

4 Designing employment-compatible social protection for all

Disability benefit programmes have seen reforms in many OECD countries. Changes have in some cases led to a halt or turnaround in the increase in the disability benefit caseload but the effects on the employment of people with disability have remained limited. Policy efforts should focus on earlier intervention, by preventing people from getting to a stage from which there is no sustainable return to work.

In Brief

Social protection is key to supporting people with disability but may also create disincentives to work and self-sufficiency. OECD countries should focus on earlier intervention to promote a quick return to work, as soon as health barriers to employment become visible in workers or unemployed.

- **Disability benefit programmes have gone through reforms.** Many countries have been and are in the process of reforming their disability programmes, by tightening their generosity and eligibility and/or by increasing the activation elements of disability programmes. These policy changes have had effects in curtailing the size of disability programmes in many countries. Yet, there appears to be a limited correlation between these reforms and higher employment rates for people with disability (Section 4.1).
- **Policy efforts to promote the employment of PWD must be oriented towards preventing people from getting to a stage from which there is no sustainable return to work.** This can be supported by policies promoting the early identification of barriers to employment, giving a greater role to the stages preceding application to disability benefits – sickness insurance and unemployment insurance – as well as creating intermediate stages before entering permanent disability benefits, i.e. various forms of transitional benefits (Section 4.2).
- **Exits from disability benefits are rare, and when they occur, often result in transitions to other social protection programmes.** Reforms need to be conscientious of spill-overs across social protection programmes, and be considered within the social protection system of a country in its entirety (Section 4.3).
- **Social protection is necessary to prevent people with disability from falling into poverty.** Benefit adequacy considerations must take a complete view of the benefit system in its entirety, as many PWD depend on top-ups provided through social assistance or, more often, on social assistance payments altogether (Section 4.4).
- **Countries should reform social protection programmes to include early intervention and adequate incentives, in a disability-inclusive way.** This chapter proposes six guiding principles: (i) making disability systems a non-final state; (ii) implementing mandatory early intervention approaches; (iii) introducing adequate work incentives; (iv); taking a holistic approach to reforming social protection; (v) tackling the fragmentation of social protection; and (vi) addressing poverty through mainstreaming social protection (Section 4.5).

Social protection is a key policy tool, as it helps break the link between disability and poverty. At the same time, social protection creates disincentives to work and self-sufficiency, thereby trapping people with disability (PWD) in poverty. As advanced in OECD work about 20 years ago, it is important to design disability benefit programmes with a focus on tailored early intervention, capacity-adjusted activation, adequate work incentives, and stronger responsibilities for employers and public authorities. The reality, however, is that reforming disability programmes is complex because it targets a wide range of people, including some with very limited or no work capacity; disability benefits must offer a safety net to PWD with no work capacity while promoting and supporting the employment among PWD who can work. Finding the right balance between activation and adequacy of benefits is at the core of the policy debate on social protection for PWD, and is captured throughout this chapter.

4.1. Disability benefit systems

Disability benefit systems are the cornerstone of social protection for PWD. In most countries, these are part of the social insurance system, providing social insurance against the risk of earnings loss due to disability. Systems also depend on their eligibility criteria, such as contribution requirements. Disability systems that are closely linked to pensions, for instance, have strict contribution requirements and may thus exclude PWD with limited work histories. Many countries respond to this by providing means-tested disability benefits alongside disability insurance. This section focuses on disability benefit systems, by describing their trends in take up, and explaining (part of) them by looking at (1) system characteristics, (2) inflows and outflows, including levels and changes in acceptance rates, and (3) reforms of the system, which mostly operate through new benefit claims. The section covers OECD countries to describe the size of disability systems and reforms, but goes in depth into the disability system characteristics and outcomes of six countries: Austria, Belgium, Canada, the Netherlands, Norway and Switzerland. These six countries are useful in providing lessons for all other OECD countries, as they all have different disability systems, with their own peculiarities, which are often found in other OECD countries as well.

4.1.1. Institutional details and disability benefit outcomes

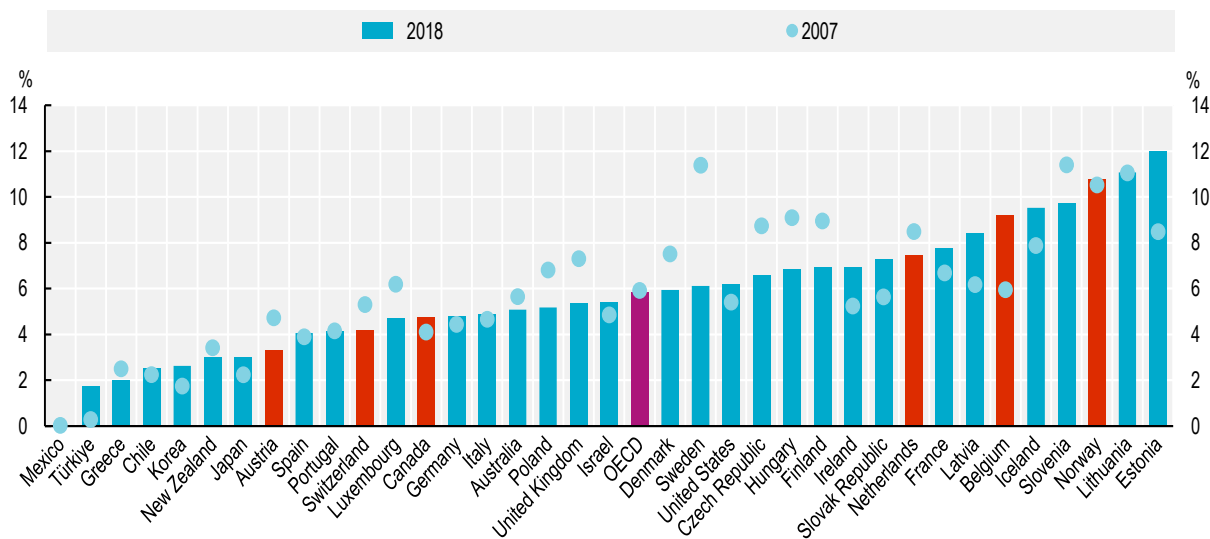
This subsection serves two main objectives. First, providing descriptive statistics on disability benefit caseload trends across OECD countries. Second, understanding trends in key outcomes for the selected group of countries, such as new claims, acceptance rates and outflows, using administrative data, and explaining the observed trends by looking at the characteristics of disability benefit systems.

Variation in disability benefit receipt

There is large variation in disability benefit receipt rates across OECD countries and over the past decade. Figure 4.1 shows that, on average across OECD countries, 5.9% of the working age population aged 20-64 received disability benefits in 2018. This share has remained constant over the past decade. There is great variation, however: in 2018, at the bottom of the distribution, Mexico reported receipt rates lower than 0.5%. At the top of the distribution, there is Estonia, with 12% of the population, many of which are in-work claimants through the new Work Ability Allowance. There is also great variation in the change over time. Some countries experienced decreases of more than 2 percentage points, like the Czech Republic, Hungary and Sweden. Others saw an increase in the receipt rates, including Eastern European countries (Estonia, Latvia, the Slovak Republic), Belgium, Iceland and Ireland. These countries have experienced substantial increases in the disability receipt rate of over 1.5 percentage points.


Figure 4.1. Large variation in disability recipient rates across OECD countries and over time

Disability benefit receipt rate in 2007 and 2018 in OECD countries



Note: Disability benefit receipt over population aged 20-64. Disability benefits include contributory and non-contributory programmes specifically targeted to people with disability. It also includes permanent disability programmes and transitional disability programmes. OECD is an unweighted average excluding Colombia and Costa Rica. Data for 2007 refer to 2009 (Chile) and 2018 refer to 2016 (Estonia, Germany, Italy, United States). For Canada, data include federal insurance as well as provincial assistance benefits.

Source: Calculations based on the *OECD SOCR database* <https://www.oecd.org/social/social-benefit-recipients-database.htm> and the *OECD Historical Population database* <http://stats.oecd.org/Index.aspx?QueryId=88956>.

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To understand these trends, it is necessary to disaggregate further the data, to answer some of the following questions: Did the inflow to the disability programme change? Or were the outflows different? More generally, how did reforms to the system impact the size of disability programmes? The following sections focus on the six funding countries of the project, to assess the interplay of (1) system characteristics, (2) programme inflows and outflows, and (3) reforms of the system.

Inflows to the programmes

This section breaks down information on the entry to the main disability programmes in Austria, Belgium, Canada, the Netherlands, Norway and Switzerland: these descriptive statistics allow understanding the acceptance rates to the programmes, and how these relate to their characteristics, as well as the trends in inflows, and which factors affect these trends.

Before assessing acceptance and inflow rates to the disability programme, it is good to recall the characteristics of the main disability programmes. The main disability programme is a contributory programme in most countries, with the aim of insuring workers against the incapacity to work due to disability. It can take different forms in different countries. In some countries, like Austria, Canada and Switzerland, the main disability programme is a disability pension which shares many characteristics with the old-age pension system. In Belgium, the Netherlands and Norway, the main disability programme is a disability benefit, independent from the old-age pension programme. Table 4.1 summarises the main characteristics of each of the programmes. Some key conclusions emerge:

Table 4.1. Main disability programme characteristics differ across the six countries in focus

Characteristics of main disability benefit programmes, by country

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Main disability benefit	Work incapacity pension (Berufsunfähigkeitspension)	Disability benefits (Indemnités d'incapacité de travail/ Invaliditeitsuitkering)	Canada Pension Plan Disability (CPP-D) and Quebec Pension Plan Disability (QPP-D)	Disability benefits (WIA): Income Provision for Fully Disabled Persons (IVA) and Return to Work Scheme for the Partially Disabled (WGA)	Disability benefit (Ufretrygd) Occupational Injury Insurance (yrkesskade-forsikring)	1 st pillar: Invalidity Insurance (VG/Al) 2 nd pillar: Professional provision (BVG/LPP)
Type	Pension	Benefit	Pension	Benefit	Benefit	Pension
Responsible organisation(s)	Pension insurance authority	National Institute for Health and Disability Insurance (INAMI)	Employment and Social Development Canada (ESDC, for CPP-D)	Employee Insurance Agency (UWV)	Labour & Welfare administration (NAV) Private insurance companies	1 st pillar: Disability Insurance offices (cantonal) 2 nd pillar: Pension schemes
<i>Eligibility</i>						
Age	18 to 65 (women: 65 as of in 2033)	16 to 65	18 to 65	18 to 66 (67 in 2024)	18 to 67	18 to 65 (64 for women)
Calculation of disability	Medical	Medical	Medical	Income loss due to disability	Income loss due to disability	Income loss due to disability
Minimum degree of disability	Full disability often interpreted as 50%	66%	Inability preventing substantial gainful activity	IVA: 80% WGA: 35%	50% (40% via transitional benefit, 30% occup. injury)	40%
Minimum contributory period	5 of last 10 years (prolonged for 50+)	9 of last 12 months	4 of last 6 years	None	Last 5 years	3 years
<i>Generosity</i>						
Replacement rate or average monthly payment	Decreasing function of age of disability onset	From 40% to 65%	EUR 701.73	IVA: 75% WGA: between 28% and 70%	66% Topped up by occupational insurance	1 st pillar: 822 + 13/600*basis (for higher income: 1 155 + 8/600*basis) 2 nd pillar: 6.8%*accumulated contributions
Increased generosity	Contributions Dependent household members	Dependent household members	Contributions	WGA: Disability rate, working at least 50% of capacity	Degree of disability Being younger for occupational insurance	Degree of disability
Benefit base	Whole insurance career (max ceiling EUR 5 670/month)	Last income Ceiling (EUR 55 784/year, with exceptions)	Basic payment amount of CAD510.85 (EUR 388) + Contributions	IVA: Last income WGA: Last income or minimum wage	Last income OR average income over best three in last five years	Revalued income from paid employment Bonuses for child child-raising and care-taking
Minimum and maximum benefits	<u>No min</u> <u>No max</u>	<u>Min</u> EUR 36.88-62.08/day, depending on several factors <u>No max</u>	<u>Min</u> CAD 510.85 (EUR 388) <u>Max</u> CAD 1 413.66 (EUR 1 074)	<u>No min</u> <u>Max</u> EUR 222.78/day	<u>Min</u> NOK 242 590 (EUR 23 631) <u>Max</u> NOK 421 340 (EUR 41 043)	1 st pillar: <u>Min</u> : CHF 1 195 (EUR 1 208) <u>Max</u> : CHF 2 390 (EUR 2 415) 2 nd pillar: none
Maximum duration of benefits	Transition to old age at 65 for men 60 for women	Transition to old age at 65	Transition to old age at 65	No	Transition to old age at 67 1 year for Occupational Insurance	Transition to old age at 65 (64 for women)

Note: The table summarises the main characteristics of disability benefit programmes for standard workers. Disability programmes for workers in non-standard employment and self-employed are discussed in Chapter 5. Austria and the Netherlands the minimum (or basic) pension is ensured through compensation supplements (EUR 1 030.49/month if single in Austria and EUR 1 145/month if single in the Netherlands). The table reports the main system for employees and unemployed workers for Belgium; the self-employed are covered under a different system. The exchange rate used for Canada corresponds to that on 18 July 2022 (CAD 1 = EUR 0.7591).

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; Austria Social Benefits, https://www.sozialleistungen.at/buch/pr342997_2968685/Invaliditaets-oder-Berufsunfaehigkeitspension-fuer-ab-1964-Geborene; SSA; Swiss AHV/IV, <https://www.ahv-iv.ch/fr/Assurances-sociales/Assurance-invalidite%C3%A9-AI/Rente-dinvalidit%C3%A9>; INAMI (11); Service Canada, <https://www.canada.ca/en/services/benefits/disability.html>; EC-Employment, Social Affairs & Inclusion, <https://ec.europa.eu/social/main.jsp?catId=1122&langId=en&intPagelId=4990>.

- Disability assessment varies from country to country in the extent of the importance of medical and functional aspects for determining the degree of disability, as well as the importance of the income loss due to disability. Countries like Austria and Belgium use a largely medical definition of incapacity. Instead, in Canada, the Netherlands, Norway and Switzerland, the key factor in measuring the degree of disability is the extent of income lost due to disability.
- Across countries with similar approaches to assessing disability, the minimum degree of disability required for benefit entitlement is quite uniform. For instance, in Switzerland and Norway a 40% loss in income capacity is required for benefit eligibility, compared to a 35% in the Netherlands. More precisely, the Dutch disability system, which separates partial and temporary incapacity from full and permanent incapacity, requires 80% incapacity to access the IVA (disability benefit for full incapacity), and 35% to access the WGA (Return to Work Scheme, partial/temporary incapacity). In Norway, usually the minimum degree of disability to be eligible for disability benefits is 50%, but for applicants coming from the transitional disability programme (Work Assessment Allowance, AAP, see Section 4.3.1), the minimum degree of disability is 40%. Transitions from the AAP to the disability benefit programme account for the large majority of inflows into the programme (73.6% in 2021); thus, de facto, the minimum degree of disability is 40%.
- Stricter contribution requirements for eligibility may leave groups with limited work histories out of the main disability programme. In all countries but the Netherlands and, de facto, Norway, sufficient contributory periods are a requirement for eligibility to the main disability programme. These requirements are stricter in Canada (four years of contributions out of the last six years, or three years for those with 25 years of contributions) and Austria (five years for those under 50), as these disability programmes are closely linked to the old-age pension system. After reaching age 50, the required contribution period in Austria increases by one month for every additional month and the corresponding valid period by two months. As such, a 60-year-old employee would need 15 years of contribution in the last 30 years instead of five in the last ten years. Austria and Canada are also the only countries among the six to require a minimum level of contributions to be insured, although in Austria voluntary opting in is possible.
- The amount of the benefit can be either a specific replacement rate, or a function closely linked to old-age pensions, resulting in substantial differences in generosity. Overall, the six countries in focus use three different calculation methods. Belgium, the Netherlands and Norway provide claimants with a percentage of the benefit base, or a replacement rate. This rate in Belgium varies between 40-60% based on the composition of the claimant's household while the rate is higher in the Netherlands and Norway (75% and 66%, respectively). The second method, used in Austria and Canada, consists in determining a fixed amount and increasing it based on contributions; in Austria, for example, the annual pension amounts to 1.78% of each insured year's revalued contribution (in case the disability happens before the age of 60, additional months are imputed to avoid financial disadvantages). Finally, the Swiss method is somewhat more complex; the first pillar combines both the fixed amount and the replacement rate calculations whereas the second pillar takes into account assets at the time of disability and a projection of assets at the time of retirement. Switzerland's first pillar disability transfer payment is the sum of the minimum old-age pension, which is fixed, and a fraction of the benefit base. Both this fixed amount and the percentage of the benefit based that is used depend on whether the benefit base is above or below a certain threshold. The second pillar is a percentage of the sum of assets (contributions and interests) at the time the invalidity begins and of the projected assets up to retirement age (contributions only). Together, these two pillars form the benefit amount. The percentage of that amount that the claimant will actually receive depends on how incapacitating their disability is, and is since January 2022 a linear function of the degree of disability.

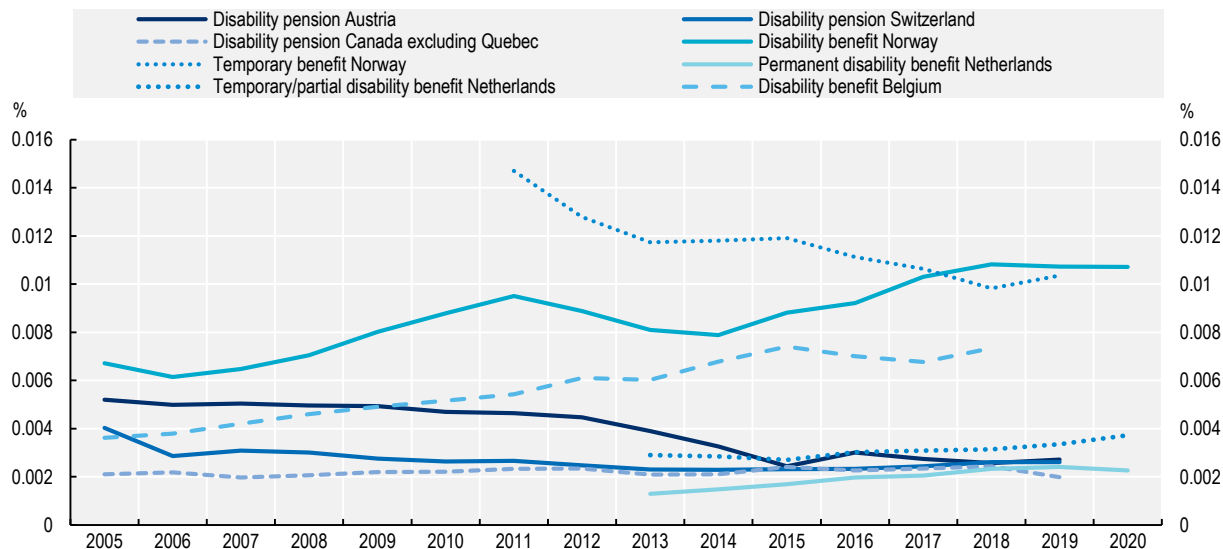
- The benefit base itself is calculated differently depending on the country, again impacting the generosity of the system. Belgium and the Netherlands use the last income earned by the claimant, whereas Norway uses an average of the years before incapacity. In Austria pension calculation is based on the whole insurance career while in Norway the average of the best three in the last five years is used. Switzerland uses the average annual revalued income from either paid employment or voluntary contribution, including bonuses for child-raising. Canada uses the average of the best-insured years during the contributory period (from age 18 to the start of benefits) and considers dropping out years for caring for children and previous receipt of disability benefits. The benefit base can have a large impact on the generosity of the benefit. Because income generally increases with age both using the last income and the average of several recent years favour older claimants. Thus, benefit bases must be compared across claimants of the same age. Theoretically, using last income as a base sounds more generous: since income increases with age, last income should be the highest. This logic is generally true for old-age pensions: the fewer years are taken into account in the base, the more generous the resulting pension is. However, in the case of PWD, it is common to experience health issues long before receiving disability benefits. Therefore, the most recent income is no longer the most likely to be the highest; thus, the link between benefit base and generosity is unclear. However, when the averaging system is selected, it usually involves re-evaluating the income as Austria does. If the re-evaluation is unfair, averaging over too long a period becomes much less generous than at first glance. Overall, in the case of PWD the most generous system seems to be using an average of best years over a relatively short period of time.

Inflow rates into disability programmes display very different levels in the selected countries, ranging from 0.15% of the working population entering the Canada Pension Plan Disability benefits (CPP-D) every year, to over 1% of in Norway (Figure 4.2). Whether a country has a high inflow rate closely corresponds to the characteristics of disability benefit systems. Systems similar to the pension system, like in Austria, Canada or Switzerland, have lower inflow rates, due to the strict contributory requirements. Countries with disability benefit systems like Belgium have higher inflow rates into their disability programmes. In Norway and the Netherlands, a large part of the inflow into the system is channelled through temporary/partial disability programmes (73.6% in 2021 in Norway, and 50% in 2020 in the Netherlands). Despite this similarity, as well as the low contributory requirements in both countries, the inflow into the Dutch disability system is substantially lower than that of Norway. The Dutch disability system has several peculiarities, such as a two-year long employer-paid sickness period, and a special disability programme for youth (*Wajong*, see Chapter 3), all of which contribute to a lower inflow rate into the general disability benefit systems.

Figure 4.2 shows the inflow to the main disability programme over the working age population in all six countries. Austria, which displays fairly contained acceptance rates to the programme, has seen its inflows reduced by one-third over the past 15 years, from 0.42% of the working age population in 2005 to 0.27% in 2019. As explained in more detail in Box 4.1, this is largely due to the introduction of a transitional disability benefit, which absorbed a large share of the inflow into the disability pension. Similar dynamics explain the fluctuations in inflow rates into the Norwegian disability benefit: in 2011, with the introduction of a new transitional benefit (AAP), which replaced three existing transitional programmes (the Temporary Disability Benefit, the Medical Rehabilitation allowance and the Vocational Rehabilitation allowance), a maximum duration on transitional benefits was imposed. Upon reaching the maximum duration (usually three years, extended to five years for many), many claimants transition to the main disability programme. This explains the large increase in inflow into the programme from 2014 onward. At the same time, the attractiveness of transitional benefits decreased, resulting in a decreasing inflow. The overall inflow rate into the system declined in Norway, from 2011 to 2019 (from 2.42% to 2.11% of the population).

Figure 4.2. Inflows into disability programmes seem to increase with more lax acceptance rates

Inflow rate to main disability benefit as a share of the working-age population, 2005-20



Note: Inflow rate calculated as inflow to main disability benefit programme over population aged 15-69. For permanent disability benefits in the Netherlands and Norway, inflows also include transitions from transitional disability benefit programmes to permanent disability benefits.

Source: Data provided by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, the Canada Pension Plan, the Dutch Employee Insurance Agency (UWV) and the Office fédéral des assurances sociales for Switzerland. Data were extracted from the Institut national d'assurance maladie-invalidité (INAMI) de Belgique statistiques d'indemnités, <https://www.inami.fgov.be/fr/statistiques/indemnites/Pages/default.aspx>; the UWV Monitor Arbeidsparticipatie, <https://www.uwv.nl/overuwv/images/uwv-monitor-arbeidsparticipatie-2017.pdf>, 2017 for the Netherlands and the Norwegian Labour and Welfare Administration (NAV) disability statistics, https://www.nav.no/no/nav-og-samfunn/statistikk/aap-nedsatt-arbeidsevne-og-uforetrygd-statistikk/uforetrygd/arkiv-uforetrygd_kap.

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Inflow rates in Belgium have doubled between 2005 and 2018, reaching 0.7% of the working age population in recent years. This is largely due to spill-overs across social protection programmes: Box 4.1 shows that the 2012 unemployment insurance reform in Belgium has generated large spill-overs from unemployment benefits to disability benefits, partly explaining the increasing trends in the latter. Canada, the Netherlands and Switzerland present rather stable inflow rates into their (permanent) disability benefits, but in the Netherlands, this constant inflow masks a significant increase in inflows into the temporary/partial programme over the past years. The inflow rate in Norway is the highest among all countries reviewed, as a result of a steady increase in the past five years. This is despite the short-lived curtailing effects of some of the reforms to the system, such as the introduction of a new transitional programme in 2011 with a strong focus on vocational rehabilitation.

There are many co-factors that can impact inflow rates, other than the acceptance rate to the programme. While the comparison between acceptance rates and inflow rates may seem straightforward, it is only one side of the story. A number of factors could be driving the trends in the inflows:

- **Disability prevalence, partly due to demographic changes.** The prevalence of disability has been increasing due to the ageing of the population but it has not increased to the same extent in all countries: as shown in Chapter 2, in Austria and Belgium the disability prevalence has steadily increased over the past decades, possibly contributing to the increased inflow into disability benefits in Belgium.

- Economic and labour market conditions.** The literature shows that in many OECD countries, disability benefit applications are countercyclical, rising during recessions and thus resulting in higher disability benefit take up (Autor and Duggan, 2006^[2]; Duggan and Imberman, 2009^[3]; Koning and Lindeboom, 2015^[4]; Mueller, Rothstein and von Wachter, 2016^[5]; Maestas, Mullen and Strand, 2021^[6]; Benítez-Silva, Disney and Jiménez-Martín, 2010^[7]). One potential reason is that worsening economic and labour market conditions change the relative value of disability programmes by affecting their effective “replacement rate” (i.e. benefits relative to potential labour market earnings) (Autor and Duggan, 2003^[8]). Countries reviewed in this chapter were hit very differently by the Global Financial Crisis (GFC), and their employment levels experienced different recovery pathways. For instance, the Dutch employment rate grew more quickly and strongly after the GFC than for the other countries reviewed, which could contribute to explaining the contained inflow to disability benefits. The disability benefit “replacement rate” should also be measured against other income replacement programmes, such as unemployment benefits and social assistance: the higher disability payments are compared to other social protection programmes, the more likely it is to have a countercyclical effect (Benítez-Silva, Disney and Jiménez-Martín, 2010^[7]). Another factor is the approach to assessing disability, which like in the United States, may include actual labour market opportunities (Maestas, Mullen and Strand, 2021^[6]), contributing to the pro-cyclicality of disability benefit take up.
- Changes in acceptance rates.** Acceptance rates vary widely across countries, which naturally impacts the inflow rate. Table 4.2 shows that the rate of acceptances ranges from 43% in the Austrian disability pension, to 90% in the Norwegian disability benefit. These acceptance rates can be further decomposed between the first instance acceptance rate and the successful appeals rate. This set of six countries suggests a surprising negative correlation between first-instance acceptance rates and successful-appeals rates, as one would expect initially stricter programmes to see higher successful appeals. In Norway, where the first-instance acceptance rate is very high, almost one in three appeals are successful, compared to only 7% in Austria with its low initial-acceptance rate. Differences in acceptance rates relate to differences in eligibility and generosity conditions: countries with stricter degree of incapacity requirements have lower acceptance rates. Austria and Canada, the two countries with the lowest acceptance rates, are also the only two countries among the four presented in Table 4.2 to require minimum years of contributions.
- Changes in the composition of disability benefit inflows, and the growth in mental health disorders.** The increasing prevalence of mental health disorders and the greater relative importance of mental health conditions as a cause of disability benefit receipt has been documented in previous OECD reports (OECD, 2010^[9]). But the impact of the increasing prevalence of mental health conditions on growing disability benefit rates is still a relevant issue, particularly in the context of COVID-19 and the associated spike in the prevalence of mental health conditions (OECD, 2021^[10]). Figure 4.3 confirms the positive correlation (R square=0.36) between the inflow to the main disability programme and the share of new claimants with mental health conditions in recent periods. The figure also shows substantial variation across countries in the share of new claimants with mental health disorders: for Canada, this share fluctuates between 22-25%, while it is well over 40% in Switzerland.
- Reforms of the disability benefit system.** Disability systems have been reformed in the past decades in ways that affect the inflow to the main programme. One such reform is the introduction of a transitional benefit in Austria in 2014, which added an additional step before being granted a disability pension for claimants with potential to be rehabilitated or retrained, discussed in Box 4.1. The introduction of these transitional programmes reduced the inflow to disability pensions, as much of the bulk of accepted applicants to the disability system were granted transitional benefits instead. While there was no change in the inflow to the disability system overall, there was a relocation to transitional payments. The impact of disability reforms on the size of the programmes is addressed in more detail in Section 4.1.2.

- **Reforms to social protection more generally.** Social protection systems are interconnected, and spill-overs (e.g. indirect effects from other social protection reforms that impact disability benefit take up) from one programme to another programme are frequent (Lindner, 2016^[11]; Lawson, 2015^[12]; Borghans, Gielen and Luttmer, 2014^[13]; Garcia-Mandicó et al., 2020^[14]). The 2012 reform of the unemployment insurance system in Belgium provides a good example, illustrated in Box 4.1. The reform led to a sudden drop in unemployment beneficiaries from 2014 on and, in parallel, a much faster increase in the disability benefit caseload. Spill-over effects between social protection programmes are discussed in more detail in Section 4.3.

Table 4.2. Acceptance rates into the main disability programme vary widely across countries

First acceptance rate, appeals rate, final acceptance rate and inflow over applicants, 2014-19

	First instance acceptance rate	Successful appeals rate	Final acceptance rate
Disability pension Austria	38%	7%	43%
Disability pension Canada, excluding Quebec	46%	12%	52%
Disability benefits Netherlands	-	-	67%
Disability benefit Norway	85%	32%	90%

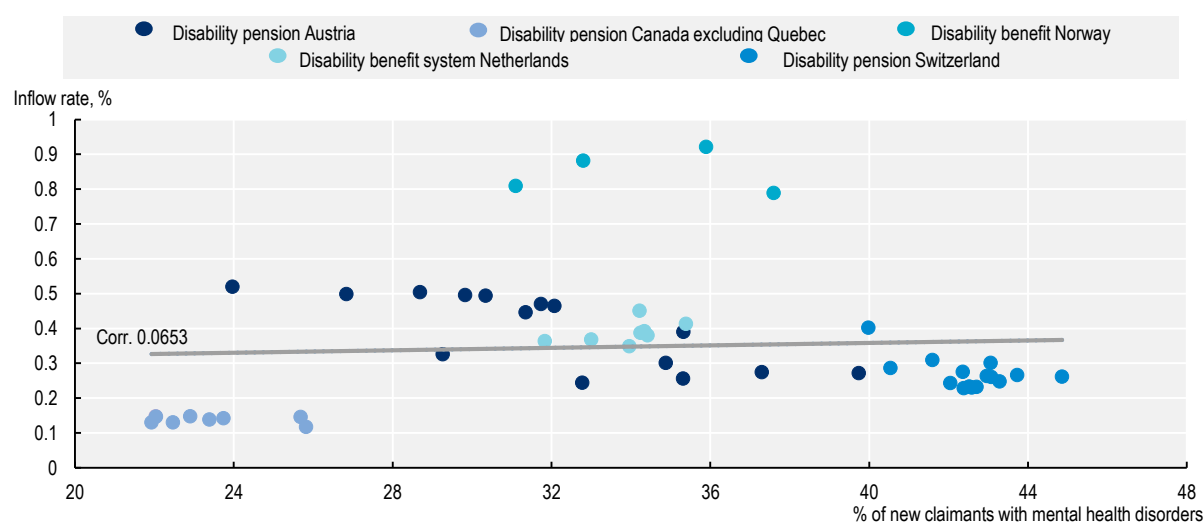
Note: First instance acceptance rate measures the share of applicants granted benefits without appeal. Successful appeals rate indicates the share of all appeals with a positive outcome. Final acceptance rate measures the share of applicants granted benefits with or without appeal. All figures are averaged over five years (2014-19).

Source: Data provided by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, the Canada Pension Plan and the Norwegian Labour and Welfare Administration (NAV). Data for the Netherlands are taken from UWV Jaarverslag 2020, <https://jaarverslag.uwv.nl/uwv-in-cijfers/sociaalmedisch-beoordelen/uitkomsten-claimbeoordelingen-wia>.

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Figure 4.3. Higher inflows to disability insurance correlate with higher shares of mental health

Inflow to main disability insurance programme by share of inflow with mental health disorders, by country



Note: Each dot on the chart represents a country-year observation. The year coverage ranges from 2005-19 for Austria and Switzerland, while it only covers 2013-16 for Norway, 2011-19 for Canada and 2013-20 for the Netherlands.

Source: Data provided by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, the Canada Pension Plan, the Dutch Employee Insurance Agency (UWV), the Norwegian Labour and Welfare Administration (NAV) and the Office fédéral des assurances sociales for Switzerland.

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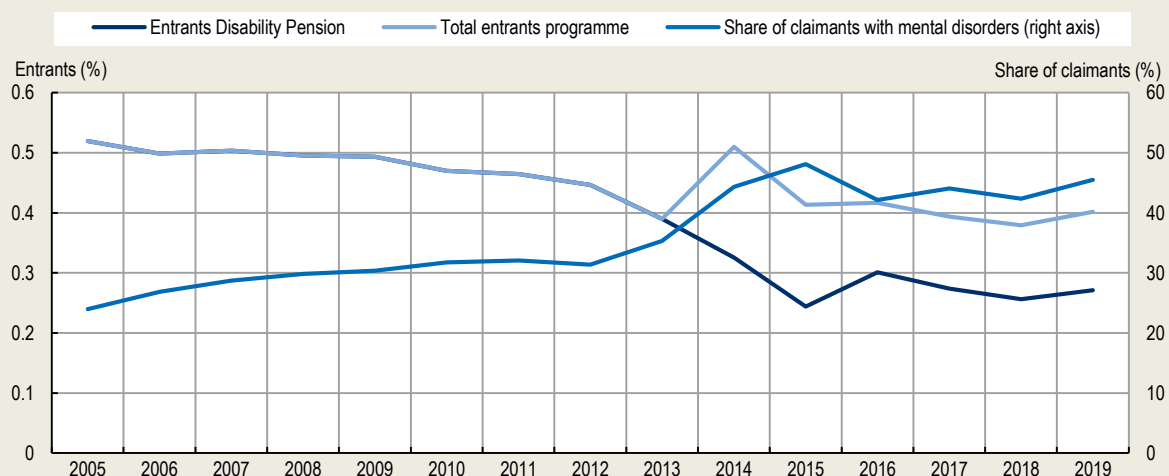
Box 4.1. Spill-over effects from social protection reforms on the inflow to disability insurance

Inflow into the Austrian disability system: The introduction of a transitional programme

In 2014, the Austrian Government introduced two new transitional payments, hoping to reduce the inflow into disability pensions, which are a pathway to retirement. The new payments aim to promote retraining and rehabilitation of potential applicants to disability pensions, or to exhaust all potential before granting a disability pension. The reform initially targeted those younger than 50 on 1 January 2014, and provided a rehabilitation allowance administered by the health insurance (an extended sickness benefit) or a retraining allowance administered by the PES (an increased unemployment benefit). Figure 4.4 shows the effects of the introduction of this policy on the inflow to disability pensions, and to the disability system generally. Unsurprisingly, the reform was effective at reducing the inflow into disability pensions, as many applicants were redirected to the transitional programmes. The inflow to the disability system as a whole has remained largely constant despite the policy, however, with a small spike in the year of the introduction of reform. The reform also went hand in hand with a significant increase in the share of new claimants with mental health conditions. The reason for the latter is unknown but it is a trend also observed in many other OECD countries and is likely to be related to a lower stigma of mental health conditions and a better understanding that it is people's mental health rather than their physical health that impacts work ability most, as across OECD countries many claimants present with co-morbid conditions. The strong focus of the reform on rehabilitation and retraining may also indirectly lead to larger attention to mental health conditions in rehabilitation and retraining programmes. The long-term impact of such a change remains to be seen as in the past, claimants with mental health conditions were furthest away from the labour market and most likely to exit the labour force and remain on disability benefit until reaching the retirement age.


Figure 4.4. The Austrian disability system: The introduction of two transitional programmes

Inflow to disability pension and the entire disability programme, including transitional benefits, as a share of the working age population (left axis) and share of new claimants with mental disorders (right axis)



Note: Inflow rate to disability pension and disability system (pension and transitional disability benefit) in the left axis, and share of all system entrants qualifying with mental health disorders (right axis).

Source: Data provided by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria.

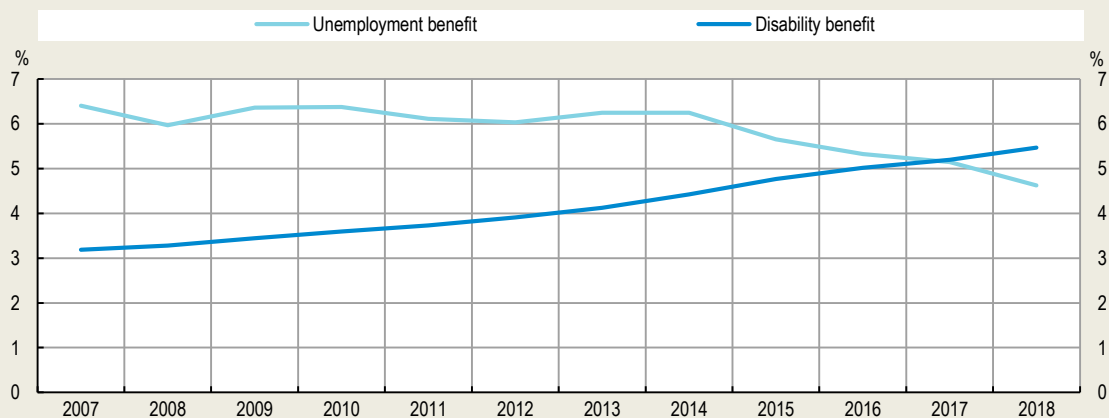
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Inflow into the Belgian disability programme: Unemployment insurance reform

The unemployment benefit in Belgium was reformed in 2012. Particularly, its generosity for long-term unemployment claimants was reduced, by making payments independent of previous earnings. The system moved towards a system aiming to provide a minimum level of income over the long-term, rather than smoothing income variations per se (Hijzen and Salvatori, 2020^[15]). Figure 4.5 illustrates the impact of this reform on the number of unemployment beneficiaries. With a two-year lag after the reform (probably as it affected longer-term claimants' payments most) the unemployment benefit caseload started steeply declining, from over 6% of the working population in 2014 to less than 5% in 2018. Data suggest that the total number of jobseekers has remained largely stable over that same time period. Instead, there is an increase in the number of disability beneficiaries from 2014 on, when the pace of increase in the size of the programme picks up. It is likely that by tightening the generosity of the unemployment system for the long-term unemployed, the relative generosity of disability benefits has increased, generating spill-overs from unemployment to disability benefits.

Figure 4.5. The Belgian disability programme: Unemployment insurance reform

Share of unemployment beneficiaries and disability insurance beneficiaries over the working-age population in Belgium, 2007-18



Note: Share of unemployment and disability beneficiaries over working age population in Belgium.

Source: Calculations based on the OECD SOCR database <https://www.oecd.org/social/social-benefit-recipients-database.htm>.

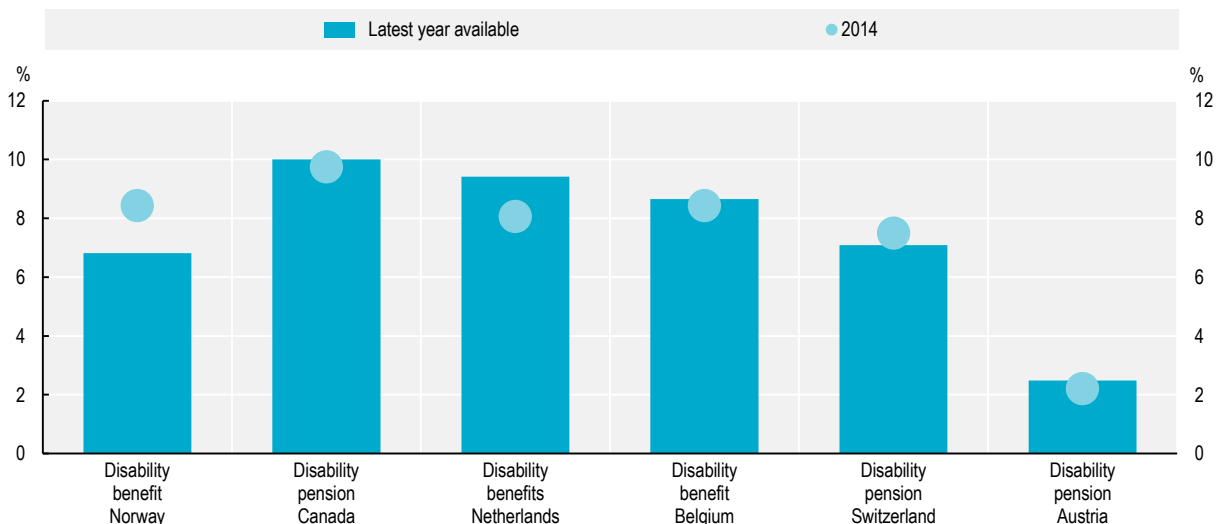
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Outflows from disability programmes

The outflow from disability programmes is fairly low, with limited changes over time. Reforms affecting the inflow to disability insurance programmes do not seem to translate into variation in the exit rate from the programme for most countries (Figure 4.6). The exit rate includes claimants who either deceased, entered the labour market, or transitioned to another inactivity status (in many cases old-age pensions). Annual exit rates are around 8-10% of all claimants for Belgium, Canada, the Netherlands and Switzerland. Austria has a much lower outflow rate from disability pensions, at 2%, driven by the introduction of transitional payments for people with remaining work capacity. Norway has an exit rate between that of Austria and the other four countries and, most notably, has experienced a sharp drop in this rate in the past five years. This decline in Norway is driven by claimants aged 62 and older. Part of the decline in exits among older disability claimants is explained by a greater use of disability benefits as a retirement pathway since old-age pension reform in 2011, which made early retirement less attractive and thereby made it more attractive to exit the labour market via disability benefits.

Figure 4.6. The outflow from disability programmes is fairly low, and unchanged over time

Outflow as a share of main disability programme claimants in a given year, 2014 and latest data available



Note: Latest data available are: 2021 (Norway), 2020 (Netherlands, Switzerland), 2019 (Austria, Canada) and 2017 (Belgium). Only permanent programmes are included in this calculation: that means that for Norway the outflow refers to outflow from disability benefits, Austria from disability pension, and the Netherlands from permanent disability benefits (IVA). The outflow rate from the Netherlands may be underestimated compared to other countries presented on the figure, as partial claimants (whose employment possibilities are potentially higher) are excluded. Outflow rate is the share of exits from the programme in a given year over the number of programme claimants in that same year. Calculating the outflow rate as the exits for two years over claimants in those same two years yields similar results.

Source: Data provided by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, the Canada Pension Plan, the Dutch Employee Insurance Agency (UWV) and the Office fédéral des assurances sociales (Bundesamt für Sozialversicherungen) for Switzerland. Data extracted from the Crossroads Bank of Social Security (BCSS) Mobilité Socio-Economique à court terme, <https://www.bcsc.fgov.be/samikt/homePage.xhtml>, for Belgium and the Norwegian Labour and Welfare Administration (NAV) disability statistics, https://www.nav.no/no/nav-og-samfunn/statistikk/aap-nedsatt-arbeidsevne-og-uforetrygd-statistikk/uforetrygd/arkiv-uforetrygd_kap.

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4.1.2. Reforms of disability programmes

Reforms to the disability system have had moderate impacts on the benefit caseload. Over the past two decades, OECD countries have consistently reformed their disability programmes in two directions: by decreasing the compensation of the programme, and by increasing activation (OECD, 2010^[9]).

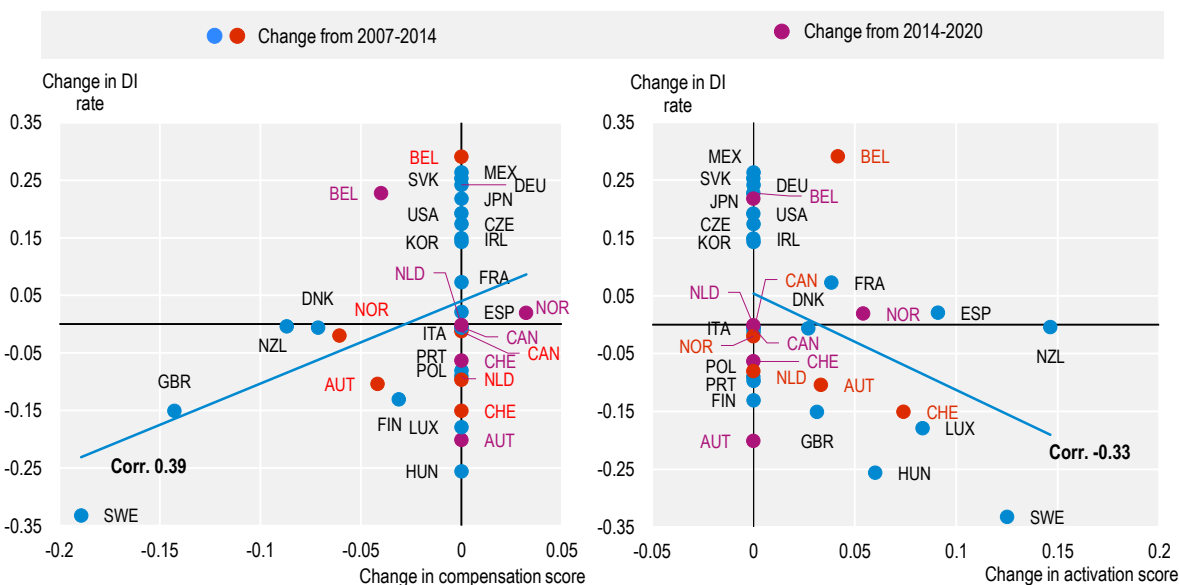
- Compensation policy scores published by the OECD more than a decade ago are lower for less generous disability systems, and with stricter eligibility criteria (OECD, 2003^[16]; OECD, 2010^[9]). They also decrease with a less generous and strictly monitored sickness insurance programme, capturing the interconnectedness between sickness and disability systems and policies. The left panel of Figure 4.7 plots changes in disability recipient rates against changes in the compensation score from 2007 to 2014 (drawing from earlier work), and from 2014 to 2020 for the set of six countries. While only a few countries have reformed disability systems in a way to decrease their compensation score, a fitted line shows a positive correlation between the change in compensation and the change in disability benefit caseloads (R square of 0.39).
- Activation policy scores are higher for disability systems which include a number of employment and vocational rehabilitation programmes for disability claimants, and stronger financial incentives to work (OECD, 2003^[16]; OECD, 2010^[9]). The right panel of Figure 4.7 shows the correlation between changes in the disability caseload and changes in the activation score. Many countries have reformed disability systems in a way that increased their activation score, more frequently

than reforms affecting the system's compensation score. There is a clear negative correlation between the change in activation scores and the change in disability caseloads (R square of -0.33).

These findings align with OECD evidence published prior to the GFC: the overall compensation features of disability systems are positively related to the number of disability beneficiaries and reforms thereby reduce the caseload. Instead, activation components seem largely unrelated to changes in the disability benefit caseload in a country. One explanation for the insignificant effect of integration policy reforms is that such reforms may take longer to unfold their impact on disability caseloads (OECD, 2009^[17]).


Figure 4.7. Disability reforms have had moderate impacts on the observed benefit recipient rates

Change in disability benefit (DI) receipt rate against change in compensation (left) and activation (right) score



Note: Each point in the figures represents the change in disability benefit receipt rate over the last years (vertical axis) with the change in the compensation/activation score (horizontal axis, left/right chart). The lower the change in compensation score, the less generous and accessible the benefit system has become (left chart). The higher the change in activation score, the more developed the rehabilitation and employment stance of the policy has become (right chart). Correlations between change in compensation/activation scores and change in DI receipt rate. Fitted linear line to the data.

Source: Change in compensation and activation scores from 2007-14 are constructed using Böheim, R. and T. Leoni (2018^[18]), "Sickness and disability policies: Reform paths in OECD countries between 1990 and 2014", <http://dx.doi.org/10.1111/JSW.12295> which follows the OECD (2010^[9]), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, <https://doi.org/10.1787/9789264088856-en>, methodology. Extension from 2014 to 2020 for selected countries following aforementioned source. DI receipt rate data from the OECD SOCR data, <https://www.oecd.org/social/social-benefit-recipients-database.htm>.

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4.1.3. Reforms and the impact on the employment of people with disability

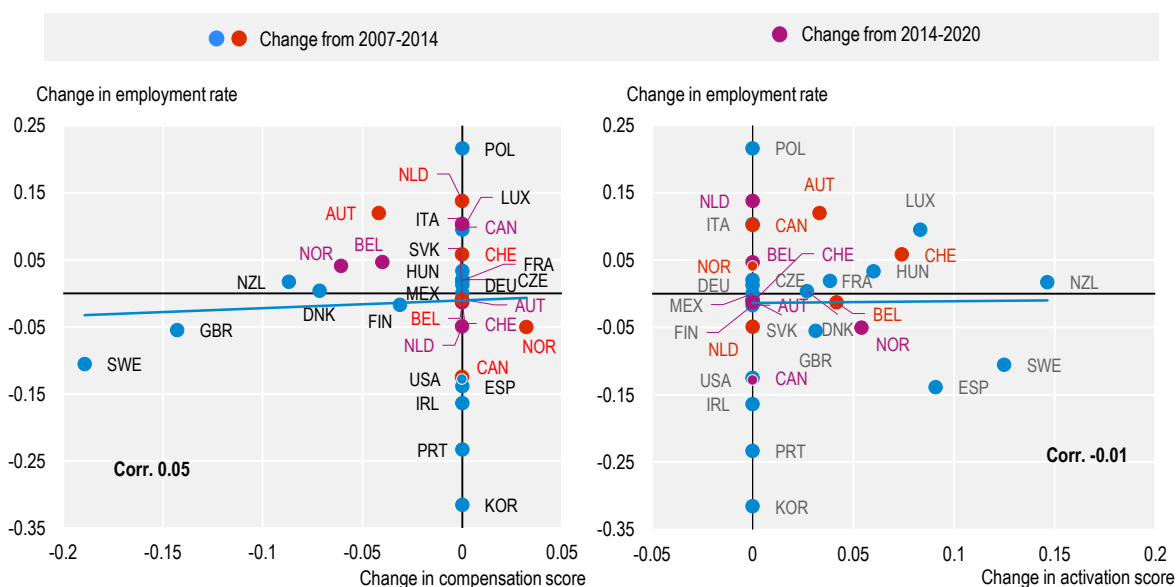
Economic theory suggests that benefit receipt creates disincentives to work through income and substitution effects. Disability benefits, or any social insurance benefit more generally, may cause both income and substitution effects, which induce its recipients to work below their working capacity. Disability benefits provide a large permanent income boost in the case of assessed disability, which may reduce labour supply purely through an income effect (e.g. higher income from benefit receipt and thus less need to work to sustain consumption). From a theoretical point of view, income effects are non-distortionary, meaning they do not create efficiency losses. The extent of the income effect depends on the generosity and strictness of the programme and other options available to recipients. Substitution effects instead are

distortionary, and arise from the design of disability benefit programmes. The benefit schedule creates tax wedges and kinks by which, if earning above a certain earnings threshold, beneficiaries may lose all or part of their benefit entitlement. Some beneficiaries may work below their capacity to avoid losing disability benefit income, which is inefficient and creates welfare traps for disability benefit recipients.

Changes in compensation and activation scores due to reforms of the disability system do not correlate with changes in the employment rate of PWD. Figure 4.8 mimics the previous Figure 4.7 in showing the correlation between changes in the employment rate of PWD and changes in the compensation and activation scores. Unlike for the disability caseload, which strongly correlated with reform-induced changes in the compensation and activation scores of disability systems, the data do not show any significant association with the employment rates of PWD.


Figure 4.8. Disability reforms are not correlated with higher employment rates

Change in employment rate of people with disability against change in compensation (left) and activation (right) score



Note: Each point in the figures represents the change in the employment rate over the last years (vertical axis) with the change in the compensation/activation score (horizontal axis, left/right chart). The lower the change in compensation score, the less generous and accessible the benefit system has become (left chart). The higher the change in activation score, the more developed the rehabilitation and employment stance of the policy has become (right chart). Correlations between change in compensation/activation scores and change in the employment rate. Fitted linear line to the data.

Source: Change in compensation and activation scores from 2007-14 are constructed using Bøheim, R. and T. Leoni (2018^[18]), "Sickness and disability policies: Reform paths in OECD countries between 1990 and 2014", <http://dx.doi.org/10.1111/JSW.12295> which follows the OECD (2010^[9]), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, <https://doi.org/10.1787/9789264088856-en>, methodology. Extension from 2014 to 2020 for selected countries following aforementioned source. Employment rate from OECD calculations based on European Union Statistics on Income and Living Conditions (EU-SILC, 2005-19) for European countries; the Household, Income and Labour Dynamics in Australia Survey (HILDA, 2005-17); Chile's Encuesta de Caracterización Socioeconómica Nacional (CASEN, 2006-17); Mexico's Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH, 2010-16); the Korean Labour & Income Panel Study (KLIPS, 2008-18) and the American Community Survey (ACS, 2008-18). Data for Canada provided by Employment and Social Development Canada based on the Canadian Income Survey, 2013-19.

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The lack of association between reforms of the disability system and the employment rate of PWD is also shown in Table 4.3. This table shows the estimates from a regression on a panel of 25 countries between the log of the employment rate of PWD, the log of the compensation score and the log of the activation

score, from 2005-18. Specifications presented in columns (1) and (2) of Table 4.3 include year fixed effects, as well as the country-year age dependency ratio (measuring demographic change) and the country-year GDP per capita. Column (2) includes also country fixed effects. In neither specification appear significant effects of activation or compensation scores on the employment rate of PWD.

Table 4.3. Higher activation and compensation scores do not correlate with higher employment of people with disability

	(1)	(2)
Compensation score (log)	0.091 (0.204)	-0.038 (0.234)
Activation score (log)	0.177 (0.136)	0.132 (0.175)
Demographic change	X	X
GDP per capita	X	X
Country fixed effects		X
Countries	25	25
Observations	239	239

Note: Point estimates from OLS regression of the log employment rate of PWD on the log compensation and activation score for a panel of 25 OECD countries covering 2007-20. All specifications include year fixed effects. Specification (2) includes a measure of demographic change (age dependency ratio: percentage of population aged 65 and older over total population), specification (3) includes in addition GDP per capita (PPP), specification (4) includes in addition country fixed effects, interacted with age dependency ratio and GDP per capita. Standard errors are clustered at the country level.

Source: Change in compensation and activation scores from 2007-14 are constructed using Böheim, R. and T. Leoni (2018_[18]), "Sickness and disability policies: Reform paths in OECD countries between 1990 and 2014", <http://dx.doi.org/10.1111/IJSW.12295> which follows the OECD (2010_[9]), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, <https://doi.org/10.1787/9789264088856-en>, methodology. Extension from 2014 to 2020 for selected countries following aforementioned source.

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The lack of significant correlation between disability programme components and employment rates of PWD seems to contradict substantial micro-level empirical literature finding strong income effects from benefit receipt, suggesting that tightening the eligibility and generosity of disability programmes induces higher employment (Autor and Duggan, 2007_[19]; Deuchert and Eugster, 2019_[20]; Gelber, Moore and Strand, 2017_[21]; Marie and Vall Castello, 2012_[22]). Likewise, micro-level empirical literature usually finds strong employment effects from greater activation, for example by introducing financial incentives to work (Campolieti and Riddell, 2012_[23]; Deuchert and Eugster, 2019_[20]; Kostøl and Mogstad, 2014_[24]; Ruh and Staubli, 2019_[25]). Why are these micro-level employment effects not visible at the macro-level?

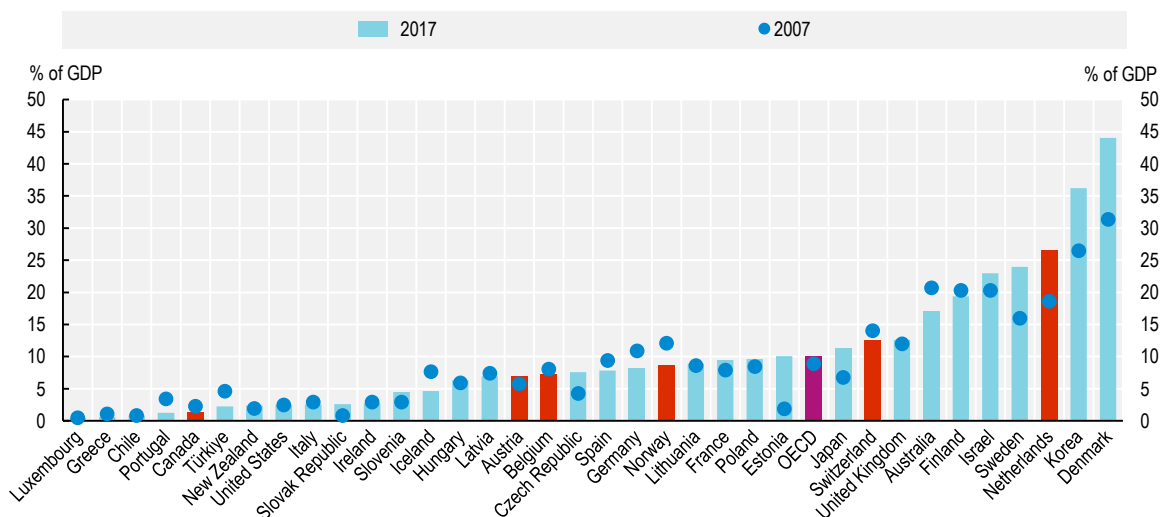
- A first argument is that active spending (rehabilitation and employment-related measures) in total spending on incapacity across OECD countries continues to be low (9% in 2007, 10% in 2017). Despite numerous reforms in OECD countries aimed at increasing active components of disability programmes, the balance between compensation and activation has barely changed. Should there ever be a more substantial increase in the resources spent on promoting greater activation within disability programmes, one could expect a stronger correlation between the activation component of disability systems and the employment of PWD.
- A second aspect is that microeconomic empirical work in most cases focuses on the short-term employment responses of reforms to tighten eligibility for and generosity of disability benefits. To promote sustainably higher levels of employment that are reflected in overall higher employment levels for PWD, the employment effects need to be accompanied by increased job quality and job retention. Improved employment characteristics can be achieved through activation elements in disability programmes (e.g. vocational rehabilitation, job support, counselling, see for example

(Thomas and Morgan, 2021^[26]), or through demand-side interventions (for example, through supporting reasonable workplace accommodation (European Commission, 2020^[27])).

- Lastly, most reforms have focused on changes in disability systems, and thus could be coming too late to truly promote the employment of PWD. Early intervention is key to preventing labour market detachment from benefit receipt (Garcia-Mandicó et al., 2020^[14]; Moore, 2015^[28]). For many, however, by the time they reach the stage of applying for disability benefits, the decision to exit the labour market has been taken, as they often will have been navigating the sickness and welfare system for years. Early intervention should happen well before reaching disability benefits, during employment, unemployment or sickness insurance, to prevent labour force exit.

Figure 4.9. Active spending on incapacity across OECD countries has barely increased

Active public spending on incapacity as a share of total public spending on incapacity, 2007 and 2017



Note: OECD is an unweighted average of the countries shown. Incapacity benefits include: disability pensions, occupational injury pensions, sickness allowances, rehabilitation services, other cash and in-kind benefits related to disability and all disability-related programmes offered by the public employment service (PES).

Source: OECD database on Social Expenditure (SOCX), <http://stats.oecd.org/Index.aspx?QueryId=4549> and OECD database on Labour Market Programmes (LMP), <http://stats.oecd.org/Index.aspx?QueryId=8540>.

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4.2. Designs to improve the employment of people with disability

The longer people rely on benefits without working, the more their skills depreciate and the distance to the labour market increases, making it increasingly difficult for them to return to the labour market. To promote the employment of PWD, policy makers should design disability benefit systems and, more generally, social protection policies that aim at identifying health barriers to work early and intervening quickly. There is a range of options to design disability benefit systems, which are broadly categorised into three kinds in this section. First, policy designs that foster early intervention and help maintain the employability of PWD. Such policies rely on early identification of barriers to employment, giving a great role to the stages preceding application to disability benefits – namely sickness insurance and unemployment insurance and, thus, the PES – and on creating intermediate stages before entering permanent disability benefits (transitional benefits). Second, policies that motivate PWD to work while receiving benefits, such as the introduction of financial incentives. Lastly, policies that limit the income effect from benefit receipt, by reducing the generosity of, or tightening the eligibility to, these programmes.

4.2.1. Early intervention: Maintaining the employability of people with disability

This section discusses the approaches the six countries have taken, and their effectiveness, in promoting early intervention to maintain the employability of PWD. One key distinction in the approaches countries have taken is the timing of intervention: one approach is to focus on improving the employability of PWD before claiming disability benefits (with a strong gatekeeping role for paid sick leave systems and the PES) while another one is to postpone permanent disability benefit claims (by using transitional and vocational rehabilitation programmes).

Gatekeeping disability insurance by promoting a swift return to work from paid sick leave

Paid sick leave is the standard pathway to disability insurance for many workers, and in most of the countries in focus early intervention happens at the sickness stage. The standard pathway is represented illustratively (and with considerable simplifications) as a timeline for each country in Figure 4.10, looking at the timing and interaction of four key steps from the moment of falling ill until granting a disability benefit: wage continuation by employers; sickness insurance; rehabilitation; and disability insurance.

- Continued wage payment by employers (sick pay), which happens at most two days after a worker falls ill. This period varies widely in the countries in focus, from 16 days in Norway to two years in the Netherlands. The payment period may also not be fixed. In Austria, the period of 100% wage continuation varies between 6 and 12 weeks depending on the employee's tenure, followed by four weeks at 50% of the wage, while in Switzerland, employers (or the optional daily sickness allowance insurance if employers are enrolled) must continue paying wages for at least three weeks and up to 40-six weeks in certain cantons, again depending on the length of employment. Canada is the only exception in this group of countries as continued wage payment by employers is not mandatory in all provinces (other OECD countries are equally diverse and some do not have such a payment period at all).
- Sickness benefits often start after the period of mandatory wage payment and are paid until the application for disability benefits. This is the case in Belgium, Canada and Norway, where benefits are granted for one year in Belgium and Norway, and for 15 weeks in Canada (temporarily extended to 25 weeks in the course of 2022). In the Netherlands, wage continuation and sickness insurance are two parallel programmes with very similar characteristics, the latter being exclusively granted to jobseekers or workers without an employer. Sickness insurance benefits (or wage continuation) are granted from the onset of sickness for two years. In Austria, sickness benefit begins after three days of sickness, to top up continuation of wage up to 100% of gross income, and may run up to a year and a half. Switzerland's daily (sickness) allowance insurance is private and optional, therefore the maximum length depends on the specific insurance contract, but the mandatory minimum length is 720 days out of 900 and it replaces continued wage payment by the employer if the insurance payment is equal to the previous wage. Switzerland's private insurances typically reimburse 80% of the wage for a longer period and up to 100% initially. Some employers (mostly large enterprises) choose not to insure but to continue wage payments. In Austria, the overlap between wage continuation and sickness benefit complicates benefit entitlement calculations: sickness insurance amounts to 50% (60% after 43 days) of worker's gross income up to 100% if cumulated with employer's payments.
- Early intervention during the sick pay period is common in most countries, with the aim to bring PWD back into the labour market, but differs greatly in nature and timing. While most countries try to assess and activate sickness claimants, some have additionally put in place transitional programmes to activate PWD before they can be granted a quasi-permanent disability benefit. Canada does not provide mandatory early identification and intervention measures: vocational rehabilitation is only available to disability pension claimants. Persons insured through voluntary disability insurance may receive vocational rehabilitation through long-term disability insurance,

but again, this is after the short-term sickness phase ends. Countries that identify potential disability claimants during the sickness phase act sooner, and have more chances to succeed in the return to work of workers who are sick or have acquired a disability.

- Transitional programmes exist in Austria, the Netherlands and Norway. These programmes have broader objectives than temporary disability programmes, as they engage claimants in vocational rehabilitation (Austria, Norway) or provide strong incentives to work (Netherlands).
- The last step is the transition to disability benefits, which in many countries is the last step before retirement (Austria, the Netherlands, Norway) or itself a (quasi-)retirement programme. In Belgium and Canada, where no transitional programmes are in place, one can still benefit from rehabilitation programmes while on disability benefits. In all countries, claimants are allowed to work under specific conditions: in Austria, Belgium, Norway, the Netherlands and Switzerland, claimants can work part-time and receive a partial pension, while in Canada working is only allowed under certain thresholds.

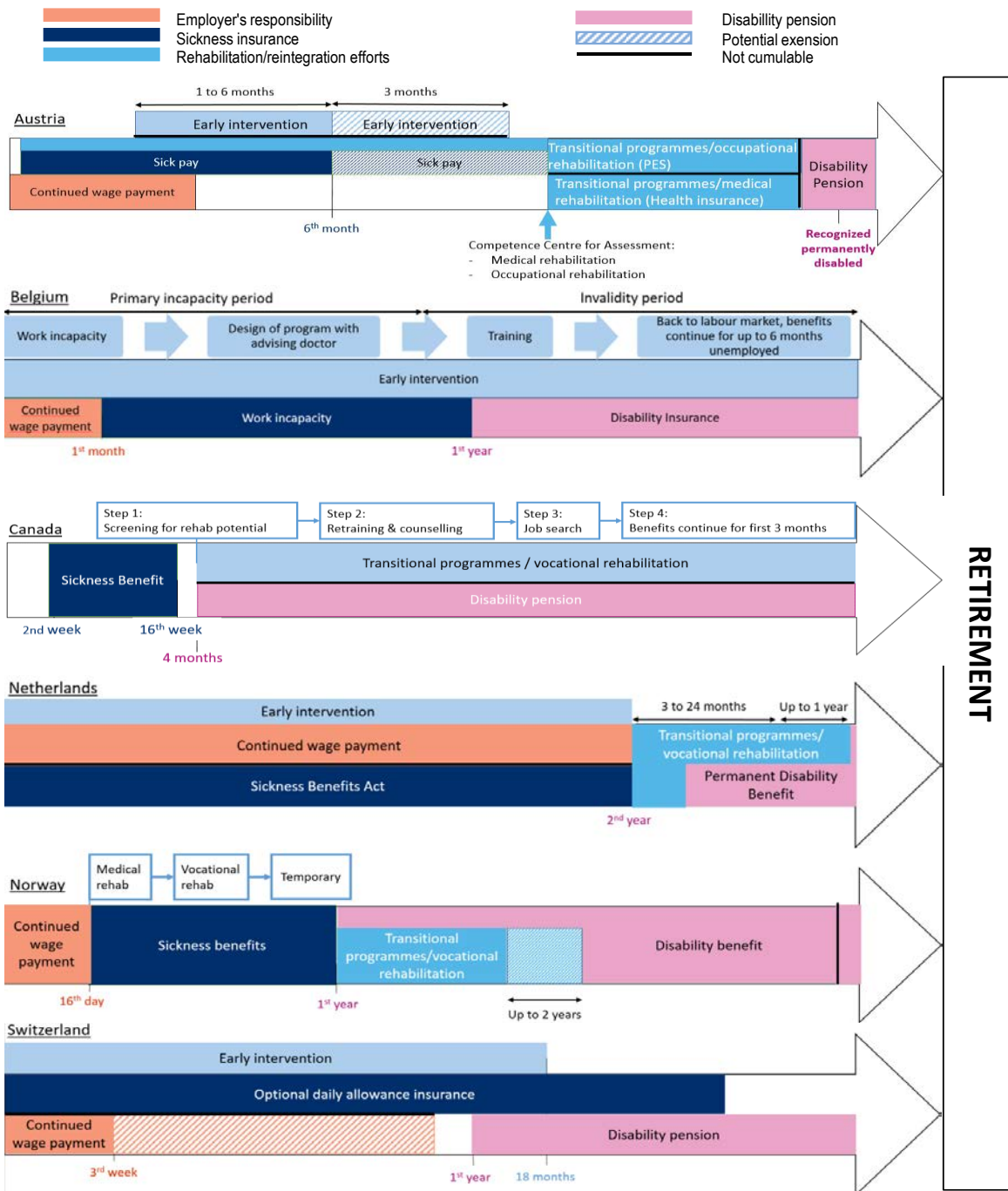
Transitions from sick pay to the disability system are frequent. In Norway, for example, about 6% of all sickness claimants exhaust their benefit entitlement, and over two-thirds of them transition to the disability system (either through the AAP or to disability benefit directly). This is about 44 000 people every year (NAV, 2015^[29]). Focusing on rehabilitating sickness claimants before they transition to the disability system is therefore a strategy with potential: the longer people rely on benefits without working, the more their skills depreciate and the distance to the labour market increases, making it increasingly difficult to return to work. Acting early is key to ensuring the swift return to work of sick-listed people. There are several approaches to acting early:

- Efficient return-to-work (RTW) strategies. Such strategies ensure an early identification of potential disability claimants and the use of rehabilitation and activation strategies for them. These policies can e.g. take the form of regular meetings with caseworkers and employees, rehabilitation with medical components (courses on handling one's own situation, psychological consultations, nutritional counselling, and exercise including back exercises and other physical training), or traditional activation (vocational guidance advice and courses aimed at enhancing skills, together with internships and on-the-job training).
- Strict monitoring and screening. These approaches aim at monitoring sick-listed individuals more closely, by regularly reassessing them, and involving employers in the monitoring process.
- Setting limits to the sickness scheme. The most direct limit is a strict maximum duration of sickness benefit payments, which most countries have (Slovenia and Sweden are notable exceptions, see Box 4.2 for more details).
- Graded return-to-work. This involves working part-time and receiving a partial sickness benefit for the hours off work, on top of a partial salary. Some countries allow such partial sickness from the first day while others (including Austria and Finland) only at a later stage in the sickness period.

The following subsections assess the efforts of early intervention in the six countries, by focusing on the features of their approaches and strategies, and their effectiveness at fostering the RTW of sick-listed claimants, and ultimately, the (continued) employment of PWD.

Figure 4.10. The standard pathway to disability insurance differs across the six countries

Illustration of the standard pathway to disability insurance benefits for workers falling ill (via sickness insurance)



Note: See Annex Table 4.A.1 for programme names. For Canada, the figure represents federal benefits outside Quebec.

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; Austria Social Benefits, https://www.sozialleistungen.at/buch/pr342997_2968685/Invaliditaets-oder-Berufsunfaehigkeitspension-fuer-ab-1964-Geborene; SSA; Swiss AHV/IV, <https://www.ahv-iv.ch/fr/Assurances-sociales/Assurance-invalidite%C3%A9-AI/Rente-dinvalidite%C3%A9>; INAMI; Service Canada, <https://www.canada.ca/en/services/benefits/disability.html>; EC- Employment, Social Affairs & Inclusion, <https://ec.europa.eu/social/main.jsp?catId=1122&langId=en&intPagId=4990>.

Return-to-work strategies

RTW approaches start from the first day of sick leave in many countries, but in other countries are bound to determining a long-term sickness absence. These differences in when to start RTW measures reflect a key issue in early intervention: how and when to identify the right group that would benefit from RTW measures. Not all sickness claimants need or would benefit from RTW measures, and so identifying the right group who would is key. Some countries, like Austria, tie RTW to a minimum duration of sick leave (see Table 4.4). Yet in some cases, the need for RTW may be evident from the beginning of the sick leave. Other countries thus allow RTW to start from the first day of sick leave. Canada does not have a federally organised RTW strategy before receiving a disability pension, but RTW may be supported through private insurance (long-term disability insurance has rehabilitation provisions, but these would start no earlier than disability pension provisions), and provincial supports. Because sick pay and sickness benefits last shorter in Canada than in other countries, and transitions to the disability system may occur sooner, the lack of a RTW strategy linked to sickness benefits does not delay intervention as much as it would in other countries. RTW strategies linked to disability pension receipt are reviewed below.

Some RTW strategies rely on a mandated active role of employers and employees, with the main goal of bringing sick-listed workers back to their former job. Table 4.4 summarises the different RTW approaches of the six countries. Some countries have laid out measures aimed to bring sick-listed workers into their former job (Austria, Norway), others do not target a specific employer (Belgium, Switzerland), while others target the former job first before expanding to the broader labour market (Netherlands):

- In Norway, the employer is required to follow up with the employee: within the first four weeks, the employer and employee must have discussed if an improvement of the working environment could remedy or mediate the situation and draft a plan for the employee's return to work; subsequent meetings are required throughout the first year of illness.
- In the Netherlands, per the Gatekeeper Improvement Act, Dutch employers must continue paying at least 70% of their employee's wages during the first two years and most Collective Labour Agreements state full payment for the first year. All this time, employees should take part in graded or therapeutic work. Moreover, after a doctor's assessment in the sixth week, the employer must use the assessment report to draw a detailed RTW plan which is due in the eighth week. Employer and employee must work together on a report detailing their effort toward reintegration at the end of both the first and second year. In order to facilitate RTW, employers can even pay claimants while they work at a different company which will share the wage costs. If the employer's efforts are considered insufficient, they must pay the claimant a third year of sick pay.
- In both Norway and the Netherlands, employees' sick pay is conditional on their involvement as well and a lack of effort on their behalf can result in a suspension, reduction or cut off their payments. De facto, however, in Norway the suspension of payments is extremely rare.

The Austrian RTW provided by Fit2work providers is twofold. Fit2work offers both counselling on how to maintain one's ability to work and part-time reintegration. The approach is unique insofar as it is not mandatory, nor binding through penalties for either employers or employees. Effectively, Austria complements a graded sickness insurance (see below for more details) with regular meetings with employers and caseworkers, on a voluntary basis. In some countries, RTW is not limited to the previous employer, and thus focuses on acquiring new skills or updating current ones. In Belgium and Switzerland, the disability authority offers formations and training (vocational rehabilitation, VR) but does not necessarily involve the previous employer. In Switzerland, workers are obliged to actively participate in reintegration processes to reduce the duration of sick leave. One way to do so is through the early-disability risk-detection programme, by which workers on repeated or long-term sick leave can apply to the disability insurance office for early registration. The measures provided include training and vocational rehabilitation. Belgium's national sickness insurance partners with external actors specialising in reinsertion and employability. Furthermore, both Belgium and Switzerland emphasise internship opportunities with

partnering employers. In the Netherlands, sick-listed claimants who do not have an employer are also subject to this approach (“*Vangnetters*”). As shown in previous OECD work for the Netherlands, however, *de facto vangnetters* participate in reintegration support substantially less often than employed sick-listed claimants, and as such, very few resume work after long-term sick leave (OECD, 2014^[30]).

The last key element is the requirement of participating in RTW. In the Netherlands and Norway, participation is mandatory for all sickness claimants, and in Switzerland sickness claimants have incentives to register with the disability office for reintegration, given that the waiting period for disability insurance is six months. Once registration has taken place, however, participation in measures for Swiss sickness claimants is mandatory (Leoni, 2020^[31]).

Table 4.4. Countries have introduced early return-to-work provisions within their sickness programmes

Characteristics of RTW measures linked to the period of sickness

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Measures or supports to promote an early return to work	Part-time Reintegration (WIETZ)	Occupational reintegration	None at the federal level	Reintegration	Follow-up of sickness claimants	Early intervention measures
Responsible organisation	Austrian Health Insurance Fund (ÖGK)	Inami, Mutualités	N/A	UWV	NAV	IV
Timing and duration of RTW support	After at least six weeks of sick leave Up to nine months	Immediately after sickness onset No maximum length	N/A	Immediately after sickness onset Up to two years	Immediately after sickness onset Up to one year	Upon declaration of long-term sickness
Mandatory measures or supports to promote early return to work	Voluntary	Voluntary	N/A	Mandatory	Mandatory	Mandatory
RTW limited to same employer	Yes	No	N/A	Yes (unless unemployed)	Yes	No
Penalties for claimants not supporting RTW	No	No	N/A	Yes	Yes	Yes
Penalties for employers not supporting RTW	No	No	N/A	Yes	Yes	No
Financial incentives for employers	No	No	N/A	No	No	Yes
Design of RTW measures	• RTW plan	• RTW plan • VR	N/A	• RTW plan • VR	• RTW plan	• RTW plan • VR
Can paid sick leave be combined with earnings from work?	Yes, clawback proportional	Yes, clawback, less than proportional	Yes, clawback proportional	Yes, clawback less than proportional	Yes, clawback, proportional	Yes

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; Austria Social Benefits, https://www.sozialleistungen.at/buch/pr342997_2968685/Invaliditaets-oder-Berufsunfaehigkeitspension-fuer-ab-1964-Geborene; SSA; Swiss AHV/IV, <https://www.ahv-iv.ch/fr/Assurances-sociales/Assurance-invalidite%C3%A9-AI/Rente-dinvalidite%C3%A9>; INAMI; Service Canada, <https://www.canada.ca/en/services/benefits/disability.html>; EC- Employment, Social Affairs & Inclusion, <https://ec.europa.eu/social/main.jsp?catId=1122&langId=en&intPagelId=4990>.

Evidence on the effectiveness of early intervention return-to-work programmes is not conclusive.

It is unclear whether all early intervention in the form of rehabilitation services is effective. Pilot policies across several countries have failed to promote the employment of sick-listed individuals and prevent their transition to disability. One example is the Job Retention and Rehabilitation Pilot (JRRP), performed by

the Department for Work and Pensions in the United Kingdom for a period of two years, which included health, occupational and workplace interventions to facilitate the return to work of people on sick leave for six to 20-six weeks. The policy was not effective at bringing people back to work, particularly for people with mental health conditions (Farrell et al., 2006^[32]). Another example is a pilot implemented in Sweden for six weeks, where individuals sick-listed for two to five weeks regularly meet with caseworkers and their employer. These policies initially reduced the outflow from sickness absence (locking-in effects) and, in subsequent periods, led to more disability benefit receipt (Engström, Hägglund and Johansson, 2017^[33]). These findings are confirmed by an 18-week RTW pilot in Denmark, which considered vocational rehabilitation and activation for sick-listed individuals on sick leave for nine to 13 weeks (Rehwald, Rosholm and Rouland, 2018^[34]). They are also confirmed by the meta-analysis of Vogel et al. (2017^[35]) whereas Everhardt and de Jong (2011^[36]) find strong positive impacts for long-term (nine months) sick employees in the Netherlands in terms of their likelihood of returning to work after a year-and-a-half long programme. These pilots differ in almost all settings, from the duration of sick leave before joining to the nature of the intervention. Even the definition of success differs as, for instance the Dutch experiment does not distinguish between part-time and full-time RTW, whereas the Danish experiment finds positive outcomes of graded (or partial) RTW but reports negative or insignificant outcomes on full-time return. Such important differences prevent us from drawing conclusions with certainty.

Economic theory can help extract lessons for policy makers from failures in RTW policies. Engström, Hägglund and Johansson (2017^[33]) explain that RTW policies for sick-listed individuals may fail if they give disincentives to reveal their true health state if they have a low willingness to work. This could be creating lock-in effects for certain groups with low willingness to work (or limited opportunities in the labour market), such as the unemployed. Keeping this in mind, policy makers should design RTW policies that prevent these behavioural responses, by:

- Focusing on returning to the current employer but expanding to the entire labour market as soon as return to the previous employer is unviable. Most RTW programmes have as a primary focus to return to the previous employer, building on the employer-employee match which is oftentimes easier than finding a new match. However, after a certain period, it may become clear that an employee-employer match does not work. From that moment, rehabilitation efforts should focus on the labour market more broadly. One example of such policies is the Swedish rehabilitation chain for sick-listed workers, which initially focuses on going back to the previous job, then broadens the focus to another job in the same company and finally explores possibilities within the labour market more broadly (see Box 4.2 for more details).
- Encouraging individuals to return to work without waiting for a more complete health recovery. Waiting for a complete recovery may oftentimes just delay intervention. Well-designed RTW programmes should give incentives to sick-listed individuals to pursue vocational rehabilitation, or work, alongside health rehabilitation. In turn, graded (or partial) sick leave is an effective measure to promote employment and limit transitions to disability benefit programmes.
- Encouraging own initiatives to return to work and finding new employment. One of the risks of overly standardised RTW programmes is that they may discourage employers' and employees' own initiatives to facilitate a RTW, if they are overburdened by mandatory steps of RTW policies. It is also key that own initiatives to find new jobs are encouraged, as many times the previous employment relationship may be unsustainable.
- Providing security for individuals who attempt to return to work. Systems should be designed to provide the right incentives to return to work (e.g. benefit alone should not be higher than partial benefit and partial wage together), yet provide security if the RTW fails. One approach is for example to maintain the insurance rights of a worker while they attempt to return to work, so that they can go back to the benefit in case it is not viable due to their health condition.

Box 4.2. Countries without a maximum duration to the sickness insurance scheme

While most countries have a set maximum duration for sickness insurance payments, a few countries, including Slovenia and Sweden, allow for an unlimited duration of such payments. By not capping the duration of payments, sickness insurance becomes effectively a social insurance programme against the risk of (certain types of) disability. This can create perverse effects, if sickness insurance and disability benefits are not well aligned. Sickness insurance payments are more generous than disability insurance payments, and may not involve the same kind of RTW measures, as they are conceived to cover a short-term risk and allow for medical recovery. As shown in a recent OECD report on sickness and disability policies in Slovenia, these characteristics paired with an unlimited duration of payments provoke: (1) a long-term sickness issue, (2) a late intervention in supporting PWD in returning to work, and (3) a dysfunctional sickness and disability insurance system (OECD, 2022^[37]).

Sweden's sickness insurance programme also does not have a maximum duration currently, as it has been reformed back and forth over the past decade, partly for political reasons, introducing a maximum duration and removing it again. In exchange, Sweden's sickness insurance relies on substantial RTW efforts, which hinge on frequent work-capacity assessments along a so-called rehabilitation chain:

- During the first 90 days, claimants' capacity is assessed against their regular work, or other temporary work that the employer can offer;
- From 90-180 days, claimants' reduction in work capacity is also assessed in relation to other work that the employer can offer following reassignment;
- After 180 days, the employee is only entitled to sickness cash benefit if they are unable to perform any job that normally occurs in the labour market.

This very flexible approach could potentially promote the RTW of sick-listed persons, particularly as the PES plays a key role in supporting sickness insurance claimants who cannot return to their previous employer, whether employed or unemployed. De facto, however, the rehabilitation chain is not strictly implemented, resulting in long sickness claims and limited job change for many.

Stricter monitoring and screening of sick-listed individuals

Most countries monitor sick-listed individuals, but there is no specific approach to doing so. Individuals falling ill usually need to obtain a sickness certificate immediately at the onset of the sickness spell. One exception is Norway, where employees can use a self-certification for the first 16 days of illness (during the wage continuation period). Sickness certificates are verified and can be overruled by the sickness authority in all countries but Switzerland, where sickness insurance is privately provided. This monitoring, however, takes place on a case-by-case basis in most countries. Austria uses randomly assigned verifications by insurance doctors from the first week of absence while in Norway, all sickness certificates longer than two weeks are verified systematically. Employers can request an additional verification in the Netherlands and Switzerland, and to a lesser extent in Austria and Norway.

There is evidence that increasing the monitoring and screening of sick-pay claimants has positive RTW impacts. De Jong and Van Der Klaauw (2011^[38]) assess the increased screening of sick-listed workers under the Gatekeeper Act in the Netherlands, and find direct effects of stricter screening on work resumption during the period of sickness absence and for self-screening by potential disability insurance applicants. In Sweden, Hartman, Hesselius and Johansson (2013^[39]) show that postponing the requirement for a doctor's certificate increases the length of sickness absences, resulting in higher public expenses for the sickness insurance system. Also in Sweden, Häggglund (2013^[40]) estimate the positive effects of stricter monitoring in boosting the exit rate from sickness insurance.

Graded return to work

In all six countries sickness payment can complement earnings from work but with different incentives. In Austria, Canada and Norway, sickness payments decrease proportionally with labour earnings, while Belgian and Dutch workers see their benefit decrease less than proportionally as their earnings increase.

Measures exist to facilitate claimants' return to work. Austria allows employees to come back and work between 50% and 75% of full time while continuing sick pay with a proportional clawback system. The Netherlands and Norway also use a clawback system to compensate for the loss of income. However, they also implement measures to help employers and employees. The Netherlands reimburse employers and employees for adaptation fees such as changes in the workplace (e.g. installation of a lift or adapted chair) and the unemployment office also provides them with expertise to help in designing a successful reintegration plan. Norway requires doctors to recommend part-time work unless it is impossible given claimants' medical condition. A trial in the county of Hedmark introduced discussion workshops during which the social worker in charge presented the claimant's file to advisory doctors and psychologists from the regional NAV office (the Norwegian PES). These workshops, chaired by competent supervisors, ensure adequate follow-up. Combined with additional information, this model led to a decrease in sickness absence of 8%. Based on the positive results, the Hedmark model was tested in three other counties too. Implementing the Hedmark model in other counties had mainly an effect for caseworkers in local offices, through more equal treatment of activity requirements and systematic earlier follow-up, but no significant improvements in the claimant's transition to work (PROBA, 2017^[41]).

Countries show a substantial variation in the use of partial sick pay, but RTW after the programme is large. As many as 62% of sick-pay claimants in the Netherlands are working while receiving benefits, while this share is only 21% in Norway. There are some aspects to keep in mind both when comparing the use of partial sick pay across countries and its effectiveness. In the Netherlands, all those receiving sick pay still receive wage payments from their employer, making it easier to negotiate graded sick pay and part-time work. Dutch employers have strong incentives to agree to part-time arrangements, as they are responsible for financing sick pay. But RTW after partial sick pay is high in all countries: in Austria, the Netherlands, and Norway, almost 90% of the participants return to work at the end of the programme.

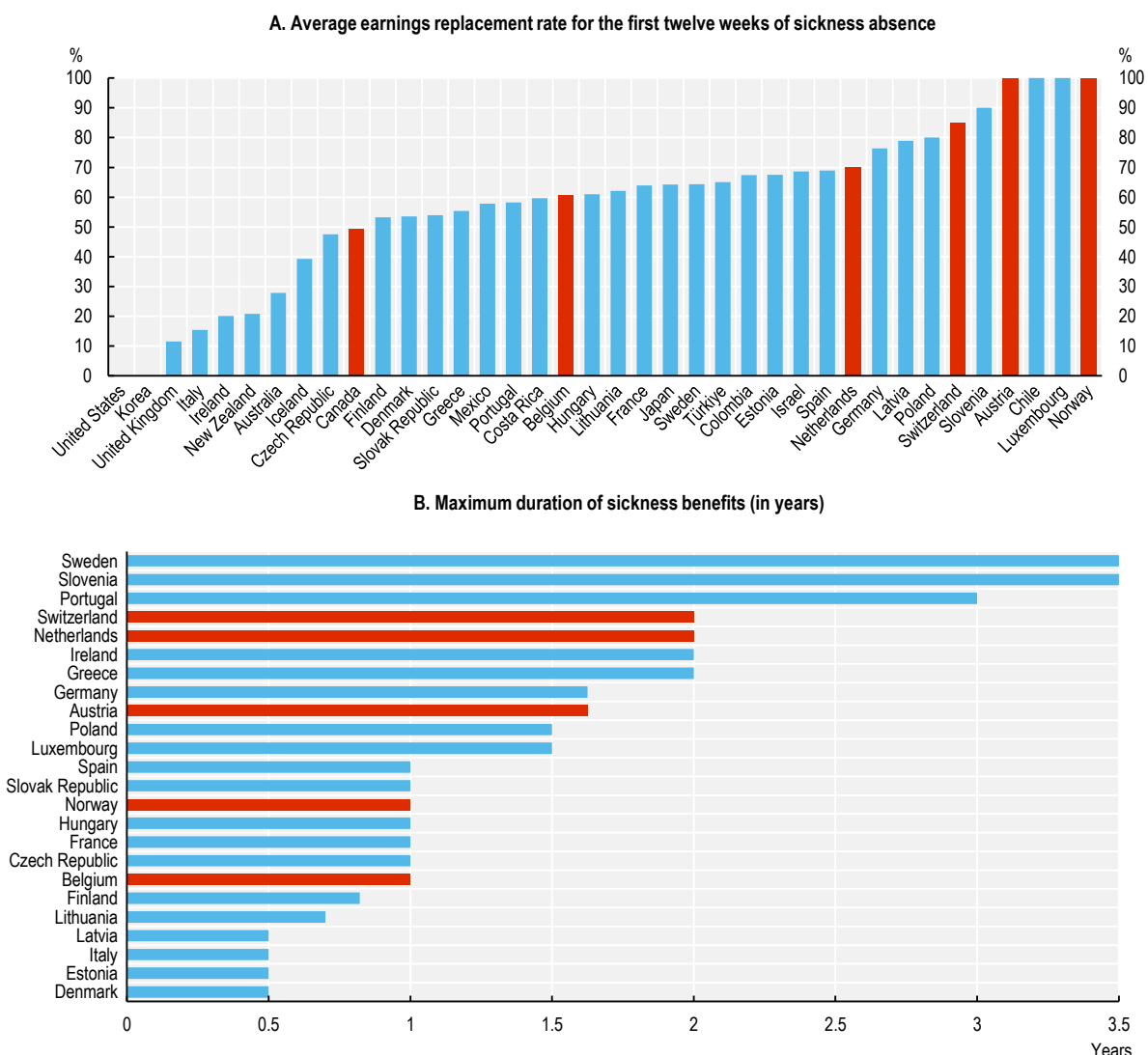
Assessing the effectiveness of partial sick pay requires formal impact evaluations. Since participation in partial sick pay is voluntary, there is a selection into these programmes, by which they are rehabilitating claimants with higher willingness to return to work. Participants may also differ from non-participants in key characteristics: they may be more often employed, or may have higher incentives to return to work. Rigorous evaluations with corresponding counterfactual (i.e. had they not participated in partial sick pay) is rare. Meneses-Echavez, Baiju and Berg (2018^[42]) conducted a meta-analysis of evaluations of graded RTW programmes in Nordic countries and found only modest effects on the probability to return to work. Kools and Koning (2019^[43]) found significant short-term effects on the RTW probability of the graded RTW system in the Netherlands but effects disappear in the long term, suggesting the programme rehabilitates claimants who may have returned to work in any case. Their work allows for further establishing the importance of early intervention when it comes to graded RTW: starting graded RTW early is the single most important factor determining a higher probability to rehabilitate. Markussen, Mykletun and Røed (2012^[44]) find that graded sick leave in Norway is a promising strategy toward reducing sick-pay costs and combating labour market exclusion.

Generosity of sickness insurance programmes

Overly generous sickness insurance programmes may be jeopardising the gatekeeping role of the programme. In many OECD countries, sickness insurance programmes have replacement rates above 80% of previous earnings (see Figure 4.11, Panel A). More importantly, such high replacement rates are granted for long periods of time in many countries, and sometimes indefinitely (see Figure 4.11, Panel B). High replacement rates paid indefinitely are a recipe for ballooning long-term claims (OECD,

2022^[37]). This does not contribute to a good gatekeeping of the disability benefit programme, as RTW is very unlikely after a period of sickness absence of five to six months (OECD, 2015^[45]). Countries like Norway, with a high rate of sickness absence partly due to a high replacement rate (100%) paid for a long time (one year), may want to consider a step-down compensation of the replacement rate after a few months of sickness (OECD, 2019^[46]). It may also consider extending continued wage payment of the employer to rectify the incentives of the major stakeholders. The Dutch system is an extreme version in that sense, with payment of sickness leave by the employer for up to two years. Dutch reforms effectively contributed to a decrease in inflow rates to disability benefits (Koning and Lindeboom, 2015^[4]), by changing the behaviour of both employers and workers during sick leave, but raised concerns about the costs and financial risks borne by employers, and call for further research on the optimal design of incentives in the sickness system.

Figure 4.11. Sickness insurance programmes are generous, often for extended periods of time



Note: Panel A: Mandatory paid sick leave replacement rates. Figures include sickness insurance benefits and employer sick pay, when applicable. Panel B: For Germany and France, the maximum duration of benefits is calculated over a period of three years. For Slovenia and Sweden, there is no maximum duration of benefits.

Source: OECD (2022^[37]), *Disability, Work and Inclusion in Slovenia: Towards Early Intervention for Sick Workers*, <https://doi.org/10.1787/50e655b3-en> (Figures 2.1 and 2.2).

Aligning sickness and disability programmes

One success factor in gatekeeping disability benefits through sickness benefits is the degree of alignment between the two programmes. For instance, if both programmes are managed by the same organisation, information transferring and data sharing become much more automatic, allowing for a proper follow-up and understanding of sickness claimants and their trajectories to disability benefits. In countries like Austria and Switzerland, where sickness and disability are managed by different institutions, it is also more difficult to align corresponding assessments. This is important, particularly if there is an aim of rehabilitation during sick pay. However, a joint management of sickness and disability programmes is not a sufficient condition for aligning sickness and disability assessment. Table 4.5 shows that in Belgium, despite being managed by the same organisation, sickness assessment is based on a purely medical definition while disability assessment includes work-capacity elements. In Switzerland, the sick-leave programme (under the responsibility of employers or private insurers) and the disability programme (under the responsibility of the disability authority) are aligned through the early disability risk-detection programme, which provides early intervention measures for potential disability insurance claimants.

Table 4.5. Alignment of sickness and disability programmes differs across countries

Key characteristics of sick pay programmes in the six countries under study

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Main paid sick leave programme	Sickness Benefit (<i>Krankengeld</i>)	Work incapacity (<i>Incapacité de travail/ Arbeidsongeschiktheid</i>)	Employment Insurance (EI) Sickness Benefit	• Continued wage payment (<i>Loondoorbetaling</i>) • Sickness Benefit (<i>Ziektewet</i>)	Sickness Benefit (<i>Sykepenging</i>)	Continued wage payment
Managing organisation	Austrian Health Insurance Fund (ÖGK)	National Institute for Health and Disability Insurance (INAMI)	Canada Employment Insurance Commission	• Employers • Employee Insurance Agency (UWV)	Norwegian Labour and Welfare Administration (NAV)	Employers and private insurance companies
Same organisation as disability benefit	No	Yes	No	Yes (UWV)	Yes	No
Sickness assessment is purely medical?	No	No	Yes	No	No	Yes

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; INAMI; Service Canada, <https://www.canada.ca/en/services/benefits/disability.html>.

The role of Public Employment Services

A substantial share of claimants do not enter disability programmes through the standard pathway of sickness insurance. Table 4.6 shows that as much as 45% of the inflow to the Austrian disability system comes from the unemployment system, and 20% in Norway. In the Netherlands, 23% are registered as unemployed while effectively receiving sickness insurance benefits. In Belgium, with a focus on uniforming the pathway to disability benefits from sickness insurance, 9% of the cases come from the unemployment system. The Belgian case is a suitable example of the difficulty of streamlining the entry to disability insurance for effective targeting and early interventions.

Disability claimants not following the standard pathway will typically not be able to benefit from standard early intervention measures, giving a larger role to other institutions. Jobseekers have an obligation to register with the PES in all countries reviewed. The PES is thus in a good position to identify and support those jobseekers with health barriers to employment, who may end up receiving disability benefit if they are not activated quickly. In some countries (Austria, Canada, the Netherlands, Norway), recipients of

social assistance also need to register with the PES, giving it again a key role in identifying (prospective) PWD. In many countries (Austria, Belgium, Norway, Switzerland) social assistance recipients are in contact with local welfare offices and are, thus, better identified at an early stage by their caseworkers.

Table 4.6. A substantial share of claimants do not enter disability programmes through the standard pathway of sickness insurance

Percentage of all inflow from unemployment (benefits or registered jobseekers), latest data

	% of inflow from unemployment
Austria disability system	45
Belgian disability benefit*	9
Netherlands disability system	23
Norway disability system	20

Note: Data for 2020 for the Netherlands, 2019 for Austria and Norway, and 2018 for Belgium. Austria, the Netherlands and Norway include both inflow to the transitional programmes and permanent disability benefits, although the latter is almost not relevant initially. Belgian data allow observing only transitions from a pre-stage which excludes employment and sickness insurance to disability insurance, excluding partial disability insurance (i.e. working and receiving disability benefits). This excludes about 1/3 of the inflow to disability benefits, and the results presented here have to be interpreted in this context.

Source: Austria: administrative data from the Austrian Federal Ministry for Social Affairs, Health, Care and Consumer Protection BMGSPK for the OECD. Belgium: BCSS data Mobilité Socio-Economique à court terme, <https://www.bcass.fgov.be/samik/homePage.xhtml>. the Netherlands: administrative data from UWV for the OECD. Norway: NAV disability statistics, https://www.nav.no/no/nav-og-samfunn/statistikk/aap-nedsatt-arbeidsevne-og-uforetrygd-statistikk/uforetrygd/arkiv-uforetrygd_kap.

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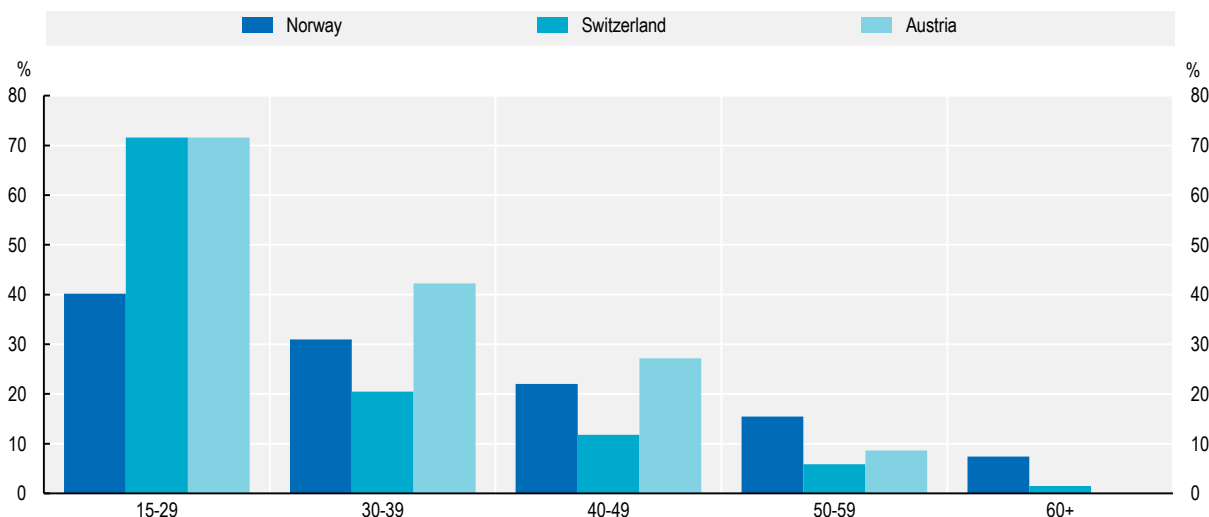
Vocational rehabilitation for disability benefit claimants

Vocational rehabilitation (VR) can take many forms. In Switzerland, for example, rehabilitation measures are provided by the disability insurance authority, and their nature depends on when the claimant makes the request. Early intervention measures focus on reorganisation of the workplace, job coaching and discussions with the claimant's employer regarding a job trial in a different position, if necessary. Early intervention measures can also include formations and training, with more freedom to choose the topic than is allowed later on. If early intervention is unsuccessful, claimants move on to professional measures to prepare them for a different job, rather than prioritising the claimant's previous job. These VR measures can include placements, reclassification, career counselling or investment into entrepreneurial projects if the project and claimant are eligible. In Norway, VR includes all measures to get to work (Tiltak), taking many different forms such as work-oriented rehabilitation, work trial periods, subsidies, counselling, training, or workplace adjustment. In Canada, Canada Pension Plan Disability recipients can be supported to return to work through a VR programme including an individualised rehabilitation plan, pre-vocational training, a work trial period of three months, and a reassessment of work capacity. Upon a successful assessment of work capacity, Canadian claimants can return to employment, with a two-year automatic reinstatement and a five-year period fast-track application to a disability pension.

Substantial shares of disability benefit claimants engage in VR, mostly young people. Figure 4.12 shows that a very large share of young claimants engage in VR: in Austria and Switzerland, about 70% of disability claimants under 30 participate in VR, compared to 40% in Norway. In all three countries, the engagement in VR steeply declines with age. The decline is steepest in Switzerland: less than 5% of claimants aged 50-59 participate in VR. VR policies are maybe used in young claimants predominantly, as their potential to rehabilitate seems higher and/or economic returns from VR seem larger. In the Norwegian programme where VR is granted in the context of a transitional programme, with a duration up to three to four years, observed differences in take-up of VR by age are much smaller than in the other two countries.

Figure 4.12. Substantial shares of young claimants engage in vocational rehabilitation

Share of participants in vocational rehabilitation (VR) relative to disability benefits claimants by age, 2019



Note: For Norway VR participation is measured only within the context of the transitional programme (Measures to get to work, *Tiltak*), and so the denominator measures AAP claimants. For Switzerland, this figure includes the sum of the several interventions offered (training, insertion measures, work counselling, work trial, etc.).

Source: Data provided by the Austrian Federal Ministry of Social Affairs, Health, Care and Consumer Protection, the Norwegian Labour and Welfare Administration (NAV) and extracted from https://www.pxweb.bfs.admin.ch/pxweb/de/px-x-1305010000_061/px-x-1305010000_061/px-x-1305010000_061.px of the Swiss Federal Statistical Office.

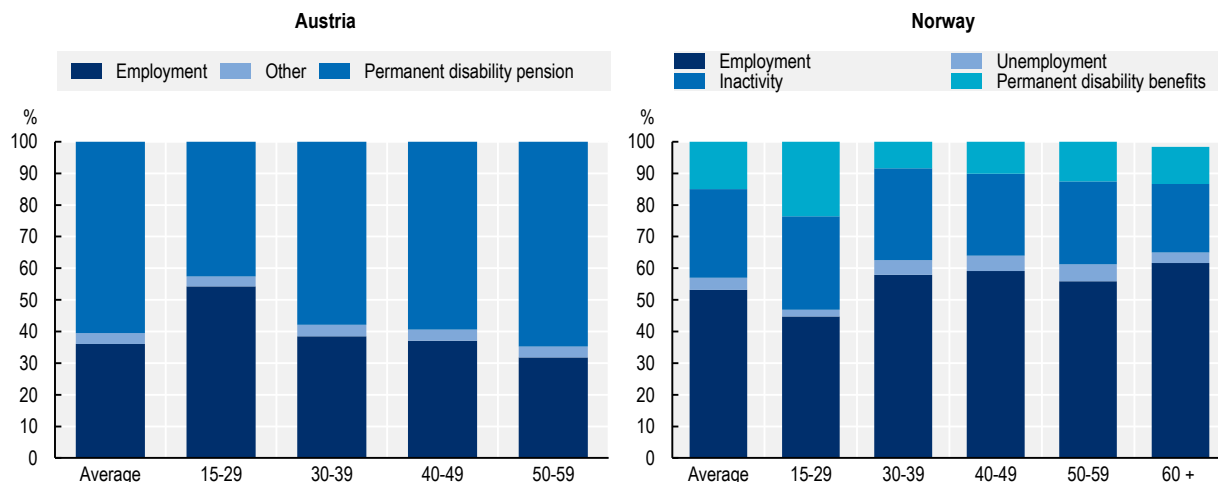
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The effectiveness of VR in promoting RTW is, however, quite similar across age groups. Despite a much higher concentration of VR participants among young claimants, VR does not show better outcomes for young claimants. Figure 4.13 shows that in Austria, where the age gradient is very strong, younger claimants have a higher employment rate at exit from VR, and a lower transition rate to permanent disability benefits. In Norway, where the gradient is less pronounced, younger claimants have relatively lower transitions to employment than older age groups. They also experience more transitions to permanent disability benefits. It is not clear that age alone is driving these results: there could be a selection, by which only claimants with high potential to rehabilitate are being selected from older (or indeed all) age groups.

Austria's 2014 disability benefit and VR programme reform replaced the temporary disability programme by either one of two schemes: medical rehabilitation, to get claimants ready for work or training, and retraining, to make claimants ready for the labour market even if it is not in their initial profession. The two new VR programmes have no time limit, but yearly reassessments to ensure reinsertion is still appropriate. The goal of this VR overhaul was to improve the reintegration of people with health problems in the labour market. Haller, Staubli and Zweimüller (2019^[47]) find through a before-after cohort comparison that this reform had little to no effect on the labour market: the decline in the number of claimants to temporary disability benefits corresponds, at least so far, more or less, to the increase in the number of claimants in medical rehabilitation or retraining. The impact on the labour market, three years after applying, was similar for both cohorts. These results do not bode well for the long-term success of such type of reform.

Figure 4.13. Vocational rehabilitation promotes return to work similarly across all age groups

Composition of exits from vocational rehabilitation (VR) in Austria and Norway by destination after VR, 2019



Note: For Norway VR participation is measured only within the context of the transitional programme (Measures to get to work, *Tiltak*).

Source: Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, Norwegian Labour and Welfare Administration.

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Employers, in particular, are a key actor. Until 2014, Dutch employers had no financial cost if an employee at the end of their contract, or a temporary employee, fell sick. The Modernization Sickness Benefits Act changed this by increasing employers' contributions for these workers depending on the economic sector and the size of the company. The contribution rates are high enough that it is more beneficial for employers to self-insure as the 72% increase in self-insurance by employers shows. This new law puts the financial burden on employers rather than on taxpayers. It also gives employers incentives to prevent their employees from falling ill in the first place and to help them recover as soon as possible. The reform also implemented a mandatory reassessment after one year of receiving sickness benefit (van Deursen and Schreuder, 2018^[48]). A before-after cohort comparison shows that overall this act led to better reintegration at work (4 percentage point increase), faster recovery (3 point increase) and a lower intention to apply for disability benefits (14 point decrease) (Dumhs, Rijnsburg and van Deursen, 2018^[49]).

However, all actors must be held accountable. In 2004, Norway switched to a graded work system requiring claimants to be professionally active (either working or in formation) to be still eligible for sickness benefits after eight weeks. Although this change significantly reduced the number of disability benefit claims, the Hedmark province noticed a much weaker effect than other provinces. A more careful assessment in the Hedmark province in 2013 showed that the previous measure was poorly implemented due to a lack of follow-up from all actors: employers, the PES and doctors. The reaction of the province was twofold. First, they provided claimants and doctors with more information, including information about possible benefit suspension. Second, they established case discussion workshops so that case managers would discuss appropriate follow-up with advisory doctors and psychologists from the NAV office. The Hedmark model led to an 8% decrease in sickness absence (Kann, Lima and Kristoffersen, 2014^[50]). Belgium also involved doctors further in the rehabilitation process by changing the format of its work incapacity certificates so that doctors must include the expected expiration date of the certificate. To prolong the incapacity period, claimants now have to go back to the doctor for a reassessment and possible extension of the certificate. This simple modification decreased the median length of incapacity by 7.6% (von Rauch, 2019^[51]).

Transitional disability programmes

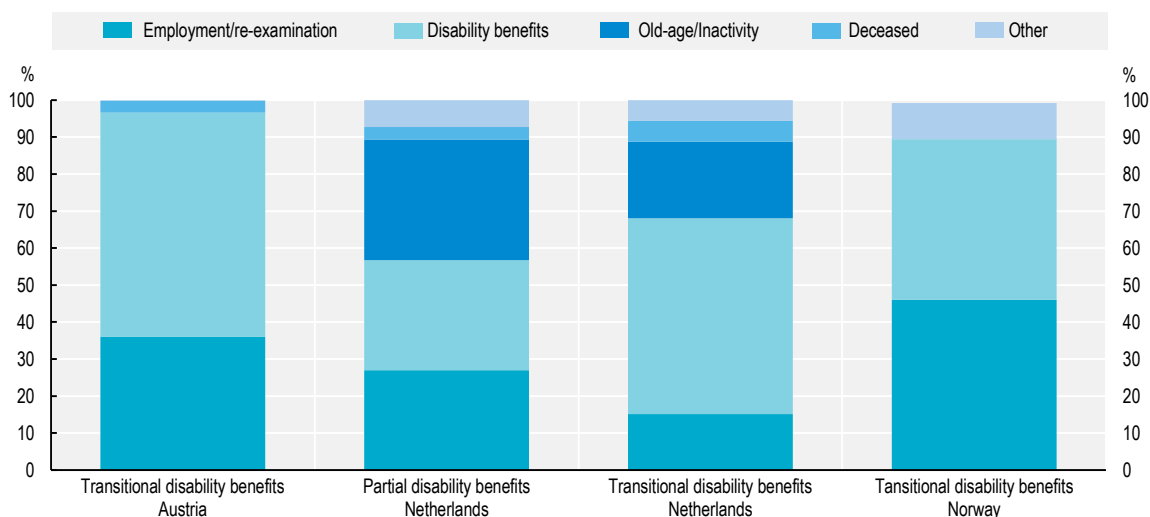
More recently, countries have been reforming their systems to introduce transitional benefits. As seen in Austria, the Netherlands and Norway, the emphasis was put on rehabilitation efforts before granting permanent disability benefits. Austria reformed its system in 2014 and replaced the temporary disability benefit system with two transitional benefits. Claimants can only receive disability pension if these transitional benefits failed. “*Rehabilitationsgeld*” focuses on medical rehabilitation and getting someone fit for work while “*Umschulungsgeld*” focuses on retraining the claimant for their previous profession or for a new one. Norway, in 2010, merged its three benefits (vocational rehabilitation, medical rehabilitation and time limited disability benefit) into one, the Work Assessment Allowance (AAP). This put a maximum time spent in rehabilitation of four years, later reduced to three years in 2018, in both cases with a potential extension of up to two years given certain legal provisions. Norwegian claimants can only receive a disability pension after going through the AAP unless it is deemed inappropriate. The Netherlands’ WIA reform from 2006 is similar. When applying for disability benefits claimants are assigned either to the IVA, the permanent disability benefit, or the WGA, the benefit for partial and temporary incapacity.

Transitional benefits are effective at maintaining the employability of PWD. Figure 4.14 shows that a substantial share of claimants of transitional benefits recover, with many of them exiting the programme after recovery/re-examination and reporting a transition to employment. This share is highest in Norway, where over 50% of the claimants recover, 35% in Austria, and around 15-30% (depending on the system) in the Netherlands. However, these rather positive shares must be interpreted with caution: there are substantial selection issues, by which participants in VR programmes and transitional benefit claimants are more likely to transition to work than those entering permanent disability programmes. This is why, in an evaluation of causality, Haller, Staubli and Zweimüller (2019^[47]) find no positive effects on employment from the transitional programme in Austria. This is an aspect to take into account when interpreting the results presented thorough this chapter: no causality can be established from looking at average outcomes, and selection and underlying factors may play a substantial role. It is thus the work of this chapter to complement the descriptive statistics with empirical evidence from the literature, whenever possible.

Figure 4.14 also shows, however, that transitions from transitional benefits to permanent benefits, including old-age pensions, are large, often substantially larger than the transition to employment. In Austria, about 60% of claimants from the temporary programme end up receiving a disability pension. This share is smaller in the Netherlands and in Norway, but differences narrow when taking into account transitions to old-age programmes. Beneficiaries from transitional programmes are (still) younger in Austria where transitions to old-age were not possible during the period in question (because the reform was introduced gradually and initially only concerned people under age 50), while much of the outflow from transitional programmes in the Netherlands and Norway goes to old-age pensions. This figure highlights one of the key difficulties in designing a disability system that promotes the employment of PWD: it requires understanding the dynamics of disability and the interactions across social protection programmes.


Figure 4.14. Transitional benefits are effective at maintaining the employability of people with disability

Composition of outflow from transitional disability programmes, latest data available



Note: Recovery/re-examination can be mainly associated to employment in most countries, given the limited existence of checks and balances on disability claimants. Disability benefits refer to disability pension in Austria, permanent disability benefits in the Netherlands, and permanent disability benefits in Norway. Old-age is not a relevant category for Austria, as only those below 50 can enter the transitional disability programme.

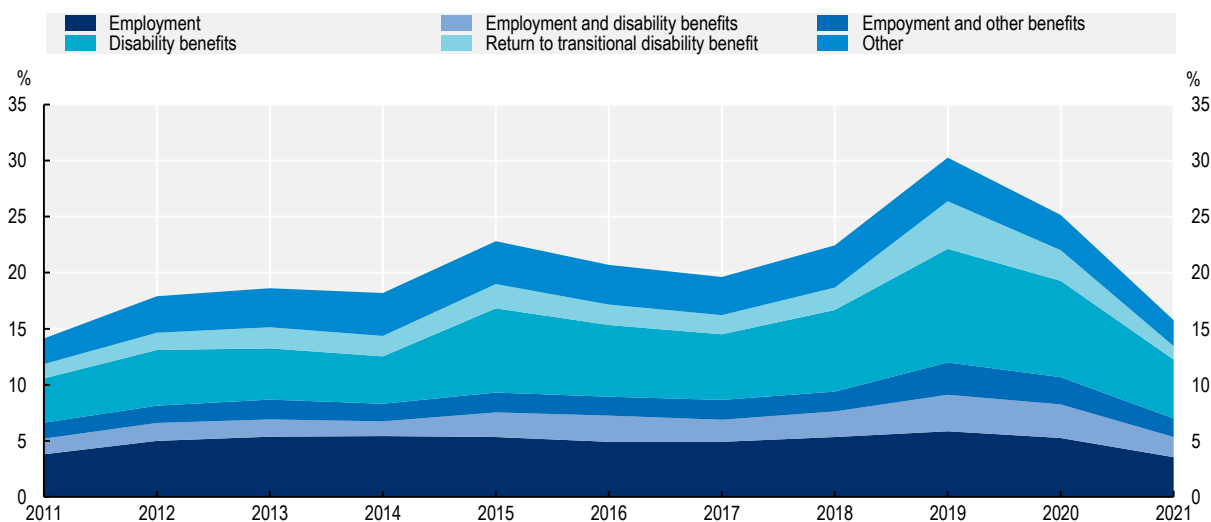
Source: Data provided from the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, the Canada Pension Plan and the Office fédéral des assurances sociales for Switzerland. Data were extracted from the Institut national d'assurance maladie-invalidité de Belgique, <https://www.inami.fgov.be/fr/statistiques/indemnites/Pages/default.aspx>, for Belgium; the UWV Labor Participation Monitor 2017 <https://www.uwv.nl/overuwv/Images/uwv-monitor-arbeidsparticipatie-2017.pdf> for the Netherlands and the Norwegian Labour and Welfare Administration <https://www.nav.no/no/nav-og-samfunn/statistikk/aap-nedsatt-arbeidsevne-og-uforetrygd-statistikk/tabeller/status-etter-avgang-fra-aap-avgang-2.kvartal.status-4.kvartal-2011-2021.antall-og-andel>.

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Tightening the duration of transitional disability benefits has limited effect on reducing the dependence on social transfers. One can argue that transitional benefits are not as effective as they could be, because they are often flexible in their temporary aspect. In Austria and the Netherlands, there is no maximum duration of transitional (disability) benefits. In fact, most claimants in the Netherlands are in the programme for 4-9 years. The duration of the Norwegian transitional programme was tightened in 2018: from four years and the possibility to repeatedly extend the programme, to three years with a maximum extension of two additional years. Figure 4.15 shows that this tightening increased the outflow from the programme, from 35% in 2018 to 45% in 2019. Most of this outflow, however, can be explained by an increase in the outflow to disability benefits and, to a lesser extent, a return to the transitional disability programme. There were no changes in the transition to employment, but it is important to keep in mind that this result could be in part due to the difficulties to find a job due the COVID-19 restrictions. More research is needed to evaluate whether curtailing the duration of the programme, without changing its characteristics, has substantial and long-lasting employment and fiscal impacts.

Figure 4.15. Tightening the duration of transitional disability benefits in Norway had limited effect on reducing the dependence on social transfers

Outflow and decomposition from the Norwegian transitional disability benefit programme, 2011-20



Note: Share of transitional disability programme (AAP) claimants exiting the programme over total AAP claimants in a given year.

Source: Administrative data shared by the Norwegian Labour and Welfare Administration (NAV).

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4.2.2. Combining work and disability benefit receipt: The role of financial incentives

There are two approaches to allowing disability beneficiaries to combine labour earnings with benefit receipt (see Table 4.7). Some countries take a clawback approach, allowing for complementing work and disability benefit receipt by reducing disability benefits for beneficiaries earning above a certain threshold. This is the case in Austria, where the earnings threshold is EUR 485.85 per month in 2022 (half the size of the minimum disability pension), and in Canada, with a threshold of CAD 5 700 (EUR 4 326) per year (close to the minimum disability pension). Other countries allow for partial categories of disability, meaning that each category of disability has its own threshold, calculated on the basis of the residual capacity to work. This is the case in Norway and Switzerland, as well as in the Netherlands, where partial disability is covered in a separated programme altogether. Disability benefit claimants in Canada cannot earn above the earnings threshold and keep their pension. A claimant earning above the threshold must report this return to work to the department, and can be offered support for maintaining the job. After a work trial of three months, eligibility to pension is reassessed, and benefit ceased upon successful return to work.

Earnings thresholds create an implicit tax on labour earnings, which countries smooth out by introducing financial incentives to work. By decreasing disability benefits upon crossing the earnings threshold, this policy creates a discontinuity in the total income (labour earnings and disability benefits): a claimant earning just below the earnings threshold may have a higher total income than a claimant earning just above. This can be seen as an implicit tax on labour earnings, generating incentives for beneficiaries to keep their earnings just below the earnings threshold. Some disability benefit recipients may thus work below their capacity to avoid losing disability benefit income, which is inefficient and creates welfare traps for disability benefit recipients. Countries have adopted various policies that relax this implicit tax:

- Reducing disability benefits less than proportionally to earnings increases. This approach can smooth out the income discontinuity that occurs from working above the threshold, and allows claimants who work to gain higher total income than with benefits only. These financial incentives to work can be linear with labour earnings, as in the Netherlands and Norway, where for each euro

above the earnings threshold, disability benefits are reduced by 0.66 to 0.70 cents. They can also be non-linear, as in Austria: financial incentives are highest for low-income groups and decline with income (see note to Table 4.7). This approach is more progressive than a linear decrease of disability benefits.

- Trial work periods while guaranteeing disability benefit entitlement. Another approach to relax the disincentives to work is to allow beneficiaries to return to their previous disability benefit entitlement in case they cannot sustain their work schedules. This acts as a guarantee for those beneficiaries who would like to work, but are not sure to be able to sustain themselves through work in the long-run. The implementation of these guarantees varies in the duration of the trial period, ranging from three months in Canada to five years in the Netherlands.

Table 4.7. Earnings thresholds create an implicit tax on labour earnings, which countries smooth out by introducing financial incentives to work

Programme characteristics regarding the combination of work and disability benefit receipt

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Coverage of partial benefits in main programme	Yes, clawback	Yes, clawback	No	Yes, clawback and separated programme	Yes, partial categories	Yes, partial categories
Earnings thresholds	EUR 5 830/year	N/A	CAD 6 100/year (EUR 4 637/year)	N/A	NOK 41 886/year (EUR 4 080/year)	N/A
Less than proportional reduction of earnings	Yes, nonlinear	No, proportional	N/A	Yes, 70%	Yes, 66%	Yes, nonlinear
Maintaining benefit entitlement rights	No	Yes, 6 months	Yes, 3 months	Yes, 5 years	Yes, 12 months	Yes, 3 to 5 years

Note: The Austrian policy reduces disability pension payments differently depending on the total income (labour earnings and disability pension): for total income between EUR 1283.29 and EUR 1925.01, payments are reduced by 30%; for total income between EUR 1925.01 and EUR 2566.57, payments are reduced by 40%; and for total income above EUR 2566.57, payments are reduced by 50%.

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; Austria Social Benefits, https://www.sozialleistungen.at/buch/pr342997_2968685/Invaliditaets-oder-Berufsunfaehigkeitspension-fuer-ab-1964-Geborene; SSA; Swiss AHV/IV, <https://www.ahv-iv.ch/fr/Assurances-sociales/Assurance-invalidit%C3%A9-AI/Rente-dinvalidit%C3%A9>; INAMI; Service Canada, <https://www.canada.ca/en/services/benefits/disability.html>; EC- Employment, Social Affairs & Inclusion, <https://ec.europa.eu/social/main.jsp?catId=1122&langId=en&intPagelId=4990>.

Precisely assessing the degree of disability of disability beneficiaries allows countries to graduate the disability benefit pay-out structure. In countries like the Netherlands, Norway and Switzerland, disability assessments result in a specific degree of disability, ranging from 0% to 100%. A specific degree of disability is a powerful tool to individualise the financial incentives of disability claimants to work, depending on their degree of disability. There are different approaches to this tuned-in individualisation:

- **Specifying different categories of disability within the main benefit level.** In Norway, the system considers claimants with a permanent incapacity rate higher than 50% to be eligible for disability benefits. This threshold rate is lowered to 30% if the disability is of occupational cause and 40% if the claimants received Work Assessment Allowance (AAP) before applying for a disability benefit. In Switzerland, before 2022, claimants received a share of the full pension depending on their earning incapacity rate: for a quarter pension a minimum incapacity of 40% was required, 50% for a half pension, 60% for a three-quarter pension and a full pension for anyone being more than 70% incapacitated. The new system in place since January 2022 offers a linear benefit payment schedule in line with the degree of disability, maintaining a minimum of 40% of invalidity for entitlement and of 70% for a full pension, therefore smoothing the kinks in the benefit schedule and reducing the substitution effects from it. The Dutch disability system before 2006

(under the WAO) allowed for seven categories of disability, each with a different replacement rate and possibilities to combine disability benefits and labour earnings.

- **Designing a separated partial disability benefit programme.** This is the approach taken by the Netherlands since 2006: claimants qualifying for benefits with residual work capacity now enter a special programme, the WGA. This programme is transitional for claimants with no residual work capacity, and permanent for those with partial remaining work capacity. If the disability assessment shows a capacity to earn at most 65% of the claimant's previous wage, the claimant is eligible for one of three types of WGA benefits: Wage-related, Wage-supplement and Follow-up benefits. Each type of WGA is more generous than the next; its eligibility is also stricter. Claimants who worked 26 in the last 36 weeks receive **Wage-related benefits**. Claimants who are not eligible or have exhausted Wage-related benefits will receive either Wage-supplement or Follow-up benefits. **Wage-supplement benefits** are restricted to claimants working at least 50% of their remaining earning capacity, as assessed by the PES. Similarly to Wage-related benefits, Wage-supplement depends on claimants' past income. Instead, those working less than 50% of their disability rates, are entitled to **Follow-up benefits** which are linked to the minimum income; this represents a significant drop in generosity relative to the two other programmes. The aim of this rather complex setup is to provide clear incentives for recipients to work. In the first type, they receive 100% of the benefit base if they work, against 75% if they do not. Later on, working at least half of what they can distinguishes between receiving a benefit based on their last income or a minimum wage: a potentially considerable loss, except for claimants earning the minimum wage.

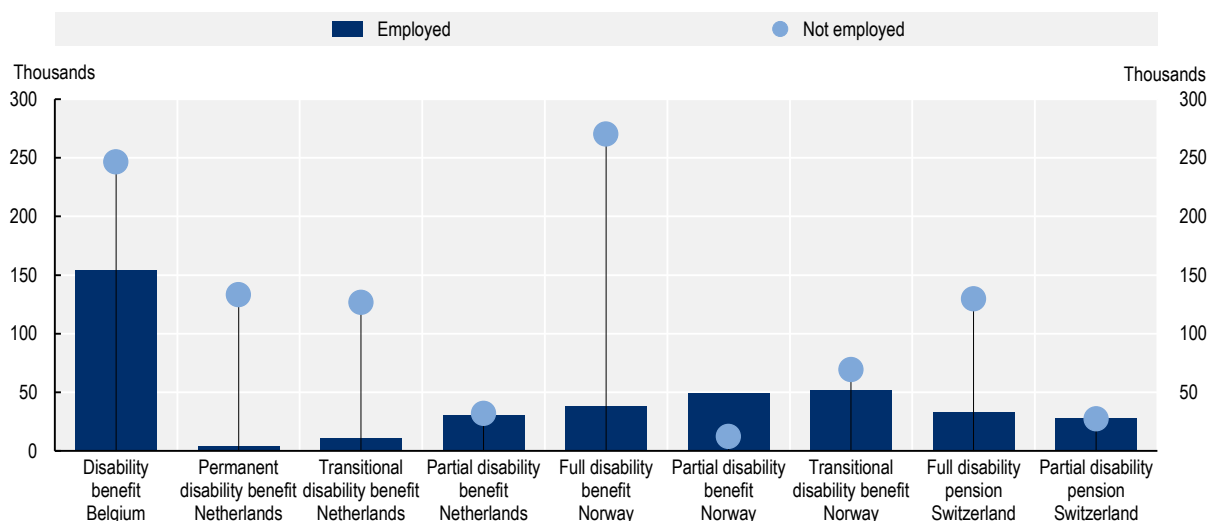
Graduating the disability benefit pay-out structure, by specifying categories of disability like in Norway and Switzerland, or by designing a separated programme like in the Netherlands, is not a silver bullet solution. Introducing an additional category of disability means that a group of claimants may find themselves at a lower bracket of payments, and creates a new earnings threshold. This has theoretically conflicting effects. On the one hand, the income effect is likely to increase labour supply because the loss in disability benefits must be compensated by an increase in earnings. The substitution effect, however, is likely to reduce the incentives to work because a reduction in earnings signals an increase in disability and therefore can lead to a preservation of the full disability benefit (Deuchert and Eugster, 2019^[20]). This is one of the reasons why since 2022, new claimants of the Swiss disability pension will face a linear payment schedule, smoothing out the income thresholds from different categories of disability, and allowing for a more individualised incentive to work.

Claimants in partial programmes are more often employed, regardless of the design of the partial programme. Figure 4.16 shows that in the Netherlands and Switzerland, there are as many partial disability claimants employed than not employed, whereas in Norway, there are almost three times as many employed as not employed. In Switzerland, unsurprisingly, the ratio of employed to non-employed increases as the degree of disability decreases (not depicted on the figure). From these comparisons there is not a clear conclusion on whether it is better for employment to have a separated programme for partial benefits like in the Netherlands, or bundle it together with the main benefit like in Norway and Switzerland. Data from all countries show that a significant share of people on partial benefits do not work and simply rely on a payment that is lower than a full benefit.

Financial incentives are effective at increasing the employment of disability claimants. There is substantial literature establishing the income and work participation effects of introducing financial incentives for disability insurance claimants. Impact evaluations of the Austrian, Canadian, Norwegian, and Swiss systems find large earnings and employment responses to the introduction of financial incentives (Campolieti and Riddell, 2012^[23]; Deuchert and Eugster, 2019^[20]; Kostøl and Mogstad, 2014^[24]; Ruh and Staubli, 2019^[25]). The earnings effects of financial incentives in the Dutch disability insurance system are modest (Koning and Van Sonsbeek, 2017^[52]). Disaggregating the features of financial incentives that have an impact on the propensity to work, Campolieti and Riddell (2012^[23]) find that increasing the earnings threshold is effective, while trial periods are not.

Figure 4.16. Claimants in transitional and partial programmes are more often employed, but that does not lead to higher employment rates overall

Claimants employed and not employed by disability programme, latest data available



Note: Count of employed and non-employed claimants by programme. The sum of these two figures gives the total claimants for each programme. Pink bars refer to main disability programmes, dark purple bars to transitional programmes and light purple bars to partial programmes. For the Netherlands, claimants in partial and transitional programmes (both WGA) are separated by their degree of disability: those in the transitional programme are fully disabled (and thus are best compared to permanent disability claimants) while those receiving partial disability benefits have a partial work capacity. In Norway and Switzerland those receiving partial benefits/pensions are those claimants receiving an established fraction of the full pension. There are no data available for Austria.

Source: Data provided by the Dutch Employee Insurance Agency (UWV), the Norwegian Labour and Welfare Administration (NAV) and the Office fédéral des assurances sociales for Switzerland. Data were extracted from the Crossroads Bank for Social Security, <https://www.bcass.fgov.be/samigc/homePage.xhtml>, for Belgium.

StatLink  <https://stat.link/cl2h6e>

Responses to financial incentives are heterogeneous. In Austria, women, younger people, and recipients with low benefits are most responsive to financial incentives in the form of an earnings threshold and a clawback of disability benefits (Ruh and Staubli, 2019^[25]). In Norway, the impact on earnings seems to be driven from the labour demand side: young men with higher education or more labour market experience, and living in areas with low unemployment, are most responsive (Kostøl and Mogstad, 2014^[24]). In the Netherlands, responses are concentrated among young claimants (Koning and Van Sonsbeek, 2017^[52]).

Financial incentives do not encourage disability claimants to leave the benefit rolls completely. One of the potential benefits of financial incentives, particularly trial periods, is to eventually have disability claimants resume their work without financial support. Yet, impact evaluations from several countries agree that this does not occur (Campolieti and Riddell, 2012^[23]; Koning and Van Sonsbeek, 2017^[52]; Weathers and Hemmeter, 2011^[53]). Perceived uncertainties linked with benefit exits seem to create too high a barrier for such policies to succeed.

Lastly, there is a risk that partial disability benefits may make the programme more generous, inducing higher entry into the programme. For instance, Ruh and Staubli (2019^[25]) conclude that allowing for partial work among disability claimants in Austria is potentially increasing the fiscal costs of the programme. In introducing financial incentives, it is important to make a cost-benefit analysis accounting for the positive labour supply responses from financial incentives, as well as the additional fiscal costs created by the possible increase in the number of disability beneficiaries.

Untying financial incentives from disability benefits may be a better approach to increase work without increasing benefit caseloads (Hoynes and Moffitt, 1999^[54]). One example of such non-programme based financial incentives are tax credits, such as the Canadian Disability Tax Credit (DTC). The DTC is a non-refundable tax credit that helps PWD or their supporting persons by refunding up to approximately CAD 8 662 (EUR 6 500 per year). This reduction in income tax does not depend on work status or receipt of disability pension but requires solely proof of long-term impairment. While there are substantial barriers to accessing the programme, including its complexity (Senate Committee on Social Affairs, 2017^[55]), delinking disability benefits and financial incentives may be a good approach. It is an approach that many countries use, in one way or the other.

4.2.3. Tightening disability insurance

Some countries have resorted to policies reducing the generosity of or tightening the eligibility for disability programmes. Such restrictive reforms have a direct impact on the size of disability programmes by curbing the inflow to the programme (reducing their attractiveness, and making it more difficult to become eligible). They can also reduce the size of the programme by boosting the outflow of the programme if the new rules apply also to current claimants (e.g. involving reassessments of current claimants under a stricter criteria). Policy makers adopting such reforms aim at reducing the financial costs of disability programmes.

- Cutting benefit generosity. There are only a few examples of countries reducing the generosity of disability benefits outright, possibly due to the political unviability of such reforms. Countries that have disability systems linked to the old-age pension system, however, are more likely to see cuts in their benefit generosity, sometimes substantial cuts, even if hidden in old-age pension reform. One example is the 2004 pension reform in Austria, which reduced the potential benefit level for most old-age and thus also disability claimants. Another example is a systematic reduction of the replacement rate of disability pensions in Slovenia, from 2010 to 2017, in line with pension reform in 2001 lowering the old-age pension replacement rate.
- Tightening eligibility rules. Many more countries have taken this approach, again particularly in disability systems linked to the old-age pension system, where the contributory requirements to the programme are frequently reviewed. Other countries, like the Netherlands in 1993 and 2004, have tightened eligibility rules and reassessed current claimants under the new stricter criteria. These reassessment reforms are particularly effective at reducing the disability caseload via boosting the exit from the programme (Garcia-Mandicó et al., 2020^[14]; Moore, 2015^[28]).

The overall fiscal effects of tightening reforms are not clear, if these generate spillovers from disability insurance to other social benefit programmes. While the costs of restrictive reforms for PWD are clear, it is not clear that reforms that push people out of disability benefits without equipping them for the labour market have clear fiscal effects, given the strong spillovers between social protection programmes. The following section discusses these interactions in more detail.

4.3. Spillovers from disability insurance to other programmes

Exits from disability benefit systems are not very frequent, and when they occur, often result in transitions to other social protection programmes. Transitions from transitional to permanent disability programmes are frequent, and reforms in other social protection programmes have an impact on disability benefits, as reflected e.g. in the Belgian reform of unemployment insurance. This section addresses in more detail the spillover from disability benefits to other social insurance and social welfare programmes and in particular the interactions between disability, unemployment, old-age, and social assistance benefits.

Disability benefits are a pathway to early retirement in all countries, to a varying degree. There are several mechanisms to this and various measures explaining this. First, increases in legal retirement ages, the

phasing-out of early retirement and cuts in the generosity of old-age pensions all increase the relative generosity of disability benefits for individuals. Duggan, Singleton and Song (2007^[56]) find strong effects of increasing the retirement age on disability benefit applications in the United States. Staubli and Zweimüller (2013^[57]) find more modest effects of a similar reform in Austria, although retirement effects through disability benefits are concentrated among low-paid workers. Wise (2016^[58]) shows evidence for 12 countries establishing the key role of disability benefits as a pathway to retirement. Second, employers may have incentives to let go of older workers through disability programmes rather than early retirement or unemployment benefits. For the Netherlands, Koning and Lindeboom (2015^[4]) found strong incentives for employers to let go of older employees through disability benefits as a consequence of high severance payments for older workers, worth up to three to four years of annual salary.

Disability benefit programmes can also sometimes hide long-term unemployment. It is widely documented that disability benefit applications are countercyclical: they tend to rise during economic recessions (Autor and Duggan, 2006^[2]; Duggan and Imberman, 2009^[3]; Koning and Lindeboom, 2015^[4]; Mueller, Rothstein and von Wachter, 2016^[5]). Higher applications cause a growth in the inflow to disability insurance during recessions. One potential explanation for the countercyclical movement of applications and inflows to disability insurance is that workers with marginal disabilities who would work in good economic conditions instead, when times are bad, might tend to apply for disability benefits. As Mueller, Rothstein and Wachter (2016^[5]) explain, there are several mechanisms for this:

- Disability screening may take into account economic conditions. In some countries, labour market conditions, i.e. the actual availability of suitable jobs, are taken into account when assessing eligibility (and determining the generosity) to disability benefits. In these countries, or regions, eligibility to disability benefits is often laxer during economic downturns. For instance, in Norway, labour market conditions are taken into account on a case-by-case basis by contrasting the applicant's age, abilities, education, occupational background and labour market opportunities in the local labour market. In the Netherlands, assessment of the degree of disability takes into account the jobs available in the economy.
- Employers may be less willing to accommodate PWD when the labour market is weak. Recessions may also break existing job matches for PWD, making it harder for them to obtain necessary work and workplace accommodations.
- Wage declines increase the relative generosity of disability benefits, leading workers with marginal disabilities to prefer benefit receipt over work (Autor and Duggan, 2003^[8]). As explained in Koning and van Vuuren (2007^[59]; 2010^[60]), without substitution between unemployment and disability programmes, average wages and sectoral growth levels should affect only the numbers of those needing unemployment insurance and not the numbers needing disability insurance. However, these variables also affect inflows to disability benefit receipt: the authors estimate that about one-quarter of the inflow into disability benefits in the Netherlands from 1993 to 2002 consisted of hidden unemployment.
- Job-search durations rise in recessions, and so jobseekers may turn to disability benefits upon exhausting their unemployment benefit entitlement. In this case, unemployment benefit extensions may enable some workers with marginal disabilities to find jobs before they turn to disability insurance. The evidence on these spillovers, however, is not conclusive. Mueller, Rothstein and Wachter (2016^[5]) find that extensions of unemployment benefits do not affect the probability to claim disability insurance benefits. The authors find little overlap between the two populations (unemployment claimants and disability claimants) for the United States: only 28% of disability insurance awardees had any labour force attachment in the year prior to benefit application, and therefore would have had any eligibility to unemployment insurance. Instead, Lindner (2016^[11]) and Lawson (2015^[12]) find that higher unemployment benefits lead to lower disability benefit applications in the United States, suggesting strong interactions between the programmes.

- Counteracting the unemployment-disability spillover requires strong activation elements in disability programmes. One of the perils of disability systems' hiding of long-term unemployment is precisely that the exit rate from disability insurance is very low, so the programme is equivalent to retirement for many. It is thus key to ensure that disability claimants are activated and their work capacity reassessed accordingly, to break this link. Disability programmes in the six countries in focus are taking these approaches, just as reforms in many other OECD countries which aim at strengthening the activation elements in disability benefit programmes.

The nexus between disability programmes and social assistance is determined by the characteristics of both programmes. Some PWD are excluded from disability programmes if they do not have sufficient social security contributions, leaving them to rely on social assistance and welfare as their sole source of income. Other PWD may be included in the disability system (through non-contributory disability benefits) but not covered by sick pay, and thus may have to rely on social assistance in the period before they are granted disability benefits. Even when eligibility is ensured, disability benefits may be too low and social assistance may play a key role in supplementing disability payments. There is evidence for the Netherlands showing that about one in three claimants removed from disability benefits due to a tightening of the eligibility criteria transition to social assistance (Borghans, Gielen and Luttmer, 2014^[13]; Garcia-Mandicó et al., 2020^[14]). In some countries, like Canada, provincial social assistance schemes are there to capture the large share of PWD who do not meet the strict disability pension contributory requirements (OECD, 2010^[61]). This raises questions on the adequacy of disability benefits, both in terms of their coverage and the level of payments, which is discussed in the following section.

A welfare culture can also be intergenerational, meaning that children of disability claimants may be more likely to claim social protection. In a recent study, Dahl et al. (2021^[62]) show that children of parents whose eligibility to disability insurance is reduced are less likely to receive disability benefits themselves. They are also more likely to complete schooling, have a lower probability of serious criminal arrests and incarceration, and take fewer mental health drugs as adults.

4.4. Adequacy of social protection for people with disability

The value of social protection for PWD is large, and reforms need to be conscious of not jeopardising their well-being. Reforming disability policies is complex because they target a wide range of people, including some with very limited or no work capacity, and they need to offer coverage and a safety net to PWD with no work capacity while promoting work among PWD who do have work capacity. This section focuses on assessing the adequacy of social protection for PWD, first by evaluating the coverage of disability benefit programmes to identify which PWD are left out, and second, by evaluating the level of payments.

4.4.1. Coverage of disability programmes

Disability systems in some countries exclude PWD with insufficient contributions. Exceptions to this are the Netherlands, which have no minimum contribution requirements for eligibility to the programme, and Belgium, which has a non-contributory (means-tested) disability programme. In the other countries, as shown in Table 4.8, PWD with insufficient contributions may risk to be excluded from disability benefits. The strictness of the requirement varies by country, both on the minimum contributory period and on whether this minimum can be relaxed in some cases. For instance, Austria has a minimum required contributory period of five years but requires only six months of contributions for applicants below age 27. Canada, which has fewer exceptions to the minimum contribution period of four years, does not cover a large share of PWD through the contributory disability programme, but rather through provincial assistance programmes. Switzerland operates a three-pillar system, with a first pillar that covers all residents with three years of contributions to the federal social security. However, contributory requirements in Switzerland are only applicable for ordinary disability pensions; PWD who do not meet the minimum contributory requirements are still entitled to an extraordinary pension.

Table 4.8. Disability insurance tends to leave out all those with insufficient contribution records

Groups uncovered by the disability benefit system, 2021

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Groups uncovered by disability benefits system	<ul style="list-style-type: none"> Earners earning less than EUR 485.85/month (<i>Geringfügigkeitsgrenze</i>) Persons with insufficient contributions 	None	Persons with no or insufficient contributions	None	Persons with insufficient contributions	Persons with insufficient contributions
Contributions mandatory for all residents	No	No	No	No	No	Yes
Minimum contributory period	5 of last 10 years (prolonged for 50+)	None	4 (3) of last 6 years (if at least 25 years of contributions)	None	Last 5 years	3 years for an ordinary invalidity pension
Relaxation of eligibility conditions	<ul style="list-style-type: none"> Young claimants Older claimants Childcare Occupational disabilities 	None	Childcare	N/A	None	Young claimants (Child)care

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; Austria Social Benefits, https://www.sozialleistungen.at/buch/pr342997_2968685/Invaliditaets-oder-Berufsunfaehigkeitspension-fuer-ab-1964-Geborene; SSA; Swiss AHV/IV, <https://www.ahv-iv.ch/fr/Assurances-sociales/Assurance-invalidit%C3%A9-AI/Rente-dinvalidit%C3%A9>; INAMI; Service Canada, <https://www.canada.ca/en/services/benefits/disability.htm>; UVW, <https://www.uvw.nl/particulieren/ziek/index.aspx>.

PWD represent a substantial share of social assistance claimants. As disability systems tend to have less strict requirements than any other social insurance programme, people excluded from disability benefits in most cases rely on last-resort programmes such as social assistance. In Austria, recent administrative data suggest that one in ten social assistance recipients have a disability. In Belgium, 20% of all welfare recipients are receiving means-tested non-contributory disability benefits. Data from population surveys show shares much higher than this for people identifying with a disability (see Chapter 2).

The difference in poverty level between PWD and PWOD is substantial, mainly driven by compositional differences in the type of social support they receive. Table 4.9 shows the poverty rate in EU countries by main source of social support, on average and for PWD. Several conclusions can be drawn. First, welfare recipients face more than double the incidence of poverty than social insurance recipients. This is not surprising as the two groups probably have very different labour market attachment and histories. The difference in poverty level between PWOD and PWD is substantial, but it is not higher for welfare recipients than for social insurance recipients and driven predominantly by the composition across types of payments: PWD more often receive payments with a higher poverty risk. The consequences of these findings are unclear, not least because social assistance programmes in some countries tend to provide a higher minimum payment than social insurance programmes, which often do not have such a specified minimum. This is in line with the ultimate goal of social assistance, of guaranteeing a basic level of income, while social insurance is tied to protecting people against income losses from disability.

Table 4.9. It is not clear what the impact from exclusions from disability insurance is on poverty among people with disability

Poverty count (60% median wage) by main income source by disability status, 2019

Main income source	People without disability	People with disability
Total across social support	0.24	0.33
Social assistance/exclusion	0.51	0.53
Housing	0.41	0.44
Child benefits	0.17	0.23
Social insurance	0.11	0.15
Disability benefits	0.19	0.20
Sickness benefits	0.10	0.11
Unemployment benefits	0.21	0.27
Old-age benefits	0.07	0.10
Survivor benefits	0.13	0.16

Note: The data represent the unweighted average of the countries shown in Figure 4.17.

Source: European Union Statistics on Income and Living Conditions (EU-SILC).

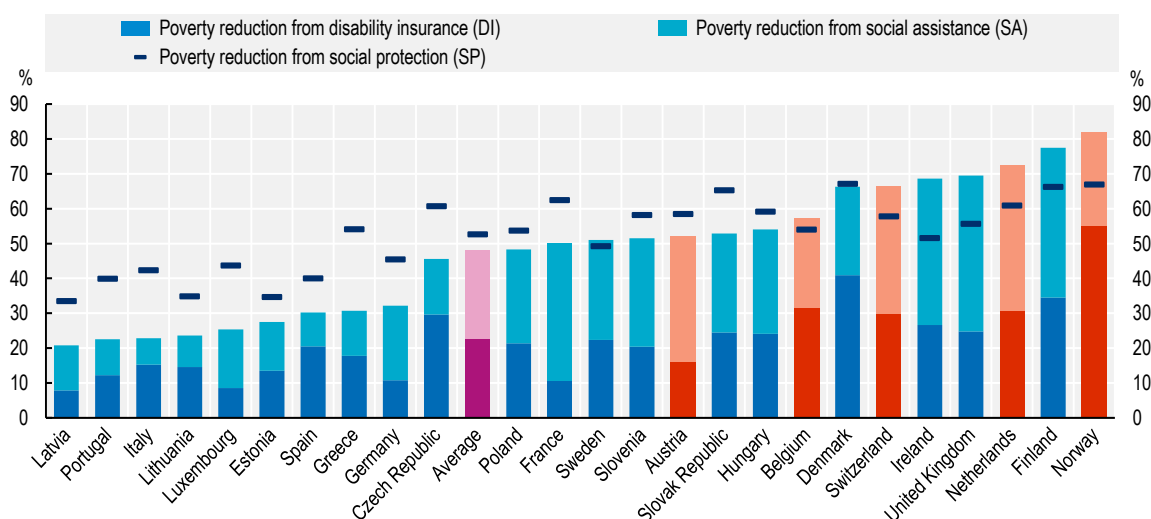
StatLink  <https://stat.link/ez4j>

Across European OECD countries, social protection prevents 54% of PWD from falling into poverty. Figure 4.17 shows the poverty reduction effects from receiving disability benefits, social assistance and social protection as a whole. On average across countries, about 23% of PWD are prevented from falling into poverty thanks to disability benefits, and about 26% are prevented from falling into poverty through social assistance. Overall, social protection lifts out of poverty about one in two PWD (54%). There are differential impacts of disability benefits and social assistance. The receipt of social insurance benefits may also prevent the occurrence of extreme events in the case of disability: Deshpande, Gross and Su (2021^[63]) show that receipt of disability benefits reduces the likelihood of bankruptcy, foreclosure, and home sale, which reflect reductions in financial distress.

Social assistance has a greater impact on the poverty reduction of PWD than disability insurance in countries where disability insurance has strict eligibility conditions. In Mediterranean countries and most Nordic countries, disability insurance has a greater poverty alleviating effect than social assistance. In some other countries, like the Netherlands and Switzerland, the opposite is true. These differences are partly the result of PWD relying more heavily on social assistance as the main benefit in many countries, because main disability benefit programmes cover only PWD with substantial contributory periods (e.g. Austria and Canada). In the Netherlands, for example, social assistance plays a key role in covering young PWD, who are an extremely vulnerable group. In other countries, disability benefits could be low and have to be topped up by means-tested support. Also in these countries, the poverty lifting effect could be driven by social assistance.

Figure 4.17. In European OECD countries, social protection prevents 54% of people with disability from falling in poverty

Change in poverty headcount pre- and post-social transfers, 2019



Note: Poverty headcount among people with disability is defined using 60% of median equivalised income as poverty line. All poverty reductions are calculated as the actual poverty headcount minus the hypothetical poverty headcount resulting using a pre-transfer (DI, SA or SP) share of income. Pre-transfer income is calculated following Ravallion (2008^[64]), "On the Welfarist Rationale for Relative Poverty Lines", <https://openknowledge.worldbank.org/handle/10986/6466>. This approach assumes that in the absence of social insurance, individuals will self-insure (work more, intra-household substitution etc.), but only partially compared to social insurance. For social assistance, it assumes two behavioural responses:

- Pre-DI income is measured by subtracting to the equivalised income 50% of the equivalised income from disability benefits.
- Pre-SA income is measured by subtracting to the equivalised income 100% of the equivalised income from social assistance. SA includes cash-based means-tested programmes (e.g. social assistance, child support, any other social exclusion programme).
- Pre-SP income is measured by subtracting to the equivalised income 50% of the equivalised income from social insurance and 100% of the equivalised income from social assistance.

Because some claimants receive both social assistance and DI, and poverty headcount relies on a binary measurement of poverty, the total reduction from social protection may be smaller than the sum of the poverty reduction from social assistance and DI.

The purple bar represents the unweighted average of the countries shown.

Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC).

StatLink  <https://stat.link/wnuo9c>

Level of payments

Disability payments are only a fraction of the average wage, which could generate adequacy issues if benefits are granted on their own. Figure 4.18 shows the average disability payment per country (including transitional disability programmes), the average wage for full-time full-year workers, and where available, the average wage in the country. In Austria, Belgium and the Netherlands, disability pensions are around 30% of the average full-time full-year wage (42 to 47% of the average wage in Austria). In Norway it is higher (40% of the full-time full-year wage, 50% of the average wage), and it is much lower in Canada (12% of the full-time full-year wage, 22% of the average wage). In Switzerland, the first pillar benefit is around 18% of the average full-time full-work wage (23% of the average wage), but this comparison is misleading, as the second pillar benefit (available to all employees with sufficient contributions) should bring the disability payments much closer to the average wage. Given these figures, it is clear that disability payments are low. The question is whether they are insufficient, and to establish this, it is key to take a step back and look at social protection more comprehensively. Countries that have disability assistance programmes, or social assistance, supplementing disability pensions and benefits may not face adequacy

issues even if disability payments are very low. Instead, countries with higher disability payments, but preclusion of complementing them with additional social transfers, may face greater adequacy challenges.

Figure 4.18. Disability payments amount to only a fraction of the average wage

Average disability benefit payments and average monthly wages, in euros, latest available year



Note: Data refer to 2017 (Belgium); 2018 (Norway); 2019 (Austria, Canada, Switzerland); and 2020 (Netherlands (combined benefits)). Data for average monthly wages of full-time workers are the average annual wages per full-time and full-year equivalent employee in the total economy divided by 12. Average annual wages per full-time equivalent dependent employee are obtained by dividing the national-accounts-based total wage bill by the average number of employees in the total economy, then multiplied by the ratio of average usual weekly hours per full-time employee to average usually weekly hours for all employees. Conversion to euros is based on the average exchange rate for the year in question. Low-earner wages correspond to 50% of the full-time full-year wage.

Source: Data provided by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection of Austria, the Canada Pension Plan, the Dutch Employee Insurance Agency (UWV), the Norwegian Labour and Welfare Administration (NAV) and the Office fédéral des assurances sociales for Switzerland. Data were extracted from the Institut national d'assurance maladie-invalidité (INAMI) de Belgique statistiques d'indemnités, <https://www.inami.fgov.be/fr/statistiques/indemnitees/Pages/default.aspx>. Average wages taken from the *OECD Average annual wages dataset*, <http://stats.oecd.org/Index.aspx?QueryId=25148> and average monthly wages from the *OECD database on earnings distribution* (unpublished).

StatLink  <https://stat.link/ep9yh>

Comparing average disability payments with average full-time full-year wages may be misleading as to the true earnings replacement rate of social benefits for PWD. A majority of PWD earn well below the average full-time full-year wage, and even the average wage: differences between their potential earnings and their benefits received are much smaller. Figure 4.18 also compares the average disability benefit received to the low-earner average wage (calculated as 50% of the average wage). In some countries, like in the Netherlands and Norway, disability payments amount to around 85% of the wage for low earners. In Belgium and Austria, the replacement rate is around 72% (64% for the Austrian disability pension). This is in line with MacDonald, Prinz and Immervoll (2020^[65]), who find that the disability benefit replacement rate for low-earners is high in most countries, specifically 70% of the low-earner wage in Belgium and 82% in the Netherlands. The high replacement rate, and its increase over time with a downward pressure on low-paid wages, is an argument often used as one of the main reasons behind the growth in disability rolls in many countries, like in the United States (Autor and Duggan, 2003^[61]).

In all countries reviewed, the disability payments presented in Figure 4.18 are supplemented by additional payments to guarantee a minimum income for PWD and cover disability-related expenditures. Table 4.10 summarises the different policies in place. All countries but Austria and the Netherlands have established a minimum payment for their main disability benefit. In countries without a minimum benefit, a minimum level

is ensured through compensation supplements, compensating the difference between the disability benefit entitlement and a minimum income or poverty level. Compensation payments vary by living situation and are means-tested in most cases. Effectively, countries with compensation supplements cover risks very similar to those covered with a minimum disability payment, which also often varies by living situation. For countries that guarantee a minimum disability payment, this minimum may fall short of the minimum income. Therefore, countries may allow for social transfers to supplement low disability payments. In Switzerland, a means-tested compensation supplement may complement first-pillar payments. In Canada and Norway, a minimum income is ensured through welfare meaning that disability beneficiaries with low entitlements can claim social assistance or other welfare programmes on top. In Canada, welfare programmes are administered at the regional level and can take different forms, explored in some degree in OECD (OECD, 2010^[61]). In Belgium, the non-contributory, means-tested disability benefit can serve the purpose of guaranteeing a minimum level of income. The supplement in Austria has a similar effect and is also means-tested and, therefore, more often granted to persons living alone. Most countries also cover additional disability expenses through separated programmes, such as in the form of payments for care or for personal assistance. In addition, to ensure a minimum income through income replacement programmes, Belgium and Norway cover (part of) the disability-related expenses for transportation and medical equipment.

Table 4.10. All countries guarantee a minimum income for people with disability, but the approaches vary

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Minimum income guaranteed for disability recipients	Yes, through compensation supplement (<i>Mindestsicherung</i>)	Yes, through non-contributory disability benefits (ARR)	Yes, through regional welfare programmes	Yes, through compensation supplement (<i>Toeslagenwet</i>)	Yes, through welfare (<i>økonomisk sosialhjelp</i>)	Yes, through compensation supplement (EL)
Coverage of additional disability expenses	Yes, assistance (<i>Pflegegeld</i>)	Yes, expenses and assistance (AI)	Yes, expenses and assistance (regional)	No	Yes, expenses and assistance (<i>Grunnstønad, Hjelpetønad</i>)	Yes, assistance (Helplessness allowance and home assistance allowance)

Source: Policy questionnaires for the OECD, Austrian Government website, <https://www.oesterreich.gv.at/themen/soziales/armut/3/2/Seite.1693914.html>; Sécurité sociale belge, <https://www.socialesecurity.be/citizen/fr/handicap-invalidite/interventions-et-allocations/allocation-de-remplacement-de-revenus>; McColl et al. (2017^[66]), A Review of Disability Policy in Canada; UWV, <https://www.uvw.nl/particulieren/overige-onderwerpen/toeslag-van-uwv/index.aspx>; Social Affairs and Inclusion-Norway, <https://ec.europa.eu/social/main.jsp?catId=1123&langId=en&intPagId=4714>; Social Affairs and Inclusion-Switzerland, <https://ec.europa.eu/social/main.jsp?catId=1131&langId=en&intPagId=4830>.

A substantial share of disability claimants receive additional benefits to supplement their disability payments (Table 4.11). This is the case particularly in Switzerland, where first-pillar benefits are fairly low compared to the average wage: almost one in two claimants receive a supplementary benefit – a benefit that is quite high, as shown below, and thus changes entirely the adequacy assessment of the programme. In Austria, about one in four claimants receive supplementary benefits to complement disability pensions. Similarly, taking Ontario as an example of a Canadian province, about 40% of disability pensioners receive provincial social support for PWD through the Ontario Disability Support Programme (ODSP). The ODSP offers coverage of basic needs and shelter (in addition to health care coverage) that may amount up to CAD 1 169 (EUR 888) per month for a single-member household, which is substantially more than the average disability pension paid. More generally, in Canada, provincial social support programmes play a key role in providing adequate social protection to PWD. The shares of disability claimants receiving supplementary benefits are lower in the Netherlands and Belgium. Table 4.11 also shows the share of disability beneficiaries receiving additional benefits to cover additional costs of disability (data are only available for Belgium and Switzerland). These benefits take the form of personal assistance in Switzerland

(*Allocation pour impotents* – helplessness allowance) and assistance allowance to continue living home (*Contribution d'assistance*) or more generally to cover any additional costs of disability like in Belgium (*Allocation d'intégration* – integration allowance). About 13% of disability beneficiaries receive additional benefits in Belgium, and almost 16% receive personal assistance allowance in Switzerland.


Table 4.11. A substantial share of disability claimants receive additional benefits to supplement their disability payments

Share of disability claimants using supplementary benefits and programmes covering their disability costs, latest data available

	Supplementary benefit (%)	Coverage costs of disability (%)
Austria	24.9	
Belgium	5.1	13.0
Canada (Ontario)	39.9	
Netherlands	12.0	
Switzerland	48.1	15.8

Note: Supplementary benefit refer to Ausgleichszulage in Austria, ARR in Belgium, the Ontario Disability Support Programme in Canada, the Tegemoetkoming arbeidsongeschikten (allowance for disabled persons) in the Netherlands, and the Ergänzungsleistungen allowance in Switzerland. The coverage costs of disability refers to the AI in Belgium, and the Helplessness allowance in Switzerland.

Source: Data provided by the Office fédéral des assurances sociales for Switzerland. Statistik Austria, https://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/soziales/gender-statistik/pensionen/index.html, for Austria, Banque Carrefour de la Sécurité Sociale, <https://www.bcass.fgov.be/samigc/error.xhtml>, for Belgium, CBS, <https://www.cbs.nl/nl-nl/cijfers/detail/84121NED>, for the Netherlands, and Monthly statistical report Ontario, https://www.mcass.gov.on.ca/documents/en/mcass/social/reports/ODSP_EN_2017-03.pdf.

StatLink  <https://stat.link/puc67t>

Disability systems have to be carefully designed to not create work disincentives. Taking two examples, Norway and Switzerland, Table 4.12 compares the average disability payments by degree of disability (full vs. partial), the average labour earnings of the recipients in different benefit categories, and the resulting average income. In both countries, partial disability payments are a specified fraction of the full benefit, and the average benefit paid corresponds closely to these fractions. Labour earnings decrease with the degree of disability, as expected, particularly so in Norway, where claimants of full benefits barely receive earnings from work. The two income elements – benefits plus earnings – result in a total income difference between partial and full disability claimants of about 28% in Switzerland and 25% in Norway.

Without supplementary benefits, the average income is similar among partial disability claimants in Switzerland, regardless of their degree of disability, which could be generating work disincentives. Supplementary benefits having a different impact in the two countries: in Switzerland, these benefits help those with full pensions most and increase the differences between partial benefit categories, thus reintroducing work incentives. In Norway, instead, additional sources of welfare add little to those with full benefits and more to those with partial benefits as it is rare for full disability pensions to fall below the subsistence level; as a result, mostly partial beneficiaries receive social assistance. In both countries, those with full benefits have on average less total income than those with partial benefits, with the difference being larger in Norway. As in any country, it is likely that the average disability benefit recipient is not an average earner, but rather a low earner, implying that actual replacement rates are higher.

In conclusion, in the selected group of OECD countries, disability payments alone may be low, but when supplemented with top ups and social assistance, they offer a decent income certainly in comparison with low-wage earnings. Take up of supplementary programmes is quite large, indicating that most disability beneficiaries are well covered. Access to main disability benefit programmes is limited, as it excludes those with limited work histories, giving a large role to social assistance as a sole or additional source of social

support for many PWD. This results in a large poverty alleviating role for social assistance for PWD. Even so, social protection is insufficient to close the poverty gap between PWD and PWOD.

Table 4.12. The disability system has to be carefully designed to avoid creating work disincentives

Average monthly disability payments (in Euros), labour earnings and income by type of benefit entitlement in Switzerland and Norway, latest data

	Values in EUR/month	Average disability benefit	Average labour earnings	Income from disability benefit and work	Income including other welfare payments	Total income as percentage of average wage
Switzerland disability pension (pre-2022 system)	Full pension	1 511	816	2 358	4 292	64
	Three-quarter pension	1 186	1 653	2 875	4 487	67
	Half pension	792	2 237	3 065	4 887	73
	Quarter pension	395	2 611	3 023	5 022	75
Norway disability benefit	Full benefit	2 837	115	2 952	3 465	71
	51-99 degree of disability	1 977	1 515	3 492	4 236	87
	0-50 degree of disability	1 376	2 309	3 685	4 561	94

Note: Average wage was EUR 4 854 per month in Norway and EUR 6 671 in Switzerland in 2019. Since 2022, the Swiss system follows a linear schedule, thus abolishing the quarter, half and three-quarter pensions.

Source: Administrative data provided by national authorities.

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4.5. Towards social protection for people with disability that promotes their employment

Disability benefit systems have undergone substantial transformations over the past decades, generally towards more active and less generous systems. Although reforms have taken the right direction to support the employment of PWD, their employment rates remain low and the disability employment gap large. One part of the reason is that reform has failed to address one of the key components of social protection for PWD, highlighted through this chapter: social protection for PWD needs to be viewed and reformed holistically. Social protection is not limited to disability benefits but encompasses the full set of social insurance and minimum income programmes. Early intervention oftentimes fails, as it reaches PWD late, after years of navigating the welfare system and being detached from the labour market.

This section proposes a set of policy recommendations for governments to reform and rethink social protection for PWD, organised around six guiding principles:

1. Make disability programmes a non-final state.
2. Implement mandatory early intervention approaches.
3. Introduce work incentives in disability and other social protection programmes.
4. Tackle the fragmentation of social protection.
5. Take a holistic approach to reforming social protection.
6. Address poverty through mainstream social protection.

1. Make disability programmes a non-final state

Disabilities are dynamic over the lifetime of a person: they can worsen, improve, or fluctuate. PWD may experience periods of good health, where working is possible, despite sometimes experiencing periods where working is not possible (Morris et al., 2019^[67]). Disability systems need more flexibility to reflect such fluctuations. Accordingly, entitlements to disability benefits should in many cases not be permanent.

Flexibility of disability systems can be promoted by introducing work trial periods where disability benefit entitlement is maintained for extended periods of time. As discussed in this chapter, disability systems in the six countries reviewed have work trial periods, but insurance rights are maintained for only a short amount of time, most often less than one year. An exception is the Netherlands, where insurance rights are guaranteed for five years. Given the fluctuations of disability, which can sometimes have longer on-and-off phases, it would be advisable to maintain insurance rights for a considerable period of time.

Greater flexibility must come alongside a change in thinking of disability systems as a pathway to facilitate the exit from the labour force. One way to approach this is by implementing checks and reassessments of disability beneficiaries. As Table 4.13 shows, most of the six analysed countries consider the periodic reassessment of disability benefit entitlements, although the frequency of such reassessments and the approach to initiating them vary. Some countries, like Austria and Norway, have strict transitional benefits, whose claimants are reassessed every year as these benefits are granted for a maximum duration. Other countries, like Canada, the Netherlands and Switzerland, are more flexible, and rely on beneficiaries reporting changes in their health status or work capacity. These two approaches rely on very different incentives, and may generate reassessment processes that will be more or less binding.

Table 4.13. Most programmes consider reassessments of disability claimants

Periodic reassessments of current disability entitlements and their frequency

	Austria	Canada	Netherlands	Norway	Switzerland
Conducts regular reassessments of disability claims?	Disability pension: No Transitional benefit: Yes	Disability pension: Yes Regional benefits: Yes	Permanent benefits: No Transitional benefits: Yes	Permanent benefits: No Transitional benefits: Yes	Disability pension: Yes
How often?	Every year	No fixed interval	No fixed interval	Every year	No fixed interval
Who initiates reassessments?	Benefit authority	Benefit authority or beneficiary	Benefit authority or beneficiary	Benefit authority	Benefit authority or beneficiary

Source: Policy questionnaires for the OECD.

Reassessment of disability claimants, particularly in the context of work trials and flexibility of insurance rights, is key to aligning programmes to the dynamics of disabilities. Garcia-Mandicó et al. (2020^[14]) show that a systematic reassessment of disability claimants in the Netherlands taking place in 2004 to 2009, purely based on revising the health status of claimants, would result in the disqualification and reduction in benefit entitlement for the large majority of beneficiaries. This would be particularly striking for those claimants classified as having full incapacity: 35% of them would be disqualified from disability benefits, and 45% would fall in a lighter category of disability. There are several reasons for this:

- Periodic reassessments were not binding in the Netherlands before, particularly for claimants with full incapacity, under the assumption that they cannot recover. In fact, the average claim duration was 1.5 years longer for full incapacity compared to partial incapacity.
- There was a much higher share of claimants with mental health conditions among claimants with full compared to those with partial incapacity. Mental disabilities are frequently fluctuating, much more dynamic, with on-and-off periods of invalidating health problems.

Reassessment policies may be necessary for many disability claimants, but it is crucial to recognise that there is a risk of over-assessing. Reassessments can be distressful experiences, which together with the fear of losing social support can have consequences on people's health and well-being (García-Gómez and Gielen, 2018^[68]). People may also become too preoccupied with demonstrating their disability, pushing them away from attempting to work and from the labour market (Policy Lab et al., 2020^[69]) – thereby perpetuating a behaviour needed to create benefit entitlements in the first place, for initial applications.

Entitlement reassessments need to be aligned with a greater flexibility, thus combining the possibility of reducing social support and promoting the participation in active labour market programmes during periods of well-being, with that of guaranteed return to support in periods of poor health.

2. Implement mandatory early intervention approaches

Early intervention is critical, and needs to take place before skills depreciate, before a detachment from the labour market, and before the mind-set of people has shifted towards inactivity. Timing is key in determining the success of activation and vocational rehabilitation for PWD. Policy makers and countries are aware of this, and have invested considerable resources and efforts in promoting earlier intervention in disability benefit programmes. While this is welcome, it is not sufficient, as it fails to recognise that PWD applying for a disability benefit will often have had fragile and interrupted employment experiences and may have been navigating the welfare system for years. There are several approaches to this, including putting greater emphasis on social protection programmes that precede disability insurance, especially sickness insurance and unemployment insurance, and strengthening the role of the PES.

- Making early intervention efforts during sickness insurance mandatory. Sickness insurance is a common pathway for many disability insurance applicants, and a natural choice for focusing early intervention efforts. As reviewed in this report, many countries have set early intervention mechanisms during sickness absence, such as graded RTW or partial sick leave, vocational rehabilitation, or regular employer-employee meetings, sometimes also including the treating doctor. While these measures are effective, they are often not mandatory, which results in limited take-up. Early intervention approaches, and in particular, the sufficient involvement of employers and employees in RTW planning during sickness insurance, need to be closely monitored and enforced, to ensure that the momentum for returning to work is not lost.
- Increasing the incentives of employers to support the return to work of their sick-listed employees. Graded RTW during sick leave can be an effective approach to maintaining the employment of PWD and preventing their transition to disability benefits. While graded RTW is possible in many countries, the incentives of employers are not always aligned. The Netherlands offers an interesting example of how to do that, by mandating a long employer-paid sickness period combined with experience-rated contributory disability payments, thus penalising employers who have failed to support the return to work of their sick-listed employees. These strict policies could have a negative impact on hiring for PWD, as research has pointed out (Koning, 2004^[70]). Finding the right balance between employer incentives and hiring disincentives is a challenge that policy makers need to address by looking at the labour market and social protection holistically.
- Giving a role to the PES in supporting jobseekers with health barriers to employment. PWD with insufficient contributory periods, or who are unemployed, may not be eligible for sickness insurance benefits in many countries. They may rely on unemployment benefits, or perhaps social assistance, which often warrants registration with the PES. This gives the PES a key role in identifying jobseekers with health barriers to employment, and supporting them with targeted, individualised rehabilitation programmes as early as possible. Such role for the PES is described in detail in a recent OECD report for Slovenia, where unemployed workers are uncovered by sickness insurance and the PES plays a key role in supporting their return to work (OECD, 2022^[37]).

Early intervention success hinges on separating intervention from the certification of a disability. Disability assessment requires a formal application to disability benefits or a formal/legal disability status, a lengthy procedure that is focused predominantly on the medical aspect of a disability. Early intervention should be possible among sickness benefit claimants and jobseekers with a health barrier to employment, upon identification of a need for special support to return to work. This need does not need to be related to the certification of disability, and should be evaluated on the functional capacity of a person, to promote the take up of special support, while eliminating the disability labelling of participants. The assessment of needs for support of sickness claimants could be a joint responsibility of the sickness and disability benefit authority, or, like in Switzerland, a responsibility of the disability benefit authority alone, where early intervention is managed by the disability authority upon referral of sickness claimants.

3. Introduce work incentives in disability and other social protection programmes

Work incentives need to be carefully designed to promote the employment of PWD, to prevent a simple delayed exit from the labour market or claims of partial disability benefits. The chapter discusses at length work incentives in disability systems, in the form of transitional disability programmes, financial incentives to work for disability recipients, or guaranteed benefit entitlements irrespective of work status. For instance, Austria and Norway have introduced transitional programmes with strong focus on vocational rehabilitation and training, where a large focus is on gaining (partial) employment. Transitional programmes are effective at maintaining the employability of PWD when paired with vocational rehabilitation interventions; however, people seem to stay on such transitional programmes for a long time, and many transition to permanent benefits eventually.

Many countries also make considerable use of partial disability benefits to provide flexibility and more possibilities to combine work and benefit receipt. Such programmes allow persons with partial capacity to work while receiving a partial benefit, even on a permanent basis. However, partial benefits may also provide incentives for some people to shift from full-time to part-time employment; hence, the overall labour market impact is unclear, as suggested by the higher overall disability benefit caseload in countries that have such partial benefits.

Untying financial incentives from disability benefits may be a better approach to increasing labour market participation without increasing disability caseloads (Hoynes and Moffitt, 1999^[54]). Such financial incentives may take the form of tax credits, like in Canada, a deduction of disability expenses, like in Austria, or raising the threshold between non-taxable and taxable income, like in Belgium.

4. Tackle the fragmentation of social protection

Disability benefits by themselves are often low measured against the earnings from work in a country, typically representing around 30% of the average wage. However, many people will receive additional payments. These payments include top-ups for high-income groups for instance regulated in collective agreements designed to replace a higher share of the past wage, or top-ups for low-income groups designed to make ends meet. In some countries, like Switzerland, take-up of these benefits reaches up to 50% of all benefit recipients, but take up is low in many other countries. In addition to top ups, people may receive other benefits specifically designed to cover disability-related costs, including the costs of care for people with severe disability in need of constant attendance but also other payments, such as mobility allowances. In addition, countries may have more than one disability benefit programme which can be combined, e.g. basic benefits and contribution-based payments.

Many countries distinguish temporary and permanent disability benefits, full and partial disability payments, or means-tested and contribution-based payments, and often these payments are different benefits with differing entitlement criteria. Overall, it appears that disability systems are fragmented, which may result in adequacy issues when take up of supplementary payments is low. The difficulty of

navigating fragmented systems may be large for PWD, resulting in PWD having to go through various assessments for different payments and not receiving the support they need. System simplification could contribute to more benefit adequacy, in turn tackling the poverty of PWD, which remains high compared to that of PWOD.

5. Take a holistic approach to reforming social protection

Social protection for PWD needs to be viewed and reformed holistically. First, because of the spillovers that occur between social protection programmes. This chapter has shown how reforms in old-age pensions, unemployment benefits or social assistance have unintended consequences on disability benefit take up, and vice-versa. Policy makers need to be aware of the interconnectedness of social protection when envisaging policy reform. Second, because of the large safety net role of social assistance for PWD. As shown in this report, many PWD fall between the cracks of contributory disability benefits, due to intermittent work histories and insufficient social security contributions. A substantial share of PWD is left to rely on social assistance as their main source of social support and income. Reforms of disability benefits that do not take into account the large share of PWD uncovered by these benefits can be the source of greater inequalities and inadequacies of the system. Taking an overarching view of the social protection for PWD is key before reforming any of its elements.

6. Address poverty through mainstream social protection

The value of social protection for PWD is large, as shown in this report: social protection prevents over 50% of PWD from falling into poverty across European OECD countries (comparable data are not available for other countries but would likely be very similar). The large value of social protection is not confined to the value of disability benefits, rather the opposite: in most countries, social assistance plays a greater role than disability benefits in preventing the income of PWD from falling below the poverty line. Mainstream programmes, such as social assistance and unemployment benefits, play a key role in providing a safety net for PWD. Governments and countries need to recognise this fact, and design policies in a way to accommodate access to mainstream social protection programmes.

Mainstreaming social protection, together with addressing the fragmentation of social protection, fit into the much broader debate on how to optimally design social protection. What role should social insurance have, compared to social assistance? The rising numbers of non-standard workers pose a problem for traditional contributive social insurance as, just as with many PWD, they do not fit into the framework of social insurance (OECD, 2018^[71]). The need to make social protection future ready has brought the idea of a universal basic income back to the centre of the debate (Gentilini et al., 2020^[72]). The OECD has long promoted the idea of a single working-age benefit for everyone who is not in employment, with top-up payments to cover the additional costs of disability, which are independent of the person's employment status (OECD, 2010^[9]). While there is limited empirical evidence on how such a programme could look like and be delivered, countries should acknowledge that the increasing role that social assistance is playing is bringing most social protection programmes to a state which is, conceptually, not too far away from that of a single working-age payment, but with numerous unintended inequalities and poverty traps. A real change will require shaking up the existing system, and thinking about policy differently.

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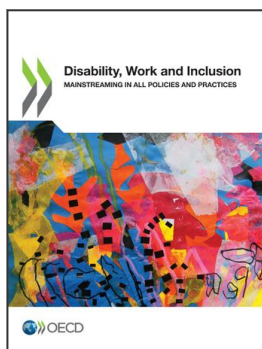
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Annex 4.A. Additional table

Annex Table 4.A.1. Programme names by country in national languages

	Austria	Belgium	Canada	Netherlands	Norway	Switzerland
Sickness Benefit / Work incapacity / Sick pay / Sickness insurance	Krankengeld Versehrtenrente	Indemnités d'incapacité de travail/ Uitkeringen bij arbeidsongeschiktheid	Employment Insurance	Ziektewet	Folketrygden	Optional daily allowance insurance
Early intervention measure	Wiederein- gliederungsgeld	Réinsertion socio- professionnelle/ Socioprofessionele re-integratie		Gatekeeper Improvement Act		Mesures d'ordre professionnel/ Massnahmen beruflicher Art Détection précoce/ Früherfassung Mesures de réinsertion/ Integrations- massnahmen
Transitional programme / Vocational rehabilitation	Rehabilitationsgeld (DI) Umschulungsgeld (PBS)		Vocational Rehabilitation Program for CPPD/ QPPD	WGA	Arbeids- avklarings- penge (AAP)	
Disability pension / Disability Benefit	Invaliditätsrente Berufsunfähigkeits- rente Erwerbsunfähigkeits- rente	Indemnités d'invalidité/ Invaliditeitsuitkering	CPPD/ QPPD	IVA	Uføretrygd	Assurance Invalidité/ Invaliden- versicherung

Source: Countries' responses to OECD questionnaire; MISSOC comparative tables; Arbeiterkammer Wien, https://www.sozialleistungen.at/buch/341421-24.0_pr342997_2968685/Invaliditaets-oder-Berufsunfaehigkeitspension-fuer-ab-1964-Geborene; Swiss AHV/IV, <https://www.ahv-iv.ch/fr/Assurances-sociales/Assurance-invalidit%C3%A9-AI/Rente-dinvalidit%C3%A9>; INAMI ⁽¹¹⁾, <https://www.inami.fgov.be/fr/Pages/default.aspx>; Service Canada, <https://www.canada.ca/en/services/benefits/disability.html>; EC- Employment, Social Affairs & Inclusion, <https://ec.europa.eu/social/main.jsp?catId=1122&langId=en&intPagelD=4990>.



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