Research

International Disability Programs: Recent Reform

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EXECUTIVE SUMMARY

The United States has seen the scope and scale of its disability insurance program expand several times over. Many developed countries have also grappled with increased enrollment and cost of public support programs for the disabled. This report examines disability reform in several advanced economies that have achieved varied degrees of success in ameliorating these pressures. These reforms generally seek to return disabled people to the labor force, reduce the number of disability claimants, restrict benefit duration, in addition to achieving other cost savings.

Demographic, economic, and program design all effect the size and cost of disability support programs. Lax initial eligibility requirements, unconditioned aid, and generous benefits relative to other social assistance programs tend to distinguish programs with higher enrollment. For example, Luxembourg experienced this phenomenon following its 1987 reforms when the interpretation of new disability criteria effectively meant that anyone unable to work their current job qualified for disability, leading to a balloon in enrollment. Australia saw a similar rise in enrollment and costs following early 1990s reforms that lowered the qualifying disability threshold dramatically without lowering or otherwise modifying benefit levels.

The definition of "success" is debatable. However, in this context, it is defined as the degree to which programmatic reforms relieved the growth and cost of disability enrollment. So defined, the most effective reforms generally tighten requirements, moderate benefit amounts, and place pressure on employees and employers to find work solutions rather than rely upon government aid. For example, Sweden's most effective reforms in the 1990s and 2003 lowered the salary replacement rate, shifted initial sickness benefits to being partially paid by the employer, and tightened requirements to receive benefits for the maximum allowed length of one year. In a series of notably effective reforms in the Netherlands, employers became responsible for up to two years of sick pay, and benefit levels during the second year were cut from 80 percent replacement to 70 percent, creating stronger incentives for both employees and employers to return individuals to work.

OVERVIEW BY COUNTRY AND EFFECTIVENESS

	Country name	Date of reforms	Key program characteristics and results

Most effective	Netherlands	1980s	· The wage replacement rate was lowered from 80 percent to 70 percent for short term disability recipients · Employers became responsible for first 6 weeks of employee sick pay. The duration of this responsibility was later extended to 1 and then 2 years · Despite reforms, costs continued to rise
		1998-2006	· Over a period of several years, the Netherlands incorporated numerous reforms which saw marked effects. They include a requirement for those on sickness absence to formulate a work rehabilitation plan with their employer, stricter disability application criteria, and modifications to the length and amount of unemployment benefits · Benefits became similar to unemployment in the maximum length and benefit amount, and requires work thereafter to receive wage subsidies. Impairment requirements were raised to at least 35 percent from the previous 15 percent · A 2 year waiting period is required before applying to long-term disability, during which time individuals may claim employer-provided sickness absence benefits · Inflow into the disability program decreased 63 percent. Unsurprisingly, outflow and recovery rates of beneficiaries also dropped following the reforms
	Sweden	1970s	· Generous sickness benefits provided replacement for 90 percent of earnings given “abnormal mental or physical conditions” that cause at least 25 percent impairment
		1990s	· Following a series of reforms over several years, the salary replacement rate was lowered from 90 percent to 80 percent, and the first 14 days of sickness pay became the employers’ responsibility

2003	· Sickness and disability programs were merged, improving the ability to provide job assistance and other resources earlier in the disability application process. Benefit and screening criteria also became uniform across the system · Sickness benefits were capped at one year, and one must be totally disabled to receive benefits through the full year. Notably, one year is also the waiting period for applying to long term disability · Employers are required to assemble work rehabilitation plans and recurring work ability evaluations are required in 3, 6, and 12 month increments · Reforms reduced the inflow of enrollees, but reform had little effect among those already in the program		
United Kingdom	2003	· Pathways to Work begun as a pilot program in a few select regions and nationwide roll-out begun in 2005 to finish in 2008 · Pathways to Work provides disability aid, job counseling and guidance and other services to help program enrollees find appropriate work · Enrollees must participate in several Work Focused Interviews (WFIs) to demonstrate their intent to work. Through the interviews counselors also assist with formulating a plan to return to work and problem solving potential barriers to work · A monetary Return to Work Credit (RTWC) is available to those working less than 16 hours a week and making less then £15,000 per year as temporary assistance to those seeking to return to work · Overall employment increased 7 percent, but there was no statistically significant increase among those working 16 or more or 30 or more hours per week, perhaps due to the cap on hours for recipients of the RTWC	
Partially effective	Australia	Early 1990's	· The impairment standard for Disability Support Pension (DSP) eligibility was lowered from 85 percent to 25 percent, with no change in benefit amounts. Unsurprisingly, costs rose significantly

2006	· Those able to work 15 hours or less per week qualify for DSP benefits. Those capable of working 15-29 hours per week may qualify for a partial benefit amount · All applicants must undergo a Job Capacity Assessment (JCA) to determine their work capacity and ongoing program requirements, and to formulate a plan to handle obstacles to work · DSP costs were still rising as of 2013. Potential reasons for this include the high benefit levels relative to other social programs, and abolishment of temporary sickness benefits in the 1990s		
Least effective	Denmark	2003	· Benefit levels were brought into line with other social assistance programs, at a 70 percent replacement rate of average earnings · The partially disabled qualify for government subsidized “flex jobs,” where the government provides compensation for earnings lost relative to a regular job and waiting benefits until a flex job is found · While the number of flex jobs and those waiting for flex jobs increased after the reform, overall enrollment continued to increase through 2006
	Luxembourg	1997	· A stricter interpretation of the 1987 eligibility criteria came into force, superseding the previous interpretation which effectively classified anyone unable to work their current job as disabled · While disability enrollment decreased and costs fell from 2.6 percent of GDP in 1995 to 1.8 percent in 2001, absences due to sickness increased

2002	· Mandatory medical examinations assess the individual's ability to work · If partially disabled, individuals may be redeployed to their current company working fewer hours or in a different position, or take up a position at a new company. Employers who keep disabled employees or take on new disabled workers are eligible for tax deductions and compensation for job training costs · The number of disabled who return to their workplace increased, and approximately one-third did so. However, external redeployment was unsuccessful and unemployment also rose

INTRODUCTION

Demographic, economic, and trends in public policy have increased pressure on public support programs, including those devoted to assisting the disabled population, on national economies throughout the developed world. Growing enrollment in disability support programs is of particular concern, because for many enrollees, disability status becomes permanent. For Great Britain and Denmark disability enrollment among the young is of particular concern, as many disability beneficiaries leave the labor force entirely because disability becomes a substitute for long-term unemployment. Economic conditions can exacerbate this phenomenon. Even while recessions tend to boost enrollment, few people leave the disability rolls during the following economic recovery (OECD 2010).

As participation in many international disability programs is closely tied to participation in paid sickness leave programs, reforming sickness leave is often a key part of disability reform. Sickness leave is often a precursor to disability enrollment, and for many countries reforming sickness leave is an important part of overall disability reform. Generally, most programs limit the length of time that workers may claim sickness leave. In some cases the waiting period for applying to long term disability is identical to the maximum duration of paid sickness leave, presenting an opportunity to encourage employees to return to work before they are eligible to apply for full time disability. Programs may require interviews between workers and employers to formulate return to work plans during sickness leave, or with program staff to determine continued eligibility. Similar interviews or medical examinations are often required to determine an individual's work capacity for disability aid, and will deemed them as either fit to work a normal job, fit to work at partial capacity, or as entirely disabled. In addition to gauging work capacity, these interviews or medical screenings can be used to gauge intent to work and maintain accountability to sickness or disability benefit standards.

Successful reforms generally slow growth by decreasing the number of *new* enrollees and reducing the length of program enrollment by returning beneficiaries to suitable work. Reforms have been less successful in returning to the workforce those already enrolled in disability prior to reforms. While part of this may be related to excluding current enrollees from certain reform measures, it suggests that returning able long-term recipients to the workforce is a greater challenge.

CASE STUDIES

Most effective reforms

Netherlands

The past few decades have seen dramatic changes to the Netherland's disability system that have changed its generous sickness and disability policies to a system that encourages work and places greater responsibility upon employees and employers to prioritize work solutions before relying on government aid. The system includes social insurance measures that prevent lost worker earnings in addition to a program that provides aid for the fully disabled.

Disability rolls in the Netherlands saw a growth spike in the 1970s, likely due to a generous universal short term disability policy that replaced up to 80 percent of earnings for up to one year for the fully disabled and provided partial benefits for the partially disabled who have a minimum of 15 percent impairment. A recession in the 1980s prompted reduction of the payment rate to 70 percent, though spending continued to grow. It was not until tighter reforms of the 1990s that transfers began to decrease, when eligibility criteria tightened and employers became responsible for providing the first six weeks of employee sick pay (Burkhauser et al 2014). Later measures extended employer responsibility for sick pay to one and then two years (Van Sonsbeek and Gradus 2011).

Despite these reforms, transfers began to rise again in the late 1990s, prompting several new measures to stem program and spending growth and encourage work. Starting in 1998, an experience rated premium was phased in to replace the fixed rate premium that employers pay into the disability insurance fund, which is used to finance ten years of a recipient's disability benefits. In 2002, the Gatekeeper Protocol was introduced and required employees and employers to formulate a vocational rehabilitation plan before employee absence reaches eight weeks. This rehabilitation plan must be presented with long term disability applications to demonstrate a sufficient effort to return to work. In 2004, stricter disability application examination criteria was implemented, and from 2004-2009 all current enrollees ages 45 and under were re-examined for their program eligibility. In 2006, the Dutch introduced two major changes to disability aid: the establishment of the IVA program for the fully disabled and have no chance of recovery, and the WGA for the partially disabled or the fully disabled who have chance of recovery. Under WGA, benefits are similar in amount to unemployment benefits and like employment benefits may be paid for up to three years and two months. Beyond that time, beneficiaries must work at a sufficient level according to their determined abilities in order to receive a wage subsidy. Further, under the reform recipients must be at least 35 percent impaired, rather than 15 percent as previously required (Van Sonsbeek and Gradus 2011).

As part of this reform, applicants for long term disability are required to wait two years rather than one year before submitting an application. During this time, employers provide sickness pay at rates of 90 percent the first year and 70 percent the second, increasing the incentive for companies to reintegrate employees into the workplace (Van Sonsbeek and Gradus 2011).

Reforms since the late 1990s have decreased the inflow of persons to disability rolls by 63 percent since the turn of the century. Broken down, the experience rating premiums decreased inflow by 13 percent, the gatekeeper protocol has decreased inflow by 25 percent, tightening eligibility criteria has reduced inflow by 4 percent, and the 2006 reform reduced inflow by 21 percent. Notably, it appears that the effect of the gatekeeper protocol appears to be increasing over time, while the effect of the 2006 reform has decreased over time. While inflow of program participants has decreased, outflow has also lessened. Particularly after the 2004-2009 period when

current beneficiaries were reexamined under the new reform criteria, outflow and recovery rates of beneficiaries has decreased significantly (Van Sonsbeek and Gradus 2011). However, it is anticipated that stricter medical examinations will reduce projected long term beneficiaries by 600,000, and the 2006 reforms will reduce by 250,000 by 2040 (Burkhauser et al 2014).

Sweden

Like the Netherlands, Sweden saw rapid growth in their disability benefits program in the 1970s due to the fairly generous benefits provided. At the time, sickness benefits provided about 90 percent of earnings for individuals with "abnormal physical or mental conditions" that reduced their normal work capacity by 25 percent or more. Workers claiming absence for longer than eight days were required to present a certificate from a doctor, usually general practitioners held to no centralized screening or standard mechanism. After one year, those still on sickness benefits could apply for long-term disability, and benefits were available for partial disability of at least 50 percent impairment and for those with full disability. For those under age 60, benefits included rehabilitation and vocational training, and beneficiaries 60 and older received income support. As with sickness benefits, disability benefits replaced the majority of lost earnings. Additionally, during this time standards for long-term disability were loosened to allow long-term unemployed to move into the program (Burkhauser et al 2014).

Costs continued to rise through the 1970s and 1980s, and during the 1990 foreign exchange crisis disability enrollment surged. Consequently, lawmakers lowered the salary replacement rates on sickness benefits, benefits through a series of reforms. The net change of these reforms lowered the salary replacement rate from 90 percent in 1991 to 80 percent in 1998, required employers to pay for the first 14 days of sickness absence, and removed the pure labor market criteria for disability benefits to older workers (Andren 2003). While the economy recovered and disability receipts stabilized, costs remained high and so spurred additional reform (Burkhauser et al 2014).

New reforms emphasized work supports rather than monetary aid. In 2003, sickness and disability systems were merged and benefit screening criteria centralized. Previously, disability certification and benefit rates had varied, and administrators focused primarily on awarding cash benefits rather than work rehabilitation. Merging the sickness and disability programs in particular assisted in decreasing program inflow and bringing vocational and rehabilitation assistance into the process at an earlier stage.

Additional reforms capped sickness benefits at one year and required beneficiaries to undergo evaluation for work ability at 180 days of absence. Individuals could only remain recipients for the full year if they had no ability to perform any job and after that year were allowed to apply for full disability aid. Employers were further required to cooperate with disability administrators to formulate a rehabilitation plan and show certification of work accommodations provided to the worker in question. These reforms resulted in a decline in sickness benefit receipts and in the inflow of new beneficiaries into the system (Burkhauser et al 2014).

Reforms in 2008 sought to further restrain enrollment growth and return recently impaired workers to the workplace. Principal measures included setting a new timeline for rehabilitation services that closely correlates with worker ability and a reduction of cash benefit value in sickness benefits for those who do not return to work. Evaluations were also frontloaded, occurring in 3, 6, and 12 month increments and providing rehabilitation, assessment, and counseling at earlier stages of impairment.

These reforms were effective in increasing work return and reducing time spent in the program, though relatively few of those already in the program at the time of the reform ever returned to work. Instead, many obtained another type of social assistance once sickness benefits ended. Unfortunately, even those in the program for one year after the onset of impairment were significantly less likely return to work after

rehabilitation efforts. Very recent reforms have concentrated on attempting to return current beneficiaries to the labor market by providing aid without fearing loss of disability benefits, but so far they have had little effect (Burkhauser et al 2014).

United Kingdom

According to a 2007 report, the U.K. annually spends £12 billion or almost $22 billion in U.S. dollars to support 2.7 million recipients (Fox). The proportion of U.K.'s working age population receiving benefits rose from 3 percent in 1960s to 7 percent in 2006, and over half of current claimants were under age 50 and are therefore likely to remain in the program for many years to come. To answer these costs, the U.K. rolled out its Pathways to Work program in 2003. Limited to certain areas as a pilot program in 2003 and expanded to all U.K. residents in following years, it seeks to return disability claimants to work and reduce the total number of recipients by 1 million (O'Day and Stapleton 2008).

Pathways to Work provides disability aid, job counseling and guidance, and financial aid that aims to equip the disabled to find work and meet the demands of the workplace. Claimants are required to participate in work-focused interviews (WFIs) where they meet with Personal Advisers to demonstrate a commitment to return to work, and formulate an Action Plan to do so (Nice et al 2008). Additional portions of the program provides opportunities for various job training opportunities, a Return to Work Credit (RTWC), and an Adviser's Discretionary Fund (ADF). Monetary aid through the Return to Work Credit provides aid of £40 per week for up to 52 weeks and is available to recipients who work 16 or less hours per week and earn less than £15,000 per year (OECD 2007). In general, the number of beneficiaries of the credit is not large and the number of those who return to benefits after exhausting the credit is not large. (Corden and Nice 2006)

The programs appear to have a positive effect in increasing overall employment among beneficiaries, though potentially at a lower than desired output. 18 months after the Pathways program's pilot program launch, the number of beneficiaries in paid work increased by an estimated 7 percent, above a 29.7 percent base of those who would otherwise be employed apart from the reforms. However, there was no statistically significant increase among those working 16 or more or 30 or more hours per week. Given the overall increase in employment, it is possible that though reforms increased employment, participants were working relatively few hours, possibly due to the loss of inability benefits once work hours exceed 16 per week. (Fox 2007).

Partially effective reforms

Australia

Unlike many traditional social insurance programs, Australia's Disability Support Pension (DSP) more closely resembles a disability-based welfare program. Rather than tying eligibility to past contributions, the format of DSP is similar to a means-tested program that provides a guaranteed minimum income (Burkhauser et al 2014).

During a recession in the early 1990s, a major change to DSP eligibility changed the 85 percent work impairment standard to an effective 25 percent impairment standard, or the ability to work "no more than 30 hours per week", assuming a 40 hour per week as normal. This shift effectively changed the program from a long-term total disability scheme to long-term partial disability with no reduction in benefits. Unsurprisingly given the partial disability requirement and given that DSP benefits are generally higher than that of other Australian social assistance programs, DSP grew substantially following this change. (Burkhauser et al 2014).

In 2006, Welfare to Work reforms sought to actively address the reduction of DSP receipts. While there was no change in eligibility for current recipients, new recipients are eligible for DSP if they are able to work less than 15 hours per week. For those with a partial work capacity of 15-29 hours per week, eligibility for partial benefits is contingent upon searching for part time work suited to the individual's abilities or participation in employment services. Additionally, all except the 'manifestly disabled' must undergo a Job Capacity Assessment (JCA) that determines a person's work capacity and ongoing support requirements, formulates a plan to handle barriers to work, and determines whether the person would benefit from employment assistance. If referred for an interview with employment assistance, the participants will be referred to one of several jobseeker services (OECD 2007).

Despite these reforms, DSP costs have continued to rise. One study by McVicar and Wilkins attributes this in part to growth in benefit levels. DSP benefits are indexed relative to average wage earnings and as such replace a greater percentage of low skilled workers' earnings than minimum wage work and several other income support programs whose benefit levels are tied to inflation (2013). Additionally, temporary sickness benefits were discontinued in the 1990s and consistent with these changes, non-DSP welfare benefits decreased and were generally offset by the increase in DSP receipts from 1993 to 2011 (Burkhauser et al 2014).

Least effective reforms

Denmark

Between 2002 and 2008, the proportion of Denmark's working age population receiving health-related benefits increased from 9.6 to 11.2 percent, despite a low unemployment rate of 3.5 percent (OECD 2008a). Increasingly, recipients are younger people with mental health issues, raising concern for the long-term economic impact of this trend.

Denmark's reforms have focused on both discouraging manipulation of the disability benefit system and encouraging workforce participation. In 2003, benefit levels became uniform and normalized to levels similar to other government benefits, replacing approximately 70 percent of average earnings. Partial benefits were also abolished at this time due to issues with people trying to appear as sick as possible (OECD 2008b).

Health assessments under the new reforms are handled at a municipal level and determine whether individuals are able to work at full capacity or at partial capacity in a government subsidized "flex-job." Flex jobs provide subsidies at rates of 50 or 67 percent to compensate workers for lost earnings relative to a regular job, and those eligible for flex jobs are provided with waiting benefits until a job is found. In 2006, stipulations were added that require waiting benefit recipients to contact the job centre every three months. At six months unemployed individuals may work with a private job broker to find work and if still unemployed at one year, recipients are required to work with a job broker (OECD 2008b).

Reform efforts further increased the frequency of follow-up reviews with workers absent on sickness leave, since the prior system did not prevent a 30 percent increase in sickness absences between 1999 and 2003. Reviews must now take place every four weeks, rather than once every two months. Structural reform also added medical certificate training for general practitioners to improve their understanding of functional ability in the workplace, and provides better data for employers to understand where their company falls relative to the average for sick employees (OECD 2008b).

In the wake of reform, the number of subsidized flex jobs and people waiting for a flex job increased, while the total number of people on disability benefits did not fall. Overall enrollment increased through 2006, though one

report suggests this may be due in part to backlog in processing disability benefit applications and consequent extensions on the rule that the individuals waiting may claim sickness absence for up to one year (OECD 2008b).

Luxembourg

In 1987, Luxembourg's disability rolls ballooned in response to a loose interpretation of new eligibility criteria, which effectively qualified those unable to continue in their current occupation for disability receipts. To rectify this overload, a stricter interpretation was enforced starting in 1997 and disability benefits for those with partial work capacity were cut. Following the change, overall program enrollment fell and costs dropped from 2.6 percent of GDP in 1995 to 1.8 percent in 2001. However, long-term sickness absence grew during the same period, suggesting that some who were dropped from disability transferred from one social assistance program to another (OECD 2007).

Reforms in 2002 implemented measures to cut misuse of sickness leave and move those with partial work capacity back to the labor market. In the case of prolonged sickness, mandatory medical examinations determine if an individual is able to work, possesses partial work capacity, or is permanently disabled. If judged to be permanently disabled, individuals undergo a more comprehensive medical examination for long-term disability filings. For those with partial work capacity, a redeployment strategy is set into motion to consider if the person may continue the same work at fewer hours or take up a different position in the same company. These internally redeployed workers are provided monetary benefits to compensate for any loss of income relative to previous employment, and employers may claim tax credits and receive compensation for any needed job training. The latter benefits also apply to employers who take on disabled individuals on as new employees (OECD 2007).

According to a 2007 OECD report, results showed an increase in the disabled returning to their previous workplace since the 2002 reforms and that approximately one-third of program participants do so. At the same time, external deployment efforts have been largely unsuccessful and unemployment has risen. The report suggests that redeployment at the individual's current income could prove attractive to beneficiaries, though the failure of external redeployment and uncertainty of where the process would lead could deter individuals from initially utilizing the program.

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