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Sickness, Disability and Work
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Chapter 2

Evaluating Recent and Ongoing Reforms

All four countries have gone through comprehensive sickness and disability policy reform in the past decade. In the United Kingdom and Spain, employment and benefit policy reform went largely hand-in-hand. In Australia, employment policy change preceded the more recent reform of the benefit system, while Luxembourg went through the reverse sequence, with employment policies only being adjusted and expanded after significant changes in the benefit system.

In Australia and Luxembourg, reform has primarily affected people with a partial reduction of their work capacity, who are now expected to remain in or enter the workforce and who are given more help to achieve this. In Australia and the United Kingdom, the array of employment and rehabilitation programmes was extended considerably and new funding mechanisms were introduced. The United Kingdom, in particular, is also instituting new rights and responsibilities for the government and for new disability benefit claimants. Reforms in Spain were largely about decentralisation and concentration of responsibilities to improve service delivery and benefit eligibility management.

Sickness and disability policy in Australia, Luxembourg, Spain and the United Kingdom has seen many comprehensive changes in recent years. In all four countries changes relate to the assessment procedure and include a range of structural and administrative modifications. In some of the countries, reforms also involve a new way of dealing with people with a partially-reduced work capacity (Australia, Luxembourg), creating a new balance of rights and responsibilities for the authorities, as well as sick workers and people with disability themselves (Australia, United Kingdom) and, to a lesser extent, also for employers (especially Luxembourg). This chapter summarises and evaluates the key elements of recent and ongoing reforms. Box 2.1 gives an overview of the countries' sickness and disability schemes to help readers understand recent reform processes better.

Box 2.1. **Structure of the countries' sickness and disability schemes – An overview**

Sickness and disability benefit systems as well as rehabilitation and employment support schemes differ across the four countries in many ways, reflecting different social protection traditions. The key characteristics are as follows:

How are disability benefits paid?

In Australia and the United Kingdom, disability benefits are flat-rate payments set at around 25% of average earnings. In Australia, these payments are household means and asset-tested (unless a person is blind). In the United Kingdom, contributory disability benefits are not means-tested, while non-contributory payments for those who do not fulfil the contribution requirements are. Both payments, however, are flat-rate and very similar in amounts and they both hinge on the same personal capacity assessment test. Luxembourg and Spain have social insurance-type disability benefits and a complementary but minor non-contributory programme for those not entitled to insurance benefits. The latter are administered by a different authority and using different medical criteria. Insurance payments in Luxembourg consist of a flat-rate and an earnings-related component. The first is paid in full for all eligible workers while the second depends on the contribution record with additional increments for the period between the date of onset of disability and age 55 (if the disability occurs before age 55). Insurance benefits in Spain are earnings-related but, provided contribution-criteria are fulfilled, the length of the contribution period has no impact on the benefit level (*i.e.* benefits do not depend on the age of onset of a disability). The systems of Spain and Luxembourg both specify minimum and maximum monthly benefit amounts, with average benefit levels around 50-60% of the average wage. Contrary to the other countries, the Spanish system also offers a partial disability benefit (for people unable to work in their usual occupation, *i.e.* "total" incapacity) which pays around 55% of a full disability benefit ("absolute" incapacity). In addition, Spain has a 20% top-up to a partial disability benefit for people over age 55 who are not employed.

Box 2.1. **Structure of the countries' sickness and disability schemes – An overview** *(cont.)*

Who is covered by a disability benefit?

In Australia, residents between age 16 and the statutory age-pension age are eligible for a disability benefit. If the assessed disability began before residing in Australia, the person must have ten years of residence in the country. Contributory disability benefits in Luxembourg, Spain and the United Kingdom are paid to all workers fulfilling the contribution criteria and with earnings above a minimum threshold. Criteria range from less than six months of covered earnings in recent years in the United Kingdom, to 12 months of covered earnings in the past three years in Luxembourg, and at least five years of contributions in Spain. Self-employed persons are covered in all three countries, and there are special systems for public-sector employees in Luxembourg and also for several other economic sectors (*e.g.* seamen, miners, armed forces) in Spain. Non-contributory schemes are residency based.

Who is covered by a sickness benefit?

In Australia, employees are entitled to ten days of continued wage payment per year, and in many cases these days can be accumulated over years as long as a worker stays with the same employer. Casual employees, who comprise around one-quarter of the workforce, are not entitled to employer payments in case of sickness. In addition, there is a public, flat-rate and means-tested sickness allowance for residents over age 21 who have a sickness or injury preventing work, provided they have a job to return to. The United Kingdom has privatised its statutory sick pay scheme during the 1990s. Today, following a three-day waiting period, employers are responsible for sickness payments for the first six months of work incapacity for all workers above a lower earnings limit, after which people transfer onto disability benefit. Statutory payments are flat-rate, but many employers top-up this payment during a varying period (three months is quite common) and often to the level of the past wage. People not fulfilling the contribution and earnings requirements for statutory sick pay are entitled to a disability benefit from early on (so-called short-term incapacity benefit). In Spain, sickness cash benefits are paid to employed persons with 180 days of contribution in the past five years and amount to 60% of insured earnings (75% from the 21st day). The benefit is paid from the 4th day and for up to 12 months, a period which can be extended to 18 months. Benefits are paid by the employer through the 15th day, and employers normally also pay a full wage in the first three days. In Luxembourg, all active persons are covered by sickness benefits without a minimum qualifying or work period. Benefits are paid up to 52 weeks and reimburse the full salary which the insured person would have earned. Blue-collar workers receive a publicly paid sickness cash benefit from the first day, while for white-collar workers in the private sector the employer has to continue the wage payment for the month in which the disease occurs and for the following three months.

How are disability schemes financed?

In Australia, the entire social protection system is financed from general tax revenues, with an income tax system that is less progressive than that of the other three countries and the OECD as a whole (OECD, 2007a). In the other three countries, non-contributory disability benefits are also tax financed. Contributory disability benefits, on the other hand, are predominantly financed from employer and employee contributions, at (roughly) equal shares in the United Kingdom and Luxembourg but with a much larger share for employers in Spain. The government contributes with an annual subsidy in Spain and a treasury grant to cover benefit expenditure shortfalls in the United Kingdom, while

Box 2.1. **Structure of the countries' sickness and disability schemes – An overview** *(cont.)*

government revenues cover one-third of total contributory benefit spending in Luxembourg. None of the three countries has a contribution rate targeted at contributory disability benefits alone; instead, contributions cover all kinds of contributory benefit programmes, including old-age, survivor, sickness and maternity benefits.

How are rehabilitation and employment supports organised?

Rehabilitation and employment support is organised differently in the four countries. Medical rehabilitation falls under the remit of health insurance in all countries and has little work focus. However, the United Kingdom has recently introduced work-focused Condition Management Programmes outside the health insurance to bridge this gap and in Luxembourg vocational elements are increasingly used in the medical rehabilitation process. Vocational rehabilitation as such is largely inexistent in Spain and Luxembourg, while there are special structures in place for this in Australia and the United Kingdom. Similarly, there are special employment services available for workers with disability in Australia and the United Kingdom, whereas in Spain and Luxembourg those people are helped by the Public Employment Service. The financing differs accordingly. Vocational rehabilitation and employment services in Australia and the United Kingdom are financed through general taxation, and providers are partly reimbursed on the basis of outcomes. In Luxembourg and Spain most available services are financed via unemployment insurance contributions, topped-up by regional and ESF funds in the case of Spain.

More details on the countries' benefit and tax systems can be found in the Annex of Chapter 4 (Table 4.A1.1).

2.1. Australia: new participation requirements through welfare reform

Australia has undergone major changes in its disability policy over the past twenty years. The system developed gradually from a passive benefit scheme to an active labour market programme. With the most recent *Welfare to Work* reform, a further big step was taken, leading to much the same treatment for all (newly) unemployed people regardless of whether or not their work capacity is reduced. The strong support of most stakeholders for the government's reform agenda in combination with the currently very tight labour market is a promising pre-condition for effective implementation of recent and ongoing reforms.

A. Expansion of services and new funding mechanisms

Twenty years ago, Australia's disability policy relied largely on passive instruments, with a range of permanent benefits and very limited employment support for people with health problems or disability. Rehabilitation services were established soon after World War II, but the number of people serviced remained very low. With the Disability Services Act in 1986, which outlined new rules regarding disability service provision and vocational rehabilitation, the approach started to change. Due to opposition from the large service providers, however, this act remained largely unimplemented (OECD, 2001). The 1991 Disability Reform Package and later reforms provided new labour market programmes and additional targeted places for people with disability in existing programmes. Anti-discrimination legislation set new standards in 1992 for both employers and public agencies. This was complemented by Commonwealth-State-Territory Disability

Agreements (the first in 1991) to delineate the roles of the Australian government and state and territory governments in respect of the planning, policy setting and management of specialist disability services.

More recently, the focus switched from programme expansion and increasing the number of places available to improving the quality and outcomes of services. In this regard, Australia is setting new standards for other OECD countries. In 1996, the government announced reforms to disability employment assistance to enhance opportunities for people with disability to take part in quality employment, more closely match funding to support needs, link funding to employment outcomes and address historical funding inequities. The key elements of the reforms were a legislated quality assurance system and a case-based funding model. The quality assurance system, introduced in 2002, implies that providers are audited and certified against prescribed disability service standards, covering employment conditions, governance and prevention of neglect and abuse. There is no funding for providers without respective certification.

General employment services for the unemployed were changed completely as from 1998, in the course of the first Job Network contract. These general services are now supplied by private (be it for-profit or non-profit) providers, and some Job Network providers are specialised in providing services to people with disability. Before reform, payments to providers were dominated by fixed per-client fees, but today funding is mostly outcome-based – with outcomes judged in terms of 13 and 26 weeks of continuous employment. Fees increase with the level of disadvantage and the duration of unemployment of the jobseeker. After various start-up problems, the placement record of Job Network providers has improved significantly in recent years (Grubb, 2006). This is explained by the survival of the best providers in a newly established market, promoted by final performance management through a star-rating system; increasing stability for providers in the course of a progressively refined strategy; and the shift to predominantly outcome-based funding.

The principles ruling the Job Network are currently being expanded to specialist employment services for people with disability. Since mid-2005, the Disability Employment Network (DEN) also operates on the basis of case-based rather than block-grant funding. Fees are based on jobseekers' support needs, as assessed by the Job Seeker Classification Instrument (the larger the needs, the higher the fees), and their employment outcomes. Similarly, from mid-2006, Disability Business Services providing employment assistance to people with more severe disability have been funded under a case-based funding model.[1] Again, funding is linked to the person's support needs, as in this case assessed by the Disability Maintenance Instrument, and employment outcomes. Vocational Rehabilitation services (VR) are still predominantly provided by one public agency, but, as of mid-2006, a proportion of these services is delivered through case-based funding contracts with non-governmental organisations.

Finally, Australia is increasingly moving away from fixed or supply-driven appropriation of employment services which substantially limited the scope for improved labour market integration of people with labour market disadvantage. In the course of the *Welfare to Work* reform, as of mid-2006 demand-driven DEN and VR services were introduced for jobseekers with a part-time participation requirement. These are people who have an assessed work capacity of 15 to 29 hours per week who are able to become independent in the workplace with no more than two years of assistance. For this group,

the employment services no longer have a cap on the number of places available at one point in time.[2] This new uncapped stream complements the existing capped stream in DEN and VR services, which continues to provide assistance to those people with disability who are assessed as likely to require ongoing support to retain employment after they have found a job.

B. Increasing workforce participation and reducing welfare dependency

The recent developments in service provision must be seen in combination with ongoing welfare reform aimed at increased workforce participation and lower welfare dependency of four targets groups, including people with disability. For older workers and long-term unemployed, participation requirements were tightened to improve work outcomes. For people with disability (and for lone parents), better employment outcomes are sought through a restructuring of income support. Recipients who are in a position to look for work, including part-time work, are no longer entitled to the higher disability benefit but only to a normal unemployment benefit with its stricter compliance rules.

The key elements of the *Welfare to Work* reform affecting people with a disability are the following:

- There is *no* change for current recipients of a Disability Support Pension (DSP). They do not lose their benefit nor are any obligations imposed. All support services are accessible on a voluntary basis, subject to availability, but in this case a current and valid work capacity assessment is required.
- New applicants are only entitled to a DSP if their work capacity is less than 15 hours per week (rather than 30 hours pre-reform). *Welfare to Work* reform does not entail any changes for this group with such a low work capacity.
- New applicants with a partial work capacity of 15-29 hours per week are only entitled to the lower unemployment benefit. They have to look for suitable part-time work, consistent with their remaining work capacity, and/or to participate in appropriate services offered to them.
- All DSP applicants, except for those considered as "manifestly disabled", have to undergo a new Job Capacity Assessment (JCA). The JCA has a dual role: to establish the individual's work capacity and ongoing support requirements, and to identify barriers to work and interventions needed to overcome those barriers. The assessor will refer and in most cases book the applicant into their first appointment with a service provider within a few days.
- Services to which jobseekers are referred can include Disability Employment Network or Vocational Rehabilitation services, but also specialist or generalist services offered by a Job Network provider as well as the Personal Support Programme (for those with special non-vocational barriers). Within the service type, the jobseeker can choose the provider.

It is too early to tell what the impact of the *Welfare to Work* reform and of the demand-driven provision of job-search and training support for those with a work capacity of 15 to 29 hours a week will be.[3] One direct impact is a lower benefit payment – because these people are now on unemployment rather than disability benefit – and higher tax rates for those moving off benefit into low-paid work (Chapter 4). However, the new comprehensive JCA is a promising step as an integrated assessment aimed at earlier intervention, and the last step in a shift from a medical to a functional view of disability (Chapter 3). The dual assessment and referral role could develop into its key strength. Success of recent reforms

will rely heavily on the quality of the JCA, which is contracted out to a number of public and private agencies, and the quality of services provided after that.

JCA is also a step towards a more similar treatment of unemployed with disability and "standard" unemployed people with labour market disadvantage. This is mirrored by the fact that there are several ways to get to a JCA. The new assessment is compulsory for DSP applicants but also for unemployed persons who apply for a longer-term activity-test exemption because of temporary work incapacity. As such, this may prove to be a useful tool to identify and tackle health problems earlier. In addition, a JCA is an option in two other instances: first, during the profiling process for normal jobseekers (which is done through the Job Seeker Classification Instrument), and secondly, when clients indicate to either Centrelink or an employment service provider that they have a medical condition or disability that impacts on their work capacity or employment assistance needs.

2.2. Luxembourg: managing partial work capacity in a different way

Sickness and disability policy reform in Luxembourg during the past decade was characterised by a changing approach towards people no longer able to perform their last job but still potentially able to work in another occupation. A pessimistic assessment of these changes will conclude that this has simply resulted in shifts between programmes. People were first "parked" on disability benefits, then on long-term sickness benefits, and are now on topped-up unemployment benefits. Indeed, people with partially-reduced work capacity have not been able to move into, or stay in, work in significant numbers. The latest change, however, has the potential to improve the situation.

A. Reducing the inflow into disability benefits

After unification of the pension system for blue-collar, white-collar and self-employed workers in 1987, disability benefit rolls increased very rapidly. This was essentially the consequence of a generous administrative practice. The 1987 law defined disability as the inability to carry on the occupation of the last post *or* another occupation suited to the person's capacity. In practice, however, this was interpreted as including all individuals unable to carry on in the occupation of the last post, so that people no longer able to do their current job were systematically granted a disability benefit. As a consequence, by the mid-1990s, Luxembourg had one of the highest beneficiary rates in the OECD.

Several court rulings in the mid-1990s criticised the lenient interpretation of the eligibility criteria and firmly established that disability has to be defined as described in the law. In 1997, the implementation of legislation eventually became much stricter. People with partially-reduced work capacity were no longer granted disability benefits. Benefit rolls started to fall again and public spending on disability dropped from 2.6% of GDP (1995) to 1.8% (2001). However, those people with partially-reduced work capacity were not given any real support to remain employed. This had two consequences: first, long-term sickness absence grew, and secondly, after exhaustion of sickness benefit entitlement of one year, those who were unable to find a new job were at risk of falling out of the social security safety net.

The first plan, several years back, was to remedy this situation by introducing a partial disability benefit for those with an occupational but no general disability – similar to the current partial benefit system in Spain, France and Poland (OECD, 1999). This partial or occupational benefit, paying 50% of a full disability benefit, should have been compatible

with professional activities in another occupation up to a ceiling. This plan, however, never materialised, mainly because the main trade unions disagreed, fearing that this would not avoid the poverty trap for workers entitled to the new reduced benefit (Wagener, 2003). Instead, based on the ideas developed by a tripartite working group, a new proposal was prepared which was approved by parliament in 2002 and is in force since October of that year.

B. Helping people with partial work capacity getting into work

The new law has two main objectives: to prevent misuse of disability benefits by tighter medical control procedures, and to improve employment integration of those with a partially-reduced work capacity unable to continue working in their current job through a new redeployment procedure.

Tighter medical control and health status monitoring comes in at several points. Under the new law, which applies to both new and current beneficiaries, a prolonged sickness leave leads to a compulsory medical examination by the medical control service of the social security authority. This examination, which takes place within the first four months of sick leave, can have three outcomes. If the worker is found able to return to work, benefit payments are stopped. If the worker is still found unable to work, sickness benefit payment continues and another medical exam is scheduled for a later date. If the worker is found likely to permanently remain unable to work, application for a disability benefit is launched.

A second more comprehensive medical examination is carried out when the worker applies for a disability benefit. At this stage, only two outcomes are possible, *i.e.* acceptance or rejection. If the worker is found to be unable to work according to the 1987 definition, the work contract is dissolved and disability benefit payment is started. In case of benefit rejection, another medical assessment by the occupational medical service of the Ministry of Health determines whether or not the person can return to the last job. If not, or if the person has no valid employment contract, the new redeployment procedure is launched. Companies with more than 25 employees are obliged to find an appropriate job for their worker, be it a different job in the same company or the same job at reduced working hours (internal redeployment). If employers can prove that this is impossible or would come at an excessive cost, external redeployment is sought.

Employers and employees involved in an internal redeployment process are given financial incentives. If the new job pays less than the previous one, the Labour Fund pays a compensatory benefit to the worker which covers the difference (up to five times the social minimum wage). In addition, the redeployed worker is protected from dismissal during one year. The employer is entitled to special support (*e.g.* reimbursement of the outlays for additional training and accommodation of the workplace), as well as special tax credits. Furthermore, internally redeployed workers count against the company's employment quota for handicapped persons. On the other hand, another penalty equivalent to 50% of the statutory minimum wage (payable for up to 24 months) may be imposed on employers who fail to comply with their obligation to internally redeploy an employee with a disability.

If internal redeployment is not possible, the worker is registered as unemployed with the labour office and entitled to unemployment benefit while the search for suitable employment continues. If such employment is found, workers with disability and their

employers are entitled to the same benefits as in the case of internally redeployed workers. Compensatory benefits are calculated according to the previous wage regardless of the level of unemployment benefit paid in the interim. If the person could not be placed in alternative employment during the legal duration of unemployment benefit payments (of between one and, at most, two years), the worker is entitled to a waiting allowance, which is paid at the level of a regular disability benefit. The worker has to remain available for any placement attempts, and payment is stopped once a suitable occupation is found. This new waiting allowance is not paid by the Labour Fund, but by the pension insurance.

Early evidence suggests that the number of sick workers returning to their previous company has increased, while external redeployment has failed – noting that around two-thirds of all cases going through the process fall in the latter category. In turn, unemployment has increased and there is a great risk that structural unemployment will permanently remain at a higher level. The longer-term effect of the reform is yet to be seen, in terms of both employment integration and benefit applications. Being redeployed within the same enterprise with fewer working hours, while maintaining one's previous income, could make application for a disability benefit even more attractive than in the past. This is why the first element of the reform, the tightening of medical controls, is an important complement to the new procedure. The anticipation of external redeployment into another company and the uncertainty surrounding the entire process, on the other hand, might make it less attractive for workers to go through the hassle of applying for a disability benefit.

For the society and the social security system as a whole, the key question for success of the reform is the extent to which the currently poor outcomes of external redeployment can be improved. The new policy entails a number of permanent additional expenses. These could be more than offset by considerably lower spending on sickness benefits and especially disability benefits, but only if work integration of people with partially-reduced work capacity becomes more frequent.

2.3. Spain: decentralising and concentrating decision powers

Spanish disability policy changed markedly in 1982, when integration of workers with disability in the open labour market became a target for policy. Twenty-five years later, however, the actual implementation of active policies is still lagging far behind and integration in the open labour market remains the exception. On the benefit side, policy implementation was more successful; long-term benefit dependency was reduced and poverty levels have fallen. Both these outcomes are related to the accomplishment of two administrative reforms starting some ten years ago and completed only recently, which changed the disability policy setting considerably.

A. Devolution of responsibilities to the regional level

The decentralisation of responsibilities from the central level to the 17 autonomous communities is perhaps the single most important change in Spanish policy making over the past two decades. After a long period of asymmetric federalism, today all regions have broadly the same responsibilities as regards the delivery of public goods and services. The Spanish Constitution enumerates the powers that may be taken up by the regions, those that are an exclusive competence of the central government, those that may be implemented in tandem and those that may be delegated, in full or in part, to the regions (OECD, 2005a). Many of those tasks that are key for a better labour market integration of people with disability fall into the latter two groups, including labour market policies, social security, and training

programmes for both the unemployed and the working-age population more generally. For those shared or partially-delegated responsibilities to be executed as intended, considerable co-ordination efforts across government levels are needed.

Decentralisation of labour market policies was completed only a few years ago. Most of the powers of the national Public Employment Service (PES) were transferred to the regional headquarters. These regional head offices now manage all employment programmes that are delivered by their local agencies. Apart from payment of unemployment benefits, the responsibilities left to the national PES are to develop and disseminate overall strategies and guidelines to ensure coherent policies across Spain and to distribute funds to the regional offices. Regional strategies and any more specific regulations and measures have to be developed by the regional PES headquarters. Actual policy implementation is thus an exclusive responsibility of the autonomous communities. Presumably, laws are implemented quite differently across regions, but as regional implementation is not monitored systematically, little is known country-wide about the extent to which state laws are enforced.

The decentralisation of employment policy contrasts with the central management of the National Social Security Institute (INSS) (see below). Through the different policy execution levels, indispensable collaboration between these two institutions has become even more difficult. While a special Working Group (with representatives from the regional PES offices) has been established to mediate problems across different PES levels, an institutional interface between the PES and the INSS is lacking. More particularly, the INSS is not responsible for activation measures or vocational rehabilitation and people are not referred to the PES, nor does the PES refer people with health problems to the INSS. This makes the Spanish situation quite different from that in many other countries which are in the process of merging these two institutions.

The decentralisation of responsibilities was accompanied by a reform of financing which aimed to increase the regions' self-sufficiency and fiscal responsibility. However, the devolution of spending and revenue powers remains asymmetric. In 2002, for instance, some 45% of total public expenditure was managed at the sub-national government level, but only about 30% of all government revenues were collected at this level (OECD, 2004a). This funding mismatch is most evident in one area of disability policy: non-contributory disability benefits are financed by the central government but managed at the regional level. Reviewing the invalidity status to determine eligibility for such a benefit is carried out by the health authorities of the autonomous communities (Chapter 3). Theoretically, this is an incentive for the regions to shift beneficiaries with low employment potential from social assistance rolls (which are costly for the regional administration) to non-contributory disability benefits (the costs of which are covered by the central government), although available data do not support this. Similarly, financing structures imply that the fiscal consequences of failure of regional labour market policies are to a large extent borne by the central government.

B. Concentration of benefit matters at one single authority

On the benefit side, recent policy was driven by attempts to reduce the wide use of sickness and disability benefit schemes. With a major organisational reform, back in 1997, all disability benefit matters were transferred to the INSS. Since then, disability is no longer assessed by general practitioners but by a group of experts from the disability assessment team, a newly founded INSS body. This team assesses the person's work ability on the

basis of the available medical files and a special medical assessment by one of the (currently) 400 INSS doctors. Ultimate benefit decisions are taken by benefit administrators in the 52 provincial branches of the INSS, usually following the advice of the national assessment team.

But the responsibility of the INSS goes much further than this. The stricter assessment process, coupled with a reduction in benefit levels and a change in the eligibility criterion for a partial disability benefit, has indeed helped to avoid an increase in beneficiary numbers in times of rapidly declining unemployment. However, it could not stop sickness absences from increasing, although stricter sick leave controls were also enacted in 1997. Today, INSS also has exclusive responsibility for sickness absence controls, and this function is nowadays carried out very rigorously. In 2004, a new sub-department at INSS was established with the sole purpose of better monitoring and reducing absence rates. A new INSS monitoring tool (ATRIUM), with daily updated complete individual sickness absence histories, allows online selection of cases for reviews on the basis of "longer-than-expected" recovery phases (Chapter 3). In addition, in 2005 a general absence control was put in place when the duration of absence was greater than six months.

In order to reduce sickness absence rates more effectively, INSS increasingly operates on the basis of bilateral agreements with autonomous communities, big employers, hospitals and other actors. For instance, recently INSS has signed pilot agreements with three autonomous communities (Extremadura, Castille-La Mancha and Castille-León) to pay special attention to the 14 most frequent sickness absence causes. INSS is setting aside a certain budget to ensure that the regions tackle these pathologies more forcefully. Through those funds, special primary health care is being offered by the regional public health service, with financial rewards for general practitioners putting this programme into operation.

Available data suggest that these efforts are having some impact. The annual rate of growth in total sickness benefit spending, which peaked in the year 2003/2004, has dropped continuously since (spending increased by almost 15% in 2003/2004, but by only 6% in 2006/2007).

2.4. The United Kingdom: rebalancing rights and opportunities

Sickness and disability policy in the United Kingdom has been changing rapidly. In the past decade, the country has made a big step away from what used to be a very passive system mainly designed to pay benefits to people out of work. Change was initiated in the mid-1990s, with new elements on both the benefit system side (incapacity benefit replacing the old invalidity and sickness benefit) and the employment policy side (anti-discrimination legislation replacing the never-enforced employment quota scheme). Since then, the government has initiated a range of policies with good-practice elements of various kinds and ongoing reform will add yet more of these elements.

A. Switching to a more active policy approach

The employment part of the Disability Discrimination Act (DDA) came into force in 1996. The new focus of policy is to enable persons with disability to function fully in the regular labour market. Initially the DDA only applied to employers with 20 or more employees, but it was gradually extended and now covers all companies irrespective of their size. In parallel to this, the New Deal for Disabled People (NDDP) was developed, the

first attempt to provide a national network of Job Brokers to help people with health conditions and disability move from disability benefits into sustained employment. The NDDP was piloted in 1998 and extended nationally as of 2001. By mid-2004, nearly 100 000 people had registered with the entirely voluntary NDDP programme.

Within NDDP, brokers have used a variety of approaches, including unpaid work trials and temporary job-match payments for part-time work. A strong focus was put on individual case management, sometimes with unusually low caseloads of less than 50 jobseekers per caseworker. This tailoring and case-management approach is currently further extended in the course of the *Pathways to Work* reform (see below), through which each claimant is looked after by a specially-trained Incapacity Benefit Personal Adviser. The advisers follow their clients through the whole process and help them find the best possible service and Job Broker. A second key element of the NDDP system is the outcome-based funding of job-brokering services, with service providers receiving basic fees for placements and additional fees for more sustainable job outcomes (Chapter 5).

Merging the Benefits Agency and the Employment Service, starting in 2002, was another step towards a streamlined and more integration-oriented approach. This new agency, Jobcentre Plus, operates on a far more customer-oriented basis and provides a single point of delivery for jobs, benefits advice and support for people of working-age. As a result, the practice of shifting people around – *e.g.* from unemployment to incapacity benefit and *vice versa* – has become less common.

The overall impact of these employment-focused measures is difficult to assess, but available evidence shows that employment rates of people with disability have increased during the past few years. A major impact of the reforms is the change in signal for people with disability willing and able to work. More detailed programme evaluation suggests that of those who participated in the NDDP programme, 35% had moved into work, and that of those who did, the majority has done so within three months of registration with NDDP (Orr *et al.*, 2007). However, these results should be seen in context: no more than around 2% of the eligible population registered for the NDDP programme. Activation spending would therefore have to be increased considerably in the future to make a real difference through this route.

B. Redefining rights and responsibilities

Many people with disability can and wish to work, in the United Kingdom more than elsewhere. With the government offering new, highly individualised and better streamlined support, it becomes more reasonable to reconsider participation requirements for people on disability benefits. Requirements of this kind and work tests have been strengthened considerably in the past 15 years for unemployment benefit recipients. This has contributed to a fall in unemployment but, possibly and plausibly, also the continued increase in disability benefit numbers. The most recent and still ongoing *Pathways to Work* incapacity benefit reform is a first step towards establishing a new balance of rights and responsibilities also for incapacity benefit claimants.

The main feature of *Pathways to Work* at this stage is a series of six monthly and mandatory work-focused interviews starting eight weeks after the benefit claim. These interviews are led by the incapacity benefit adviser in the Jobcentre Plus office and result in a personal action plan.[4] In the course of *Pathways*, a range of programmes can be accessed known as the *Choices* package of interventions to support return to work. Choices

include the existing NDDP programmes but also new instruments such as work-focused Condition Management Programmes which are developed jointly with the local National Health Service. *Pathways* started as a pilot in late-2003 and is currently being rolled out nationwide, a process which will be complete by April 2008.

So far, *Pathways to Work* primarily targets *new* disability benefit customers, and the six interviews are the only mandatory element of the process. Any action taken in response to this work-focused dialogue is still non-compulsory. However, people already receiving a disability benefit can volunteer to go through the *Pathways* process and would have access to the whole range of interventions available through the Choices package. In additional pilots, *Pathways to Work* has been extended, on a mandatory basis, to some existing incapacity benefit customers; in a first stage to people whose benefit claim started in the two years immediately prior to the rollout of *Pathways* and later on including those whose claim started up to six years before as well. For these pilots, only three mandatory interviews are foreseen.

Quantitative evidence on the impact of *Pathways* suggests that for those participating in the pilots, the chances of being in employment 18 months after starting the benefit claim are increased by 7 percentage points (Bewley *et al*., 2007). This confirms earlier evidence from the first *Pathways* cohorts (Adam *et al*., 2006). The main question now is the extent to which the *Pathways* process should be extended by further strengthening the mandatory elements. There is a good chance that forthcoming welfare reform will go one step further by introducing a requirement for most new customers to undertake some form of work-related activity (this is planned to be introduced as resources permit). Yet another question is the extent to which mandatory elements should be introduced for all or some existing recipients as well. Currently, there are no definite plans to migrate existing customers to the new scheme.

C. Improving assessments and work incentives

Making work pay is an important element of the potential success of the new approach. The Disabled Person's Tax Credit, a wage top-up for people with disability in low-paid employment, was introduced in 1999 and merged into the Working Tax Credit in 2002. However, take-up of the disability element of the Working Tax Credit is very low. Without claiming the credit, only an estimated one-third of all incapacity benefit claimants would gain financially from moving into work at 16 hours per week, at the minimum wage (Blackman, 2006). But even one in five of those claiming the credit would not be better off upon starting to work, showing that there is further room for improving work incentives.

Alongside *Pathways to Work*, a new and better-promoted though temporary earnings supplement was introduced for incapacity benefit recipients who move into paid work. This Return-to-Work Credit (RTWC) is available for a maximum of 52 weeks for those who have been receiving benefits for at least 13 weeks and have found a job of no less than 16 hours a week earning no more than GBP 15 000 a year. RTWC has been introduced stepwise since 2003 and currently covers one-third of the country. Early evidence suggests that the take-up of this credit is not large but that workers at least do not seem to return to benefit in large numbers after exhaustion of the entitlement, *i.e.* after one year (Corden and Nice, 2006).

Ongoing reform is likely to change the incentives structure for incapacity benefit recipients more drastically. A comprehensive welfare reform proposal presented in early 2006 has now been passed into law through the Welfare Reform Act 2007 (see also DWP, 2006). It includes a broad range of measures in several areas. In terms of sickness and disability policy, the key proposal is the introduction of a new Employment and Support Allowance, which will replace both incapacity benefit and means-tested Income Support on grounds of disability from 2008 on. The new allowance will consist of three elements: *i*) a basic rate, equal to Jobseekers Allowance; *ii*) a top-up for those fulfilling their activity requirements; and *iii*) a top-up for severely hampered persons who are exempt from activity requirements (these are estimated to account for 10-20% of all customers). The level of these top-ups, which are mutually exclusive, is yet to be determined. Moving from unemployment to disability benefit will be less attractive and engaging in work and work-related activity will pay more than it does today.

A complementary key element of the forthcoming welfare reform is a change in the assessment procedure. The United Kingdom's well-structured Personal Capability Assessment (which was introduced in its current form in 1999) is seen as good practice by many OECD countries. However, it is no longer adequate for the range of issues it ought to address. It is a standardised objective assessment of functional limitations resulting from physical and/or mental health conditions and disability, but it does not measure inability to work. The main features of the new assessment will be a substantially revised assessment of mental health, together with some changes to the assessment of physical conditions, and a new work-focused assessment which will focus on individual's capabilities and the interventions which may help them to return to work.

2.5. The likely impact of recent and ongoing reform

Sickness and disability policy reforms during the past twenty years are essential explanatory factors for the current outcomes in each country. OECD (2003) developed two indices of policy – one on *integration policy* and the other on *compensation policy* – in order to illustrate and compare countries' policy stances and to assess broad trends in policy development (Box 2.2).

According to this policy typology, compared with the OECD average in 2000, Luxembourg had a relatively less developed integration policy, with Australia, Spain and the United Kingdom all being close to the OECD average on this parameter (Figure 2.1, Panel B). Australia, Luxembourg and Spain had a relatively more generous and/or accessible disability benefit system than the average, while the opposite held for the United Kingdom.

For three of the four countries, Australia, Luxembourg and the United Kingdom, Figure 2.1 (Panel A) shows a spectacular policy trend, both before and after the year 2000, as regards the direction and the level of change. Luxembourg and Australia have gone through a rather different sequence of policy transformation. In Australia, employment policy change preceded benefit reform. Integration policy was broadened considerably in the 1985-2000 period, with an estimated 17-point increase on the 50-point integration policy dimension. Compensation policies remained largely unchanged in this fifteen-year period but changed significantly in the past seven years. Luxembourg went through the reverse sequence, with employment policies only being adjusted and expanded after significant changes on the benefit system side. The latter consisted of changes in the implementation of regulations as well as in regulations themselves.

Box 2.2. **Illustration of countries' policy stances and trends**

So many different dimensions of policy matter when assessing the overall stance of a system that it is easy to get swamped in details. This is particularly the case when looking at trends over time. In order to get a reasonable overview of what is happening in policy both over time and across countries, an index of the various policy parameters can be useful.

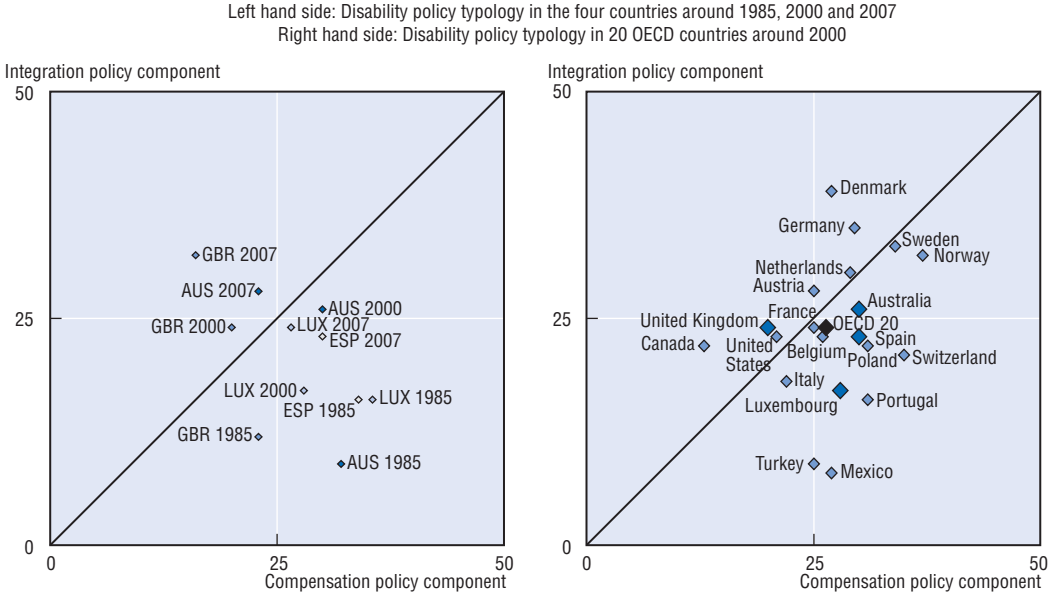
Indices in two dimensions have been developed in OECD (2003). The first is the level of compensation. The index of compensation takes into account ten policy parameters: *i)* coverage of the benefit system; *ii)* the minimum disability level; *iii)* the disability level needed to get a full disability benefit; *iv)* the maximum benefit level at average earnings; *v)* the permanence of benefits; *vi)* the medical assessment; *vii)* the vocational assessment; *viii)* the sickness benefit level; *ix)* the sickness benefit duration; and *x)* the unemployment benefit level and duration in comparison with disability benefits. Each country is ranked on a scale of zero to five on each of these categories. No attempt is made to assess which of these categories is most important; all have equal weight. A country which has a high total score in the compensation dimension is "generous" in supporting people with disability who are not working.

The second dimension is that of integration. Again, ten sub-dimensions are taken into account: *i)* access to different programmes; *ii)* the consistency of the assessment structure; *iii)* employer responsibility; *iv)* supported employment programmes; *v)* subsidised employment programmes; *vi)* the sheltered employment sector; *vii)* vocational rehabilitation programmes; *viii)* the timing of rehabilitation; *ix)* benefit suspension regulations; and *x)* work incentives. As with the compensation dimension, each of these sub-dimensions is rated from zero to five and assigned equal weight. A country which has a higher integration score is one which has a more active policy in ensuring that people with disability can find work. (Details of the points attached to each aspect of policy and the policy stance of 20 OECD countries in 1985 and 2000 can be found in OECD, 2003).

In the United Kingdom and Spain, employment and benefit policy reform went largely hand-in-hand. This is unusual in the OECD context, with reforms in many countries being characterised by a clear strengthening of integration policy elements and a relative lack of reform on the compensation policy dimension (OECD, 2003). All four countries seem to have gone through much more change in benefit programmes in the form of stricter and better-controlled access than the typical OECD country. This should help taking advantage of new employment policies and procedures and to avoid that, in response to restricted access to other benefits (such as unemployment, social assistance or early retirement), disability benefits are used as a last-resort income support. This bolsters the positive work focus which governments have been trying to follow and which is in the interests of the majority of those on the benefit.

Despite recent reforms, however, Luxembourg and Spain still belong to those OECD countries where the compensation policy score exceeds the integration policy score – noting that this typology says little about both the implementation of regulations and the effectiveness of policies. Such a situation was characteristic for almost all OECD countries in 1985, but ever fewer of them today. This suggests that there is room for further policy change in those two countries in particular. The United Kingdom has recently become an

Figure 2.1. **Comparing sickness and disability policies across time and countries**



Source: Secretariat update based on OECD (2003), *Transforming Disability into Ability*, Paris.

opposite example, with a *much* higher integration than compensation score, *i.e.* a strong employment orientation coupled with a stringent benefit system. Such setup bears considerable potential for much better employment outcomes in the future.

Notes

1. In Australia, Disability Business Services provide "supported employment" (referred to as sheltered employment in most other OECD countries) to people with disability in an environment that matches the open labour market as much as possible.
2. However, employment services are constrained or indirectly capped in Australia by the level of the fee per client: providers, who are subject to Star Rating, have incentives to not provide assistance that will have no impact on the client's employment prospects.
3. The Australian government is currently evaluating the effects of the *Welfare to Work* reforms on people with disability, including the question if more of them are assisted into employment, thus reducing their reliance on income support and, thereby, raising their incomes and improving well-being and self confidence. Early analysis indicates that there has been a significant increase in the proportion of people with partial capacity to work leaving income support since requirements to look for part-time work were introduced through the Welfare to Work reforms in July 2006.
4. At the initial *Pathways* interview in the United Kingdom, a screening tool is applied to screen out those who are more likely to leave benefit without additional help. These people do not have to attend further interviews. Similarly, people with more severe health problems are not required to undergo the full assessment and process (Chapter 3). However, all claimants are entitled to participate in the programmes on offer or to have further interviews on a voluntary basis.

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List of Acronyms

ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Services
AETR	Average Effective Tax Rate
ALMP	Active Labour Market Programmes
AMC	Administration of Medical Control (Luxembourg)
AUD	Australian Dollar
AW	Average Worker
CBI	Confederation of British Industry
CEAPAT	Natinal Centre for Personal Autonomy and Technical Aids (Spain)
CMP	Condition Management Programme (UK)
CRS	Commonwealth Rehabilitation Service (Australia)
DB	Disability Benefit
DDA	Disability Discrimination Act (UK)
DEA	Disability Employment Adviser (UK)
DEN	Disability Employment Network (Australia)
DEWR	Department of Employment and Workplace Relations (Australia)
DLA	Disability Living Allowance (UK)
DSP	Disability Support Pension (Australia)
DWP	Department for Work and Pensions (UK)
ECHP	European Community Household Panel
EFILWC	European Foundation for the Improvement of Living and Working Conditions
EPL	Employment Protection Legislation
ESA	Employment and Support Allowance (UK)
EULFS	European Union Labour Force Survey
EUR	Euros
EU-SILC	European Union Statistics on Income and Living Conditions
FaCS	Department of Family and Community Services (Australia; nowadays FaCSIA)
FRS	Family Resources Survey (UK)
GBP	British Pound
GDP	Gross Domestic Product
GP	General Practicioner
HB	Housing Benefit
HILDA	Household, Income and Labour Dynamics in Australia
IB	Incapacity Benefit
IBPA	Incapacity Benefit Personal Adviser (UK)
IGSS	Social Insurance Administration (Luxembourg)
IMSERSO	Institute for Migrations and Social Services (Spain)
INSS	National Social Security Institute (Spain)

IS	Income Support (UK)
JCA	Job Capacity Assessment (Australia)
JN	Job Network (Australia)
JSCI	Job Seekers Classification Instrument (Australia)
MA	Mobility Allowance (Australia)
METR	Marginal Effective Tax Rates
MISSOC	Mutual Information System on Social Protection in the EU Member States
MTAS	Ministry of Employment and Social Affairs (Spain)
NDDP	New Deal for Disabled People (UK)
NRR	Net Replacement Rates
NSA	Newstart Allowance (Australia)
PCA	Personal Capability Assessment (UK)
PES	Public Employment Service
PPP	Purchasing Power Parities
PSP	Personal Support Programme (Australia)
RMG	Guaranteed Minimum Income (Luxembourg)
RTWC	Return-to-Work Credit (UK)
SDA	Severe Disablement Allowance (UK)
SDAC	Survey of Disability, Ageing and Carers (Australia)
SSP	Statuatory Sick Pay (UK)
USD	United States Dollar
VR	Vocational Rehabilitation service (Australia)
WHO	World Health Organisation
WTC	Working Tax Credit (UK)

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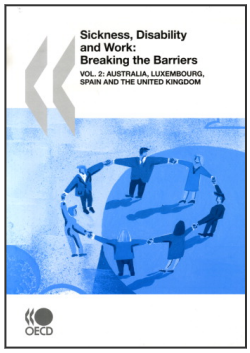

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