



# Wage subsidies for disabled workers in the Netherlands

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*In order to create jobs for people with disabilities, Dutch employers can receive a wage subsidy. The new government has set out to replace this instrument with wage dispensation, which carries several disadvantages for workers with disabilities. This has sparked a national debate among stakeholders and political parties.*

## Description

In 2013, the Dutch government, employers and trade unions agreed that 125,000 additional jobs would be created for people with disabilities. This target group is defined as people who are not able to earn the minimum wage by themselves.

Municipalities are responsible for guiding unemployed disabled people to employment. They can offer employers a financial incentive to encourage them to hire disabled people, called a “wage subsidy” (*loonkostensubsidie*, LKS). This reimburses employers for the extent to which the disabled worker is not productive. It works as follows.

First, the productivity of the disabled worker (their “earning capacity”) is measured at the workplace by a certified professional. This earning capacity is expressed as a percentage of the minimum wage.

Secondly, the employer pays the disabled worker at least the minimum wage (or, where applicable, the negotiated sectoral wage).

Thirdly, the employer is reimbursed for the gap between the earning capacity of the disabled worker and the minimum wage, up to 70% of the minimum wage. Any wage cost paid above the minimum wage is borne by the employer. The wage subsidy also covers social insurance premiums (e.g. pension).

Fourthly, if the employee does not generate sufficient income from work (e.g. because they can only work part-time), the municipality supplements this up to the social assistance level.

An example (please note that these are simplified calculations):

*Jan is a disabled worker who works at a restaurant. He has an earning capacity of 50% and works four days per week. The sectoral wage is €1,700 for full-time workers, so Jan receives a gross monthly wage of €1,360 from his employer ( $4/5 * €1,700$ ), which translates to an income of around **€1,230 after taxes**. The minimum wage is €1,600. His employer receives a wage subsidy of €640 ( $50% * 4/5 * €1,600$ ) from the municipality.*

In the 2017 coalition agreement, however, the new government has announced that the wage subsidies will be replaced by “wage dispensation” (*loondispensatie*) starting in 2019. This is another financial incentive for employers to hire disabled people, which is currently used for young disabled people (under the Disablement Assistance Act for Disabled Young Persons, *Wajong*). Wage dispensation works differently: a) the productivity (“earning capacity”) of the worker is measured; b) the employer only pays the worker to the extent that they are productive, hence below the minimum wage; and c) the disabled worker receives a supplementary benefit from

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the municipality up to social assistance level.

In the example of Jan (again, these are simplified calculations):

*Jan is only paid by his employer for his earning capacity, which is 50% of the minimum wage. This means he receives a gross monthly wage of €640 (50% \* 4/5 \* €1,600), which is around €600 after taxes. Social assistance level for a single person is €992. Jan receives a supplementary benefit from the municipality of €392, making his **total net income €992.***

The State Secretary mentions three reasons to replace wage subsidies with wage dispensation: a) it reduces the administrative burden for employers because they no longer have to apply for a wage subsidy; b) it harmonises existing financial incentives for employers, because wage dispensation is already used for young disabled people under the *Wajong*; and c) it generates a cost reduction of €500 million, which can be used for other instruments for the social inclusion of disabled people.

However, the introduction of wage dispensation has a number of negative consequences for disabled workers, including a lower income (especially for full-time workers), little incentive to work (since the benefit only goes up to social assistance level), limited pension and unemployment benefit coverage, and increased administrative burden for employees (because they have two sources of income). Also, disabled workers with large savings or a working partner do not receive the municipal benefit, as it is means-tested.

Several organisations have protested against replacing the wage subsidy by wage dispensation, including the National Client Council (LCR), trade unions (FNV), municipalities (VNG, Divosa) and social firms

(Cedris). There have also been protests from several political parties (GroenLinks, SP, PvdA, PVV and 50Plus). Generally, these parties feel that wage dispensation worsens the position of disabled workers. They argue instead for improving wage subsidies to reduce the administrative burden on employers. Also, they are not convinced that employers favour wage dispensation over wage subsidy. However, the major employers' organisation (VNO-NCW) is in favour of wage dispensation.

The State Secretary has continued to consult all relevant parties on how best to design the new instrument. Her aim is to ensure that work pays and to prevent a poverty trap. Therefore, she has proposed to adjust wage dispensation in such a way that the disabled person is always better off financially, by increasing the municipal benefit. However, she does not intend to address the issues of pension entitlements, unemployment benefits and means-testing of the municipal benefits.

## Outlook & commentary

The aim of wage dispensation is to make hiring disabled people easier for employers, as they no longer have to apply for a wage subsidy. However, a recent poll shows that 80% of employers take a positive view of wage cost subsidies and that 70% are against transitioning to wage dispensation. Moreover, the monitor report on the realisation of the jobs agreement from 2013 indicates that employers have created sufficient jobs for disabled workers, and wage dispensation is expected to have little impact on creating jobs for disabled people (CPB, 2018). Hence, it is unclear which problem the State Secretary is wishing to solve here.

The other goal of introducing wage dispensation is to generate a cost reduction of €500 million, which can be used for other social inclusion measures, namely sheltered work. This has been an issue for debate, as municipalities have not created as many sheltered workplaces as was agreed upon, mostly due to the high costs involved. Therefore, it seems that the proposed shift to wage dispensation is primarily a shift of budgetary priorities from people with moderate disabilities to people with severe disabilities.

In the coming months, the State Secretary will seek to increase political support for her proposal. Currently, many stakeholders and political parties are still against it. To convince them, she will need to ensure that disabled workers will not be worse off under the new system.

### Further reading

[Divosa position paper on wage dispensation](#)

[VNG position paper on wage dispensation](#)

[Recent poll among employers on wage subsidy](#)

[Letter of State Secretary to Parliament on wage dispensation](#)

[Paper by the Bureau for Economic Policy Analysis \(CPB\)](#)

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