

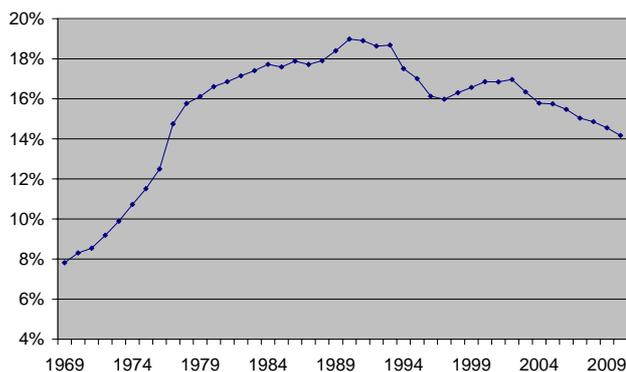
# Reform of the Dutch Sickness and Disability Arrangements

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## 1. Introduction

In the beginning of the 1980's, Dutch sickness and disability rates had been rising fast and were the highest in the world (the "Dutch Disease"). In the same period the Netherlands was experiencing a deep economic crisis. This was the start of a reform process which proved to be a long journey. The reforms seem to pay off. But the process of reform is still ongoing. New problems arise around for example young people becoming disabled. Around 1 in 20 children reaching the age of 18 are awarded Invalidation Benefits for the Young Handicapped.

Graph 1: Sickness and Disability as a % of the labour force; 1969-2010



The graph shows the phases in Dutch sickness and disability policy. In the 70's a spectacular growth in sickness and disability rates occurred which started to slow down by policy measures in the 80's. At the end of the 80's and the beginning of the 90's policy measures were introduced which for the first time resulted in a decline of sickness and disability rates. This decline did not prove to last. This prompted a set of measures which will be the focus of this paper (roughly the past 10 years). Somewhat simplified these reforms can be described as two main policy trends. First of all a major shift of social responsibilities to the level at which the social risk can be influenced and cured most effectively. Secondly, a move away from a system simply paying insurance benefits (paying for what people cannot do) towards an activating system (looking at what people can do).

The most important changes in the field of sickness and disability in the past 10 years are:

- Privatisation of the sickness scheme: employer is obliged to pay wages for two years;
- Employer is responsible for the reintegration of sick employees (Gatekeeper law);
- New disability act (WIA);
- Experience rating in the social contributions of employers;

- Option for employers to opt-out of the disability scheme,
- Stricter eligibility conditions for benefits;
- Reassessment of disability benefit claimants under the age of 50;
- More focus on reintegration instruments (mostly by private companies).

This paper will describe the main policy changes (par. 2) and will then describe the effects of these reforms (par. 3). Paragraph 4 will discuss the most recent policy reforms concerning the Invalidity Benefits for the Young Handicapped.

## 2. Policy developments

### Shifting the responsibility for Sickness Benefits

The most striking change in sickness benefits has been the shift of responsibility from the state to the employer. The first step in transferring the –financial- risk from the state to the employer was taken in 1994. A period of wage payment by the employer in the case of sickness was introduced: 2 weeks for small companies and 6 weeks for larger companies. Because of the increased risk of sickness for employers there was a fear that employers would start selecting new personnel on medical grounds. Therefore it was forbidden for employers to test new personnel medically, as was usual. The period of wage payment by the employer was increased to one year in 1996. This period was increased to two years in 2004. The main laws now governing the first two years of sickness are Gatekeeper Law and Law about wage payment during two years. The legal wage payment obligations are regulated in the Dutch Civil Code. The level of sickness benefit has remained the same during these years. The legally required benefit is 70% of the wage. But it is usual for almost all employees to receive 100% of the wage during the first year of sickness. In order to avoid that increasing the duration of sickness benefit to two years would imply that payment would be 100% during these 2 years an agreement was reached between social partners and the state that stipulated that in total for the 2 years of sickness a maximum of 170% of the wage could be paid. In most collective agreements this was translated into a full 100% benefit in the first year and a 70% benefit in the second year.

### The “Gatekeeper” Law

In 1994 the Sickness Absence (Reduction) Act was introduced and the Working Conditions Act was amended. These laws were intended to increase employer and employee involvement in reducing absence due to illness and introduced several measures to that end. The employer is responsible for the reintegration of a sick employee, until it is certain that no suitable work is available in the company for him or her. This responsibility was extended later in the Gatekeeper Improvement Act: as of 2003, employers bear responsibility for the reintegration of sick employees for as long as employment continues. This means that if the employer has no suitable work for sick employees, he must help them find work with another employer. During the two-year period of sickness (from 2004 onwards), both the employer and the absentee worker must do all they reasonably can to improve the individual's chances of returning to work and to exploit all opportunities to reintegrate him into the employment process. If the employer has failed to do his best to reintegrate an employee, he will be required to continue paying that employee's salary

for up to a further year. This threat of extended salary payment will encourage employers to take all possible steps to re-employ their absentee employees at the earliest opportunity. The employer and the employee can ask the 'expert opinion' of a physician of UWV, if the employer and employee do not agree with one another.

The evaluation study on the Gatekeeper act found the Act to be successful. Long term sickness declined and influx into disability decreased (for further details see Reijenga (2004).

### **New assessment criteria.**

Assessment for disability in the Netherlands is based on the earnings loss due to disability. The assessment has been made somewhat stricter first by increasing minimum level of disability from 15 to 35%. Secondly by applying less strict criteria in determining what work can still be done by the applicant. In the system of calculating the potential income loss, this makes it easier to find (theoretical) jobs which somebody can perform. A person is not or only partially considered to be disabled if he still can earn a certain amount of money. The effect of applying less strict criteria in determining what work can still be done is estimated at about 5 to 7%.

### **New Disability law (WIA)**

The Work and Income (Capacity for Work) Bill (WIA) is the current disability benefit (introduced in 2006). The WIA has two aims: to promote reintegration and to protect the incomes of employees who are restricted in the work they can do due to illness or incapacity. The primary aim is to promote a return to work, i.e. to increase the long-term reintegration of employees with (temporary) health-related work restrictions.

The new WIA consists of two statutory provisions:

- the Regulation governing income protection for individuals registered as wholly and permanently incapacitated (IVA). The IVA is based on a payment of 75% of the full daily wage.
- the Regulation governing the re-employment of partially incapacitated individuals (WGA). Persons (paying 70% of the daily wage).

A fundamental distinction has been made between employees who after two years (of sickness benefits) are both wholly and permanently incapacitated (IVA sub scheme) and those who are partially or temporarily incapacitated (WGA sub scheme). Persons who are fully incapacitated but for whom this condition may not be permanent are included in the WGA scheme. If after a certain period they are still found to be totally incapacitated, they can be transferred to the IVA scheme. Until then, they will be paid a full WGA benefit of 70% of their daily wage: their wage-related period lasts as long as long as their full incapacitation lasts. Paying benefit to such individuals – who are wholly though not necessarily permanently incapacitated – ensures that they are given every opportunity to recover and return to work while at the same time having the security of incapacity benefit.

At this point in time about 25 % of current beneficiaries have a permanent (IVA) benefit. 55% have a full benefit according the WGA, while 20 % are partially disabled.

## Partially incapacitated employees and the use of the remaining work capacity

The benefit system for partially incapacitated employees prioritises efforts to maximise their capacity for work. The system tries to encourage these individuals to continue working as much as possible. One proviso is this labour must always be financially remunerative. The partially incapacitated individual must also be encouraged to use his residual earning capacity. These are the principles underlying the benefit system, which – briefly summarised – consists of the following:

After two years of illness, the partially incapacitated individual can be entitled to benefit under the WGA. He will initially be entitled to a wage-related WGA benefit payment. How long the wage-related WGA benefit continues to be paid will depend on the individual's employment history, and varies between 3 and 38 months.

The level of this wage-related benefit will depend on whether he is earning an income through work (as an employee or a self-employed person). If, however, he is not working, the level of the wage-related WGA benefit will be 70% of the (maximum) daily wage. If he is working, the level of the wage-related WGA benefit will be 70% of the difference between the (maximum) daily wage and his work-related income.

This form of the wage-related WGA benefit has a number of advantages. First, it clearly indicates the WGA's role in the benefit structure in providing compensation for loss of wages. The level of wage-related WGA benefit represents, after all, 70% of the wages actually lost by the partially incapacitated individual. Second, the benefit structure ensures that the partially incapacitated individual always moves on to a higher income if he does (more) work. Each euro generated in extra work-related income increases his total income by € 0.3, because only € 0.7 is subtracted from the benefit payment. This gives the individual an incentive to do (more) work.

When the wage-related WGA benefit comes to an end, he will be entitled to a *WGA follow-on benefit* (if the partially incapacitated individual is not working, or is not doing enough remunerative work), and, he will be entitled to a *wage supplement* (if he is doing sufficient remunerative work). The term 'sufficient remunerative work' means that the employee must be earning a monthly wage-related income which is at least 50% of his residual earning capacity.

- If the partially incapacitated individual does not meet this criterion, he will be entitled to a WGA follow-on benefit, which is 70% of the statutory minimum wage multiplied by the percentage of incapacity.
- If the partially incapacitated individual does meet this criterion, he will be entitled to a wage supplement which is equivalent to 70% of the difference between the (maximum) daily wage and his work-related income (comparable to the wage-related period).

The partially incapacitated individual can in principle claim benefit under one of these two schemes until his 65th birthday.

## Persons not eligible for WIA benefits

Responsibility for maximising the employment capacity of employees who are less than 35% occupationally disabled lies with the company. The underlying aim is for this category of employees to be kept in the labour process wherever possible, either with their current employer or with another employer. Only in cases, in which employers has no possibilities whatever to further employ the employee, he can be discharged following permission from the Centre for Work and Income. In such cases, the employee can register an appeal under the Unemployment Insurance Act (WW), provided he meets the eligibility criteria.

## Reassessment

Persons with a disability benefit who are born after July 1954 have been reassessed now in an operation that started October 2004. For persons born after July 1959 the disability-rules are stricter. Persons who are reassessed as less or no more disabled, and who are not entitled for a unemployment benefit, get a temporary benefit in stead of the lost disability benefit (maximum 12 months). The reassessment of these beneficiaries under the "old scheme" was finished in 2009, 345.000 persons were reassessed. In 60% there was no change in the level of disability (and thus in the level of benefit). In 6% the level of disability was found higher. For 20% of the reassessed the disability benefit ended, for 12% of the reassessed the level of disability was lowered.

## Contributions for disability benefits: Experience rating

In some way or other the Dutch Disability system has been risk rated from 1992.

The contributions of the new law WIA in 2006 are also experience rated. The contributions consist of two components: a basic contribution (the same for all employers) and the differentiated contribution. The last one differs per individual business and regards the first ten years of every benefit for employees of that business. The contribution the employer pays is based on how many of the company's employees are on incapacity benefit. The aim of this system is to give employers a financial incentive to prevent incapacity or – should an employee nevertheless become incapable of work – to minimise incapacity benefit claims.

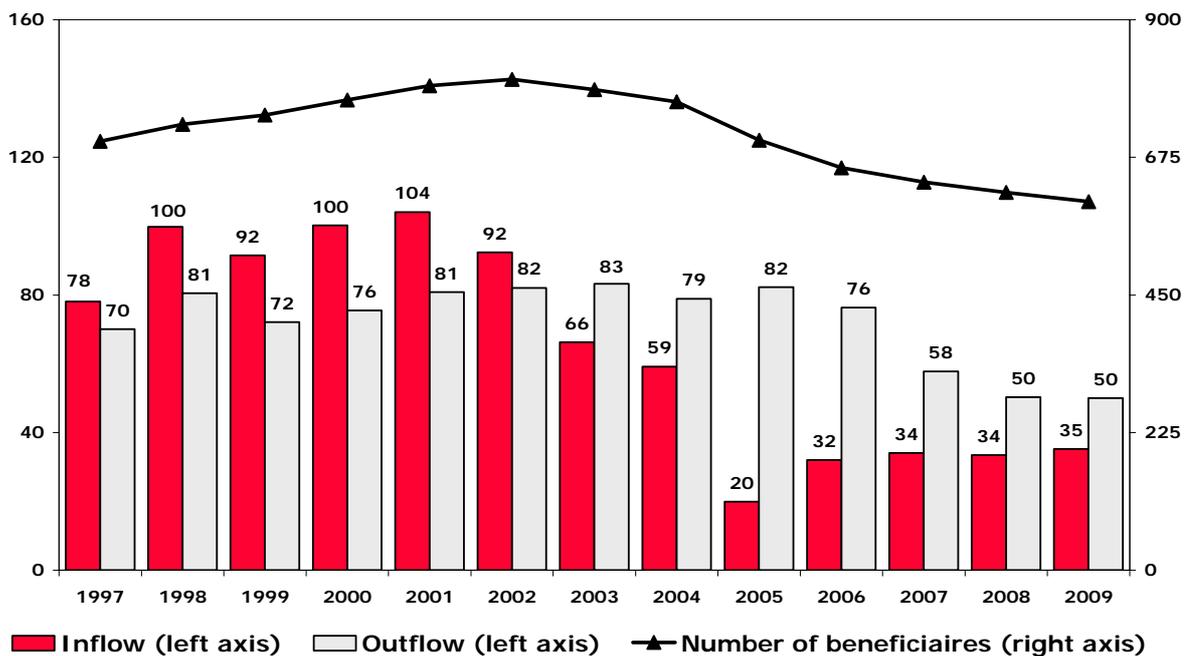
Employers who have opted to carry the WGA-risk themselves only pay the basic contribution. These employers opted to carry the financial risk of disability of their employees fully themselves for the first ten years, or to take out insurance with a private insurer.

Koning (2004) analysed impact of changes in DI premiums. Employers seem to have been triggered to increase preventative measures once they have experienced an increase in premiums. Koning finds the impact of experience rating to be substantial: amounting to 15% reduction of inflow into the disability benefit system.

### 3. Effects of the policy changes

The graph below illustrates the developments in inflow and volume in **disability arrangements** in recent years and demonstrates the effect of the various measures. The success of the disability reforms gets clear from the facts about disability: The new inflow in disability is down from 100.000 in 2000 to roughly 35.000 in the last 3 years. In 2005 this was even lower, but this is caused by the increase in the duration of sickness benefit from one to two years.

Graph 2: Development of numbers of beneficiaries on disability benefit (inflow, outflow and total volume (1997-2009)).



It difficult to disentangle the separate effects of each measure. But Berendsen et al.(2007) state that the largest part of the effects of the decline in inflow can be attributed to the policy measures concerning the sickness benefit period.

#### Re-integration of persons in the re-assessment operation

UWV has done a research about the effects of reintegration after the reassessment operation. Two groups are being tracked: the cohort 2005 and cohort 2006. Both cohorts are being interviewed 4, 8 and 18 months after the reassessment. An additional measurement was after 30 months for 2006 cohort and after 42 months for the 2005 cohort.

Table 1: Percentage of reassessed persons working.

	Time of reassessment	After 4 months	After 8 months	After 18 months	After 30 months	After 42 months
Cohort 2005	36%	41%	44%	51%		60%
Cohort 2006	42%	47%	52%	62%	65%	

This research shows a growing line of the numbers of reassessed persons using their remaining earning capacity. The percentage of persons working is higher in the 2006 cohort than in the 2005 cohort. The explanation for this is among other things more effective support and a better labour market.

#### 4. The end of reform?

In the past years many reforms were implemented. These reforms seem to have an effect. But there are specific areas which need further attention. One such policy problem is the growing inflow of young people into a specific disability scheme. When handicapped or disabled children reach the age of age 18, they may apply for a specific Disablement Assistance Act for Handicapped Young Persons (DAYP)<sup>1</sup>. Youngsters may apply for this benefit if they are unable to work, or more precisely: are unable to earn the minimum wage. These children are born with a handicap or disability, or became disabled during childhood. Roughly 1 in 20 youngsters at age 18 are awarded such an Invalidity Benefit. Inflow into this scheme has been rising continuously for the past decade. Inflow into the scheme is now 2 ½ to 3 times as high as it was ten years ago. Mental diseases are the main cause of the growth of the inflow into the scheme. This growth has prompted changes in this scheme, which were recently implemented. This scheme is now oriented along the lines we implemented for general disability benefit. This implies that it is more oriented towards work and activation. Eurofound and the OECD are working on comparative research concerning increasing disability of youngsters and the growth of the inflow in disability because of mental disabilities.

<sup>1</sup> The Dutch name for the Child Benefit for Disabled Children (CBDC) is TOG. The Dutch name for the Disablement Assistance Act for Handicapped Young Persons (DAYP) is Wajong.

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