

# Sickness, disability and work

Improving social and labour-market integration of people with disability

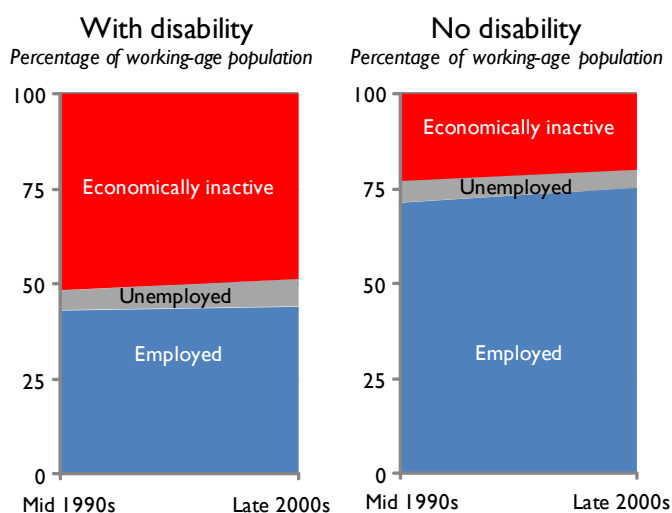


People with disabilities are under-represented in the workforce and over-represented among the poor. The number of people receiving long-term sickness and disability benefits continues to grow, as does the cost of these programmes to the public purse. Numerous efforts to tackle these problems have not, so far, met with much success.

In the late 2000s, just before the onset of the recent economic downturn, the employment rate for people with disability was only slightly over half that of people without a disability (Figure 1). Nearly half of the people with disabilities were economically inactive. Among those that were economically active, 14% were unemployed, double the unemployment rate for people without disabilities.

These figures for people with disability were only a marginal improvement on the situation over a decade ago in the mid 1990s. In contrast, there was a four percentage point increase in the proportion of people without a disability with a job, with less economic inactivity and lower unemployment in the late 2000s than the mid 1990s.

## 1 Disability and the labour market



Source: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers*.

With under half of people with disability working, it is unsurprising that their incomes are low. Despite the availability of sickness and disability benefits, 22% of people with a disability were living in poverty in the late 2000s (defined as living in a household with an income of below 60% of the median). This compares with an income-poverty rate of just 14% for people without a disability.

About 6% of the working-age population received a disability benefit on average in OECD countries in 2008 (Figure 2). This was about the same as the unemployment rate at the time.

However, this average disguises a wide variety of experiences. In Hungary, Norway and Sweden, more than 10% of the working-age population were receiving disability or long-term sickness benefits, a figure which dwarfed the unemployment rate at that time. At the other end of the spectrum, around 2% or fewer people were getting disability payments in Japan, Korea and Mexico.

There was a strong upward trend in the numbers on disability benefits in 11 OECD countries. Apart from Estonia and Norway, this was in countries with less than the average proportion of working-age people in receipt of benefits in the mid 1990s. This latter group includes Belgium, Ireland and the United States, which moved from below the OECD average to above in 2008. There were large declines in disability-benefit recipiency in just three countries: Luxembourg, Poland and Portugal.

The fiscal cost of paying disability benefits to an average of 6% of the working-age population is, in many cases, large. Average public expenditure on these benefits is about 2% of gross domestic product (GDP), equivalent to nearly 30% of expenditure on old-age and survivors' pensions, for example. In countries with widespread receipt of benefits – such as the Netherlands, Norway and Sweden – spending can reach as much as 4%-5% of GDP.

## Why disability policies matter

Disability policy matters, therefore, for a range of reasons. First, paying benefits can be costly for the public purse, and we are entering a period when fiscal consolidation is a priority for many OECD governments. Secondly, some people on disability benefits are undoubtedly unable to work, but many could work given the right kind of help and would like

to work. Having such a large slice of the working-age population economically inactive is a significant waste of human resources. Thirdly, disability is a major cause of income poverty and anti-poverty strategies must take this into account.

A new OECD report – *Sickness, Disability and Work: Breaking the Barriers* – tries to unravel the forces behind changing numbers of disability benefits. It reviews policies designed to reduce the numbers on disability benefits and increase labour-market participation of people with disability. This briefing sets out the main findings of the report. It points to examples of good policy practices in OECD countries that might be more widely adopted. ■

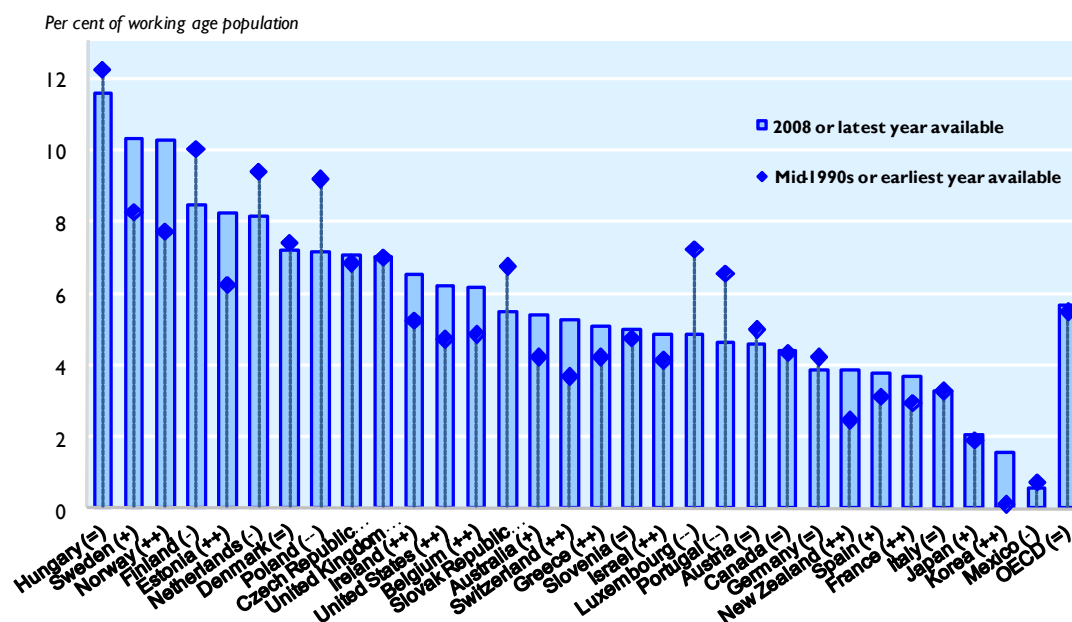
## Labour markets

### Why do people with disability fare badly?

OECD countries' labour markets have radically changed, with a shift from manufacturing industry to services, from low-skilled to high-skilled jobs and a spread of temporary employment. These changes, driven by technology and globalisation, have often reduced job opportunities for workers with few skills and low educational attainment.

This matters for people with disability, because they are much more likely to belong to this economically

### 2 People of working age on disability benefits



Note: (++)/(-): strong increase/decline of 2% or more; (+)/(-): moderate change between 0.75% and 2%; (=): relatively stable, with change between -0.75% and +0.75%. Percentages refer to the annual average growth rate in employment rate of persons with a disability.

Source: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers*.

disadvantaged group. For example, people with disability have lower levels of educational attainment in all 25 countries for which data are available. On average, twice as many of them have less than upper-secondary education than the population as a whole.

The labour-market effects of the economic cycle are also more severe on people with disability. The probability of men with disability finding a job is 19% lower and for women, 12% lower, across the economic cycle. But during economic downturns in the 1980s and 1990s, the gap between job opportunities for people with and without disability was larger than this average.

During past economic downturns, less stringent tests for work availability and job search for people on disability benefits and higher benefit levels made long-term disability a more attractive option for individuals than long-term unemployment. It is too early to tell whether this has been repeated in the current, post-crisis downturn that has significantly weakened labour markets in most OECD countries. But experience shows that people on disability benefits are much less likely to return to work once economic recovery is entrenched and so a shift from unemployment to disability benefits is one to be avoided.

### Helping people with disability with jobs

Public spending on disability is still dominated by 'passive' payments of benefits. Investment in employment support and vocational rehabilitation – 'active' spending – is generally small. This is despite the recent shifts in policy orientation from passive to active measures in most countries, discussed below.

The cost of active measures was around 4% of expenditure on disability benefits or less in 15 OECD countries in 2007. Worryingly, this group includes

countries such as the Czech Republic, Finland, Hungary and the United Kingdom with above-average proportions of people on disability benefits. It also includes some of the countries where disability numbers have grown fastest: France, Ireland, New Zealand and the United States, for example.

In only five cases was active spending more than 10% of passive spending: Belgium, Denmark, Germany, the Netherlands and Norway. A further five countries – Canada, Poland, Portugal, Sweden and Switzerland – recorded a figure of between 6% and 9%.

This lack of support for active measures is another reason that the proportion of people with disability in work remains small. ■

## Reforming disability

### How far have countries gone?

Disability policy has changed substantially over the past two decades. The OECD looks at policy in two dimensions. The first, called ‘compensation’, summarises 10 subjective indicators of disability and sickness benefit values and availability. It includes, for example, measures of the strictness of medical and vocational tests plus the duration and permanence of benefit entitlements.

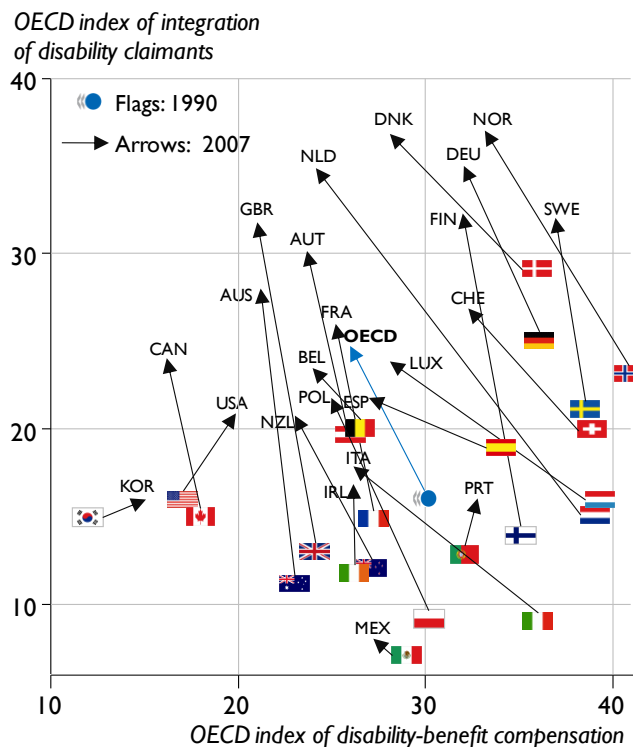
The second dimension is the ‘integration’ of people with disability into the labour market, again based on 10 subjective measures. These include, for instance, the availability of special employment programmes, vocational rehabilitation and in-work benefits.

Scores in each dimension vary between zero and 50. Policies in 1990 and 2007 in both dimensions are summarised in Figure 3 for 23 countries where full data are available. The direction of reform is clear.

First, benefit systems have become more stringent, with more objective medical criteria, more rigorous vocational criteria, stricter sickness-absence monitoring and stronger work incentives. This is measured on the horizontal axis of the chart: 20 countries moved leftwards between 1990 and 2007. Only three – Korea, Portugal and the United States – registered an increase in the compensation index. Moreover, in Korea and the United States this was from the lowest compensation levels in 1990 among the 23 countries.

Secondly, integration policies were strengthened in all countries, in most cases by a considerable degree. Policy initiatives included improved incentives for employers, greater provision of supported and subsidised employment, earlier vocational rehabilitation and a streamlined institutional set-up.

### 3 Direction of disability reforms



Source: OECD (2010, *Sickness, Disability and Work: Breaking the Barriers*).

Overall, these efforts added up to a clear shift from compensation-oriented policies in 1990 towards integration-oriented policies by 2007. However, the expansion of integration policies was generally more significant on these subjective indices than the tightening of benefit policies.

### Impact of reforms

The key question for policy makers is whether recent reforms achieved their intended effect: that is, reduced benefit dependency and greater employment of people with disability. Detailed econometric analysis in the new OECD report finds significant effects on the number of working-age people claiming disability benefit.

This is particularly true for changes in benefit or compensation policies. For example, changes in ‘gate-keeping’ have generally been successful in curbing flows of people onto disability benefits. The effect holds even when differences in demographic,

economic and labour-market conditions are taken into account.

However, expanded integration policy taken as a whole has merely a modest, statistically insignificant effect on the numbers on disability benefits. Why has the big shift in policy towards a more employment-oriented approach not, so far, improved labour market outcomes of people with disability?

First, policy implementation has often lagged behind intentions. The change in rhetoric has often failed as yet to translate to changes in everyday practices of doctors, caseworkers, benefit-awarding authorities and other service providers.

Secondly, the shift of policy emphasis has not been matched by a corresponding shift in resources. In turn, the take-up of new and modified services has often been disappointingly low. However, slow or uneven policy implementation on the ground is very hard to assess in the OECD's integration index. As a result, the shift to a more active integration stance that is shown by the index in Figure 3 probably exaggerates the actual impact of reform.

Much remains to be done to help expand employment opportunities for longer-term disability beneficiaries to help them move off benefits and into work.

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## Breaking the barriers

### What changes are still needed?

The key to success in a disability policy designed to expand employment opportunities is to strengthen financial incentives for all actors involved.

- For sickness and disability **beneficiaries**, it must pay to remain in work, seek work or increase work effort.
- For **employers**, it must pay to retain sick workers and help them back quickly into their job or to find another job. There may need to be subsidies for hiring workers with health problems.
- For **benefit authorities**, it must pay to assess people's work capacity rigorously and avoid the granting of a benefit just because this seems easiest.
- For **service providers**, it must pay to reintegrate their clients into the regular labour market at a sustainable level.

Better financial incentives must be matched with more determined employment expectations on the part of both workers with health problems and those helping them into work. There is a need for recognition of mutual rights and responsibilities among employees and employers. Support for individuals in meeting work requirements must also be improved.

These expectations and supports should extend to other actors. First, doctors need to be encouraged to keep sickness absences as short as possible, focussing sick workers on re-employment early on. Secondly, caseworkers in the employment service must be able to profile clients carefully and make every effort to bring them closer to the labour market.

### From disability to employability

Like unemployment benefits, disability benefits are often paid to jobless people who are able to work, at least partially. But receipt of unemployment benefits generally brings with it a range of requirements to seek work as well as help in overcoming barriers to employment, such as lack of skills. The lack of such requirements for people on disability benefits is justified for people who are unable to work. But this does not apply to the large number with, at least, a partial capacity for work.

We have already seen that OECD countries have put a great emphasis on encouraging recipients of sickness and disability benefits to become more active in their efforts to seek work. This has involved a package of measures, such as job-search support, requiring contact with employment services and participation in rehabilitation programmes before granting a disability benefit.

One approach has been to shift more people from disability to unemployment benefits. The 2006 welfare reform in **Australia** is a good example. People with significant work capacity – able to work 15-29 hours a week – are no longer entitled to disability benefits but treated as the regular unemployed. They are obliged to seek appropriate part-time work and supported in their efforts.

### Making work pay

**Luxembourg** has shifted people with some work capacity from sickness benefits onto job-search support. This takes the form of a clearly-defined 'redeployment' procedure. If people cannot find a job, they receive a payment of the same value as disability benefit. But they are subject to the same test of

availability for work as other unemployed people. When they find a job, they can get a permanent payment to compensate for lower earnings than previously.

Other OECD countries have used partial disability benefits to encourage people to remain in work. One way is to transform an out-of-work payment into an in-work benefit.

**Denmark** is the only country that has abolished a partial disability benefit. It did so because the latter had features that encouraged economic inactivity. The partial benefit was replaced in 2003 by a generous wage subsidy scheme, which covers the full difference between previous and post-disability earnings. It requires people to have a permanent problem limiting their work capacity, to be unable to work under normal conditions and to have exhausted all rehabilitation possibilities.

The **Netherlands** introduced a new disability-benefit system in 2006, with some similar features. Workers with assessed earnings incapacity of 35%-79% receive a wage supplement. They must be using at least half of their remaining work capacity. People who are not working, or working less than the minimum, receive a flat-rate benefit. Its value is considerably less than the former disability benefit.

**Ireland** and the **United Kingdom** also provide in-work benefits to people with disability.

Nevertheless, many tax-and-benefit systems still fail to provide financial incentives for people to take and retain jobs or increase their hours of work. Disability benefit should not be more attractive than other working-age benefits. Payments should be phased out gradually to make sure that each extra hour worked increases income. Additional or secondary benefits to compensate for additional costs associated with disability should be paid irrespective of the kind of beneficiary or of their labour-market status.

## Time limits

Except for people with severe, permanent health problems, disability benefit, like other working-age benefits, should be seen as a *temporary* payment. This means that entitlement should be reassessed at regular intervals. Austria, Germany and Poland are among the OECD countries that have adopted such a policy.

This is of particular importance for younger people who might otherwise stay on disability benefit for a long time. The longer people are out of work, the less hope there is for social and economic integration.

The treatment of existing disability beneficiaries is a difficult problem. Ideally, their entitlements would be reassessed on new, perhaps tighter eligibility criteria as part of a comprehensive reform. Some countries, such as the Netherlands, have been able to implement such a reform spread out over several years. But in other cases it is politically unfeasible.

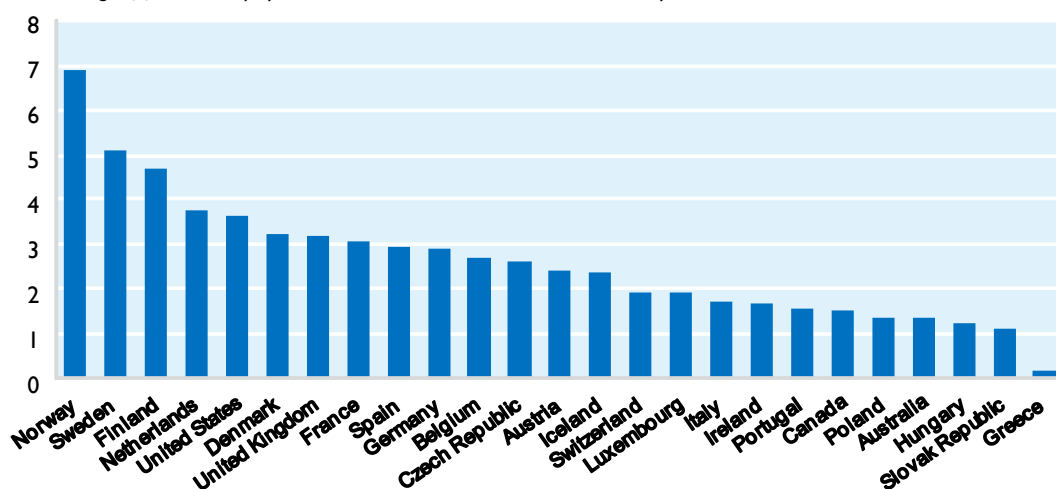
## The role of employers

The extent of sickness absence is critical in determining the flow of people onto disability benefits. Typically between 50% and 90% of disability-benefit claimants enter the system after a period on sickness benefits. Countries with high sickness absence rates (shown in Figure 4) also have comparatively high rates of new disability benefit claims.

Employers are well positioned to intervene early on in their employees' sickness absence. They can judge what work their employees can still do and assess the

### 4 How many workers are off sick?

Percentage of full-time employees absent with sickness or short-term disability



Source: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers*.



## Is a single working-age benefit the solution?

Widespread use of disability benefits over the past two decades often results from the large, and often growing, difference between their value and that of other working benefits for people of working age. There are also important differences in job-search and work-availability requirements and in the way in which people are reactivated and mobilised back to work between different benefits.

We have described a range of policies that countries have adopted to address these problems. An alternative approach would be to simplify benefit systems in a radical way. The ultimate objective would be to abolish strict differentiation between benefits for, and treatment of, people faced with different contingencies. The array of working-age benefits currently available would be replaced by a single working-age benefit. It is a promising concept.

The main advantage of a single benefit would be stopping frequent transfers of jobless people across different income-support programmes. It would also apply the same process to all jobless people of working age, such as early identification, profiling, capacity assessment, assessment of support needs and, if needed, referral to the most appropriate service.

In exceptional cases, a single working-age benefit could be a permanent payment. But the main aim would be to provide temporary income support in a situation of need. This would be coupled with a strong and well targeted employment-activation regime.

Nevertheless, this radical policy has not yet been tried in an OECD country, although there have been serious proposals. New Zealand came closest to the introduction of a true single working-age benefit, but the process was halted for political reasons.

Still, several countries have made steps in this direction. For people with partial work capacity, the new employment-and-support allowance in the United Kingdom (which replaces incapacity benefit) works in a similar way to the country's unemployment benefit. The planned universal credit, which will replace a number of benefits, is another step in this direction. Germany has recently introduced a single benefit for all employable people of working age, but has chosen to keep disability benefits separate. The new work-assessment allowance in Norway merges different types of rehabilitation and time-limited disability benefits.

adjustments to the workplace or working conditions needed to accommodate the consequence of health problems. In the Netherlands, for example, employers and employees are now required to develop, follow and update a 're-integration plan', with a number of markers along the way.

However, significant obligations for employers towards people with a chronic illness or disability can act as employment deterrents. This can be reinforced by justifiable concerns about the implications for productivity and labour costs. How can policymakers ensure that promoting job retention of people with reduced work capacity does not simultaneously discourage hiring of new workers with reduced work capacity, chronic health problems or disability?

Employers need broad help in fulfilling their obligations under a more work-oriented disability system. For instance, advice on appropriate workplace

adjustment and financial supports should be easily accessible. Employers understandably shy away from cumbersome administrative procedures and bureaucratic contacts. In Norway, each employer has access to specialists in the local office of the public employment service.

As with individuals, financial incentives matter for employers. Sickness benefit co-payments are now common. Other countries – such as Finland and the Netherlands – 'experience rate' contributions to the disability benefit system, with the levy dependent on the claims made. This helps ensure that employers do their best to help workers to return to their job and make necessary adjustments to the job as quickly as possible.

To encourage employers to hire people with health problems or disability, financial compensation might be needed to take account of reduced work capacity

or productivity of such employees. This also avoids the problem of strengthened job-retention obligations leading to less recruitment of people with weaker health.

Such subsidies are common in the Nordic countries. They need to be carefully designed to ensure that they are well targeted on the capacity of the worker. Subsidies might be needed for a long period, or even permanently in some cases. However, it is important to avoid excessive transformation of existing work into subsidised jobs.

### **Engaging other actors**

Medical professionals – particularly general practitioners – need greater direction in emphasising the value and possibility of work at an early stage in the health problems faced by their patients. The objective should be to keep the sickness absence as short as possible.

Medical guidelines for doctors on the necessary duration of sickness absence for the most common illnesses were recently developed in Sweden. These are a promising step. More control of sickness certificates – common in Austria, France and Spain, for example – might also be necessary.

Public authorities also have an important role in monitoring sickness. This is recognised in Denmark, for instance, where public agencies take on the roles of sickness monitoring and sickness management for people who do not, or no longer, have an employer or workers' representative. This role covers both the unemployed and economically inactive.

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## **Getting services right...**

### **...to the right people at the right time**

More people with disability could work if they were given the right supports at the right time. Take-up of employment supports is low despite the great need to improve the employability of people with disability. Such people often lack labour-market qualifications and recent work experience, which act as barriers to finding work.

Low take-up of services is partly related to the way services are provided. There is often a plethora of actors and agencies involved in benefit and service provision. These different actors can fail to co-operate effectively. Institutional fragmentation brings with it

the risk that outcomes depend on the pathway into the system chosen by, or imposed on, the individual. Incentives to promote a more employment-oriented policy are sometimes weak. And the tools and resources to provide timely services, in the mix needed by clients, are often lacking.

### **Co-ordination and co-operation**

Much better co-operation is needed between benefit authorities and the public employment service in most countries. There is also room for improvement in the co-ordination of different agencies involved in providing services. The objective should be to identify the right role for the right agency and to match resources and responsibilities.

Ideally, countries would move their systems towards a one-stop-shop. All people who experience difficulties in the labour market would enter the system through the same gateway and be led through the same processes.

Some countries – such as the Netherlands, New Zealand, Norway and the United Kingdom – have merged the different agencies and entities involved in dealing with people with disability. Less radical policies include having the various agencies involved work together in shared premises, better linking agencies through systematic exchange of information and cross-subsidising of services. Sweden is one example of this approach.

### **Tailored engagement with clients**

The process of dealing with clients with disability should include a systematic profiling of clients. Australia and Norway are good examples of such tailored engagement. A comprehensive assessment of people's work capacity and, if needed, referral to the most appropriate service should swiftly follow.

Access to supports should be broadened to include people with partial work capacity. It should not depend on entitlement to particular benefits. These principles are increasingly common among OECD countries. Services need to be flexible so that they can adapt to changing needs. They should be built around concepts of working first and training first.

### **Incentives for service providers**

It is important for public authorities to have sufficient financial incentives to invest in active labour-market strategies. Resources are needed to help clients that need special support and time. Incentives to adopt the

path of least resistance – granting sickness or disability benefits with few conditions – should be avoided.

This requires effective monitoring of the actions taken at the regional and local level. It is also useful to encourage the sharing of experience among local agencies. Denmark and Switzerland, for instance, have adopted policies to incentivise different offices to become good performers.

A further step would be to provide direct financial incentives for public entities to improve. Again, Denmark has gone furthest with such policies. It provides much higher reimbursement from national budgets for municipalities that are successful in improving employability of people with disability. (Municipalities manage the whole Danish disability system.)

The quality and effectiveness of employment services can be improved by shifting funding from block grants or output-based finance to payments based on actual employment outcomes. Australia and the United Kingdom have both adopted this policy. Such change is often linked with a partial privatisation of services. But outcome-based funding could also be introduced for public employment services.

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## Conclusion

### The political economy of disability reform

There has been a huge shift in policy rhetoric and objectives in the area of disability over the past two decades. But the pace of change in practice has lagged behind the rhetoric. And job opportunities for people with health problems often remain limited. There is a huge discrepancy between policy goals and outcomes, which may be a result of political constraints.

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### Follow-up

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Disability systems have to support people who cannot be expected to work, as well as people with considerable work capacity. Cutting benefit entitlements for people who are already suffering from ill-health, forcing them to undergo training or seek work can be highly unpopular. It can – both in perception and practice – be unfair.

However, the slow pace of change is not good enough for people who can and want to work but are excluded from the labour market and often living in poverty. This outcome is also very expensive for the public purse. It is therefore inequitable and highly inefficient for society as a whole.

OECD countries are faced with rapidly ageing populations. This brings with it the need to mobilise all available human resources to sustain economic growth and the well-being of society. The need to address some of the more complex and more controversial challenges in disability policy is pressing. Success in implementing what can be unpopular reforms requires a strong political will and close co-operation between government, social partners and civil society.

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