the size of the work effort, since the number of working hours for disability pension recipients who work is limited. ¾ of everyone receiving full disability pension work less than 20 hours per week, and a majority of partial disability retirees who work, do so for less than 30 hours a week.

The work of the partially disabled is too seldom acknowledged. Their income has more often been ensured through various benefits than through work yielding earnings. It has been estimated that there is, in principle, potential to increase the work of disability pension recipients who are currently outside of working life (Gould and Kaliva 2010). Roughly speaking there are more than 10 %, or approximately 33,000 persons who, based on their own report, possess sufficient work ability and a willingness to perform some sort of work.

Over a fifth of full disability pension recipients, who are not currently working, report that they have the work ability and desire to work regularly (3%) or irregularly (19%). A fifth of disability pension recipients who are not at work could also work, as a rule irregularly. When evaluating the size of this potential workforce, it is important to note that a majority of those willing to work are hoping to do so at less than 20 hours per week.

What tools could be used to utilize this labour market potential, and how should we deal with this type of identified challenge? In the country evaluation of Finland carried out by the OECD, the following were presented as vital areas for improvement:

- The co-ordination of the rehabilitation and benefit systems. According to the OECD country report, there are several institutions in Finland that view their area of responsibility with a focus too narrowly placed on their own starting points. This pigeonholed way of working leads to an end result that is less than optimal, since measures are usually implemented too late or only after the previous organisation has done its share. There is a lack of overall responsibility.

- The disability pension used as an early exit route. Although the pension system in Finland has been reformed and the opportunities of transferring to pension early have been limited, there are still elements to the disability pension that are not connected to work ability and are used to minimize the workforce. The examples raised by the OECD include occupational immunity in the evaluation of disability in the public sector, and the fact that the scheme still contains special approval criteria for those who have turned 60 years of age.
- Factors that limit the increase of employment. The possibilities of the partially disabled to work could be improved, and the partial explanation for the less than ideal situation that the OECD found was in the operations of employment services. The employment of the partially disabled has not been emphasized by employment offices due to a lack of resources. Another improvement suggestion raised by the OECD was the employer deductible, which is seen to function in accordance with the goal of keeping the aging workforce in employment, and could be used even more efficiently (although an increase of employer contributions could prevent the hiring of the partially disabled).

The reform targets presented by the OECD relate to pension policy, rehabilitation and healthcare as well as the operations of employment agencies. This was the background for the seminar arranged: the aim was to provide a forum for further deliberations, and for considering the reforms of these policy areas and subsequent experiences in the Netherlands, Denmark and Sweden.

6.2 Co-ordinated reforms in support of the same goal

According to Christopher Prinz, the labour markets of the OECD countries have changed faster than their policies. One consequence of this is that the employment rate of the partially disabled is weak, and dependence on benefits usually long-term. Secondly, the disability pension systems nowadays carry out assignments for which they were not originally intended. During the current recession it becomes especially important to prevent the use of disability pension arrangements as a means of reducing the workforce, and rather strive towards structural changes through which the situation would improve once the recession is over.

Although experiences of reforms are starting to trickle in, Prinz says that the profitability of the reforms is not easily pinpointed. There is a lack of good evaluations, and implementation, even of a reformed policy, is slow and incomplete. There is often a weak correlation between reforms and their output, mostly because

reforms have been implemented in countries with substantial problems, and change does not happen overnight.

According to Prinz, reforms may be grouped into three:

1. **employment-based benefit changes**
   a. shifting the focus towards evaluating the remaining work ability
   b. increasing the responsibilities of the individual
   c. improving incentives for work
2. **involving employers and healthcare professionals as part of the solution**
   a. creating prevention and follow-up systems
   b. strengthening employer incentives
   c. supporting employers, medical professionals and benefit authorities
3. **improving the timing and focus of services**
   a. improving co-operation
   b. improving customer orientation
   c. improving incentives for benefit and service providers

Prinz emphasised that policy can be used to effect change, but several actions - either simultaneous or following one upon another- are needed in order to achieve the desired changes. Another important aspect is to increase the awareness of the different parties and adjust their incentives. Diverging systems are the most significant hindrance to improvement.

In order to solve the problems at hand, the most efficient method would be to decrease the number of starting disability pensions, but there are also examples of successful reintroduction to work from a disability pension. Prinz also described how in many countries, the partial disability benefit has been limited or cancelled altogether, since it is seen to emphasize disability rather than focus on evaluating the remaining work ability. The issue also partly concerns the fact that these evaluations are carried out within the wrong system (in other words the pension scheme, although the starting point ought to be other benefits, e.g. unemployment security).

6.3 Incentives, the re-evaluation of work ability, additional measures supporting work and the re-arrangement of responsibilities

In his introduction, Wim Van Oorschot brought up the long time-frame required by reforms. Reforms have been carried out in the Netherlands for nearly thirty years, and only the latest development has begun to yield desired results. However, new kinds of problems and issues to be solved have also arisen.

Policy changes were initialised due to the large number of disability pension cases, but the desired progress only began taking place once public opinion began to work in its favour: disability pension can be a negative thing for the individual, as well as for the employer and society as a whole.

Van Oorschot emphasised the significance of incentives, particularly changing the employer incentives. Changes carried out in incentives for employees in the Netherlands mostly mean that benefit levels have been lowered. But the biggest change came when the responsibility for sickness allowance within the sickness insurance system was shifted over to the employer (for the first 6 weeks in 1994, then 12 months in 1996 and the latest change, 24 months, in 2004).The level of sickness allowance was at least 70% of the salary. As a result of these changes, the health insurance system has been gradually privatized. The employers' size greatly affects how they solve the issue, in other words if they avoid the risk, reinsure the risk or take it on. Various employer incentives have also been created for the disability pensions, e.g. deductibles, bonuses and fines (though fines are not known to have been issued).

Another significant change has been the reassessment of disability status of disability pension recipients. In 1987, all 18-35-year-olds were reassessed, in 1993 all under 50-year-olds and in 2004 all those under 55 years of age. In connection with the first reassessment, 50% of recipients saw their disability benefit taken away or reduced over a period of two years. Approximately 1/3 had gone back to work within 1.5 years. A majority had transferred to receiving other types of benefit, especially unemployment security or social assistance.

Thirdly, Van Oorschot talked about the fact that changes to the benefit system has included a group of simultaneously planned, integrated measures or changes to measures. Salary subventions, changes to the deductibles of employees and

employers, rehabilitation measures, protected workplaces etc. have been developed in the Netherlands. The basis of these has been the desire to support a transfer from benefits to education, rehabilitation or work. These measures have also supported the acceptability of the reforms and decreased the political risks involved with changes to benefits.

The fourth issue of importance has been the re-defining of responsibilities. The first steps were transferring the management of sickness and disability benefits from the labour market parties to the ministry. Various obligatory arrangements have then been developed in order to monitor sick leaves, through which the employers are obligated to ensure the return to work of their employees.

And the results? The number of sickness allowance periods and disability pensions has decreased, especially following the aforementioned measures. Despite this, it is not until the last few years that it has become clear that pension contingencies have begun decreasing on a permanent basis. There are, however, various views on the success of these measures, and achievements must be viewed in relation to a realistic end result. Some of those reassessed have returned to the labour market, some have gone on to receive other types of benefit and some have later returned to receiving disability benefits.

The Netherlands was considered "the sick man of Europe" as recently as in the 1990s, with the highest population share on disability pension in all of Europe. As a result of numerous changes, the situation has gradually changed. While statistics show a positive development in the number of benefit recipients, a problem has been the fact that emphasising the employer's responsibility has lead to increased use of staffing services and temporary employment contracts, through which employers seek to evade their responsibility. The latest information on the employment rate of the partially disabled has also not been too encouraging, although it cannot be said that the weakening of their position has to do with policy changes alone, or if it is brought on by changes in the labour market and the economic situation.

6.4 More flexible and supported labour markets, tailored services

Kirsten Brix Pedersen also considered a change of viewpoint and increasing general awareness to be important. In Denmark, the starting point is that there is room and

use for everyone in the labour market, either in a regular workplace or in a *fleksjob*. In practice, this requires that each case is separately evaluated. The first aim is always to evaluate in what line of work and with what kind of support an individual will manage. As part of the change in Denmark, partial benefits were discontinued as they were seen as focusing too much on deficiencies in the work ability. The starting point now is that if there is more than half of the work ability left, the job will be covered by a normal employment contract. If remaining work ability is less than a third, the individual becomes entitled to disability pension. *Fleksjob*, on the other hand, is offered to those whose work ability has decreased to somewhere between half and a third.

Fleksjobs exist in all sectors and have become very popular. The *fleksjob* system has been adapted several times, and can still not be considered finished .From the viewpoint of the employer, the popularity stems from the fact that there are more jobs on offer and the employer benefits by being paid half, or as much as 2/3 of the salary in substitution. The employee, on the other hand, benefits from receiving a full salary despite not being able to put in a full amount of working hours. The significance of supporting policies has raised a lot of discussion. According to some of the highest estimates, up to 50% of those who have been granted *fleksjobs* do not meet the criteria and could, following rehabilitation, work in the open labour market. *Fleksjobs* have also been criticized for their impact on income distribution; high-income earners receive more support.

It may thus be understandable that the structure of the disability pension recipient group has changed in the statistics, while in reality their number has not decreased in Denmark. There are fewer recipients of early old-age pension than before the reform, but the number of subsisted employees has grown with the *fleksjobs* (now approximately 50,000). Another 12,000 have been granted the right and are waiting for a *fleksjob.* Costs deriving from disability pensions have not necessarily decreased, but compared to the previous situation, a share of the target group are now providing the labour market with their work effort.

The evaluation of profitability has proven difficult in Denmark, since the number of people receiving sickness allowance has grown while changes have been implemented. This has lead to development of the processes that support work ability, and the creation of a system for early detection and follow-up. The aim in Denmark is now to develop practices in support of prevention. On the other

hand, development needs on the benefit side have also not vanished. One point of emphasis regarding *fleksjobs* has been to develop incentives for increased working hours and a transfer to normal working conditions.

6.5 Clarifying the responsibilities of the individual, employers and institutions

Leif Westerlind began his presentation by stating that for years, Sweden has been an extremely bad example when it comes to employing the partially disabled. According to him, the sickness allowance system had gradually transformed into a parking lot for all kinds of problems.

The reform policies implemented in Sweden over the last few years have been based on a change of perspective. The individual, and his/her responsibilities, rights and obligations have now been placed front and centre. Westerlind was even of the opinion that you can always find cases where work is possible, regardless of illness or injury; which is why the focus needs to initially be placed on supporting work ability.

Another measure taken in Sweden has been to correct the incentives. Incentive changes have been examined from the viewpoints of individuals and employers, but also from that of institutions or other parties.

An important change has also been made to the operating methods of healthcare professionals. E.g. efforts to interfere with the approval of sick leaves have been made, and the emphasis has been placed on a speedy return to work as the superior alternative in problematic cases.

The latest changes are known in Sweden under the name *rehabilitationskedja* (rehabilitation chain), although the joke is that the issue at stake is neither rehabilitation or chains. As a result of the temporary benefits being terminated in 2008, a large number of previously granted benefits will cease starting January 2010, and as a result, a large group of people will return to work. What remains now is an evaluation of the right course of action in their particular situation. What thus occurs is a new kind of evaluation, in which some of the opportunities for a solution will, according to Westerlind, fall on the shoulders of the employers (e.g. change in work description, reassignment, measures at the workplace level, changes to leadership methods). For some, health insurance or pension may still be the best alternatives,

and some will be offered a status as jobseeker with related unemployment security instead of receiving sickness benefits, as well as activation measures.
Already now, statistics show a sharp drop in the number of sickness benefit recipients to a level last seen in the 1970s. According to Westerlind, the drop has been affected by a tightening of criteria for granting the benefits, a common evaluation criteria that replaced the different ones used by municipalities or healthcare districts, and investment that has been made in guidelines, administration and the role of Försäkringskassan as co-ordinator and developer. Administrative reforms have also been carried out in Sweden, the most important of which has been uniting the previously fairly independent sickness funds under the jurisdiction of Riksförsäkringsverket, which has resulted in a more uniform approval procedure for sickness allowance, for which it is easier to give instructions.

A new issue currently under consideration in Sweden is the decrease or termination of partial benefits. A problem with these is that they are too often used as a method of cutting down working hours. Westerlind also talked about his critical view towards *aktivitetsersättning* (activity compensation). It was created as a means of supporting young people under threat of alienation or exclusion, but has lead to a situation where their position may be more advantageous than that of other young jobseekers, producing an incentive problem when it comes to seeking regular employment.

6.6 Lessons from reforms: summary of a possible selection of methods

In Finland, the search is on for methods of postponing retirement. Rather than transferring to retirement, we must find better ways of supporting a continued working life. Here we have attempted at providing a list of possible guidelines, based on the experiences that were emphasised in presentations and the discussions that followed. A criterion for entry on the list has been that the measure has, at least somewhere, been proven to have a positive impact on the overall goal. Experience shows that there is no single measure by which the situation could reasonably be fixed. The reform work has taken years and involved many changes, while moving towards a goal has been slow.

As is apparent from the articles in this publication, accurate evaluations of the impact of single measures, or measures in context, cannot really be presented. Some programme evaluations exist, but the presentations also made clear judgements merit careful consideration of achievements. Everyone must thus make their own qualified evaluation of the impact of various measures. For this reason, the policy guidelines on the list have not been placed in the order of priority. Pondering each measure on the list from the viewpoint of Finnish conditions is a whole separate project.

- Changes made to the benefit system require integrated measures to follow (labour policy measures, service system improvement, investment into the healthcare system or development of rehabilitation etc.), in order for the desired results to be achieved. Simultaneous measures also provide arguments for change, making measures more acceptable. Correspondingly, a single change made into one type of benefit usually does not bring about the desired effect, as benefit recipients are often rerouted to a replacement benefit.
- It is possible to decrease the number of benefit recipients, but for now there is scant proof that these individuals can be fully or permanently employed. It is unclear whether the desired cost savings have been achieved from these measures, at least on the whole. Some transfer to other benefits or return to becoming benefit recipients, which results in administrative costs. Changing the type of benefit may, however, be an important signal and may carry a positive impact in the future.
- A change of perspective on problems, illness, and remaining work capacity and how to support it have been considered an important starting point everywhere, and a precondition for successful reform. Partial disability benefits have been relinquished in many countries for the reason that emphasis should rather be placed on remaining work ability. However, no straightforward suggestion regarding the use of partial benefits is evident as there are countertrends: in some countries lack of partial benefits is deemed to hinder transition to employment, and problematic for the younger benefit recipients.
- Emphasis has been placed on the individual's own responsibility. The emphasis on individual responsibility and obligations has usually been linked to the development of supportive measures, and at the same time, the obligation to participate in activation, rehabilitation and other such measures. This, on the other hand, has required additional emphasis and investment on said services.
- Reconsidering employer incentives have yielded good experiences, but bold usage seems to have introduced new problems to solve. For instance in the

Netherlands, the employer's responsibility for illness or accidents or disability in general is long and broad (also covers free time), and has lead small employers in particular to look for ways of minimizing their risk, e.g. by not hiring new employees, using personnel companies etc.

- Improving the coordination of different actors could possibly be achieved through creating a "one-stop shop" where the employee would get help, and from where the responsibilities and timely intervention of different actors would be co-ordinated. The development of co-operation between authorities seems to also have produced results.
- Efforts of preventing a transfer to permanent disability pension have also involved making benefits temporary, or connecting them to the follow-up and re-evaluation of work ability. The efforts of the Netherlands to decrease the pension stock and its procedures for re-evaluating pensions already approved are, in this respect, the most radical measure of all.
- The shared experience of these countries is the increase in the number of young disability pensioners, often due to mental health issues. Transfer directly from the educational system into the pension system has been identified as a growing problem, the solution of which is still out of reach. However, there are not yet any operating models good enough when it comes to considering the benefits and services available for young people. Mental health related benefits will be a focus for a new OECD study starting in 2010.

References

Gould Raija & Kaliva Kasimir (2010) Työkyvyttömyyseläke ja ansiotyö. Eläketurvakeskuksen raportteja 2010:5, Helsinki.

The Finnish Centre for Pensions is the statutory central body of the Finnish earnings-related pension scheme. Its research activities mainly cover the fields of social security and pension schemes. The studies aim to paint a comprehensive picture of the sociopolitical, sociological and financial aspects involved.

Eläketurvakeskus on Suomen työeläkejärjestelmän lakisääteinen keskuslaitos. Sen tutkimustoiminta koostuu pääasiassa sosiaaliturvaan ja työeläkejärjestelmiin liittyvistä aiheista. Tutkimuksissa pyritään monipuolisesti ottamaan huomioon sosiaalipoliittiset, sosiologiset ja taloudelliset näkökulmat.

Pensionsskyddscentralen är lagstadgat centralorgan för arbetspensionssystemet i Finland. Forskningsverksamheten koncentrerar sig i huvudsak på den sociala tryggheten och på de olika pensionssystemen. Målet för forskingsprojekten är att mångsidigt belysa aspekter inom socialpolitik, sociologi och ekonomi.

ISSN-L 1238-5948

Finnish Centre for Pensions
FI-00065 Eläketurvakeskus, Finland
Tel. +358 10 7511
Fax +358 9 148 1172

Eläketurvakeskus
00065 Eläketurvakeskus
Puh. 010 7511
Faksi (09) 148 1172

Pensionsskyddscentralen
00065 Pensionsskyddscentralen
Tfn 010 7511
Fax (09) 148 1172

www.etk.fi