



# Social Policy Highlight

02



## Disability benefits: Turning back the rising tide

Since the 1970s, many advanced economies have witnessed a significant increase in the number of people receiving long-term sickness and disability benefits. And this has occurred despite wider observed improvements in public health.

This problem is most clearly seen in the Netherlands where 10 per cent of the working age population receives disability benefits. Although the incidence of the so-called Dutch disease is less severe elsewhere, in many countries the large numbers of disability pensioners have reached levels previously unimagined. And with many OECD countries now spending twice as much on disability as on unemployment, it is little wonder that disability programmes have been placed under the spotlight.

A series of common challenges confront disability programmes:

- An increasing number of disability benefit recipients
- The declining average age of benefit recipients at the onset of disability
- The low number of benefit recipients who achieve rehabilitation for work
- The longer time period for which recipients receive benefits, and
- The evolving nature of assessed disabilities

### The still rising numbers

Although financial sustainability is a key concern, there is no significant correlation between rising numbers of beneficiaries and the overall cost of disability programmes. For instance, in Denmark, Great Britain, and Sweden, programme costs peaked around 1995 and fell thereafter<sup>1</sup>. Significantly, these reductions happened with little or no reduction in the number of claims. In practice, cost cutting has proven easier than reducing caseload numbers.

As shown in a 2006 ISSA study *Sick societies?*, around 3 per cent of the working age population in the United States receives disability benefits, while in Denmark, Great Britain,

#### This issue:

- Tracks recent trends in disability benefits
- Outlines the forces driving the growth in disability benefit claims
- Discusses policy responses to reduce the number of disability benefit claims
- Presents key policy insights for achieving desired policy outcomes

the Netherlands, and Sweden, the figures sit between 7 per cent and 10 per cent (see Graph). Based on these examples, disability benefit caseloads generally remain too high. And this is despite national efforts to reduce recipient numbers. Internationally, the trend is for disability caseloads to continue to rise.

## The driving factors

A number of factors help explain the increase in disability benefit caseloads. One reason is that the average age at which disability benefits are first awarded is now younger than ever.

Another is that few people who receive disability benefits are ever successfully rehabilitated for work<sup>2</sup>. As a result, the average duration for which benefits are paid is growing.

The reasons for claiming have changed too. The OECD notes that a growing number of claims are now made on the basis of mental health problems<sup>3</sup>. In the past, disability benefits were typically awarded to older men with musculoskeletal or cardiovascular health problems.

Overall, current trends show a greater number of younger as well as middle-aged claimants and notably more women.

The changing nature of work is clearly influential. The growth of service industry employment in many countries has created new health risks with resultant new disabilities. Most PC-users, for example, have grown accustomed to nagging muscular aches and pains while stress-related disorders are an ever-growing problem everywhere.

Of course, older workers still make claims too. With the decline of heavy industry in many economies, older workers – often with their employer’s connivance – see disability benefit programmes as an exit route from the labour market. For many, the often less stringent eligibility conditions and higher benefit levels of disability programmes present a preferable alternative to the prospect of unemployment.

That a number of countries have used disability benefit programmes to camouflage unemployment has been no less influential. However, mounting concerns about programme costs as well as ageing-society concerns about emerging labour and skill shortages are forcing a rethink.

## Disabled or incapable of work?

One outcome of demographic ageing will be fewer new entrants to the labour force. And the continuing early exit from work of many older workers looks likely to compound this problem. If productivity levels are to be maintained, as they must, more workers will be needed.

In the event of increasingly acute labour and skill shortages, even those with a reduced working capacity will acquire greater productive value. As a foretaste of what may come, more effort is already being directed at identifying persons with disabilities who are capable of undertaking at least some kind of work. On this basis, the reform of disability programmes is now more firmly on the agenda.

## Reform objectives

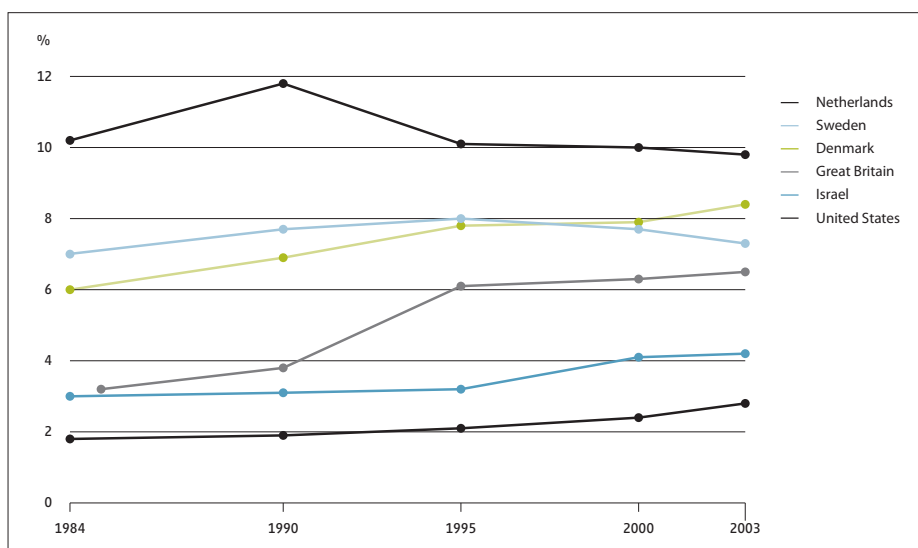
Ideally, reform should seek to better ensure a programme’s financial sustainability while also ensuring adequate benefits to those with reduced or no working capacity. In turn, there is an expectation that reform should also facilitate the active integration of persons with disabilities into society.

## Responses to reduce the numbers

In practice, three sets of interventions can help reduce caseload numbers:

- **Rehabilitation:** To remove or improve the physical or mental condition that renders a person incapable of work. As a preventive measure, it should also prevent the deterioration of certain physical or mental conditions. Rehabilitation may also aim at improving vocational skills.

## Working age population (%) receiving disability benefits in selected countries



Source: Kemp, Sundén, and Bakker Tauritz (2006)

- **Positive and negative incentives:** To motivate individuals to stay in or return to the labour market. On the one hand, there is the use of wage subsidies. On the other hand, tighter eligibility criteria and less generous benefits play their part. Incentives also induce employers, service providers, and administrators to facilitate job retention and labour market reintegration.
- **Special employment programmes:** Special employment programmes – such as supported or sheltered employment – adapt working conditions to the assessed needs of, or create suitable workplaces for, persons with limiting physical or mental conditions.

## Changing attitudes

Attitudes are changing. The use of disability benefits to ease workers out of the labour market is no longer desirable. It is costly for social security and threatens to aggravate emerging labour and skill shortages. Wherever possible, the disabled and long-term sick must be encouraged back to active work. And yes, this must be done on a case-by-case basis. In addition to providing cash benefits, disability benefit programmes should encourage work resumption wherever possible.

## Promoting active and independent living

Securing the sustainability of programmes and better achieving desired social security outcomes requires combined policy interventions. For the ISSA, key amongst these are rehabilitation and prevention measures, the use of proactive and activating policy measures and incentives, and the requirement for special employment measures.

As an integrated element within wider public policy strategies, such measures must contribute to promoting active and independent living. In turn, the emphasis on promoting employment should also impact positively on economic competitiveness.

As such, the pursuit of these developments places disability programmes fully in line with what should be the desired objectives of all social security programmes.

In order to better achieve disability programme objectives, the ISSA supports placing greater emphasis on:

- Promoting early rehabilitation, retraining, and prevention
- Encouraging work retention and work resumption
- Activating employer participation in employee rehabilitation, and
- Assessing the impacts of all incentive measures.

## Measures to shape action

While each country should adapt interventions to national circumstances, analysis of current good practice identifies five issues for consideration<sup>1</sup>:

### 1. Limiting the inflow of potential benefit recipients

Measures to limit the inflow of potential recipients are generally more effective, not least because rehabilitation rates are kept low by obstacles to employment and other disincentives to work resumption.

### 2. Substitution effects must be taken into account

Strategies to restrict entitlement to disability benefits must ensure that other cash benefits do not substitute for disability benefits in the long term. Recipients may claim early retirement, unemployment, or social assistance benefits instead. Thus, interventions that encourage work retention or resumption are vital.

### 3. Follow the rehabilitation-before-benefit approach

Early rehabilitation, retraining, and prevention strategies targeting individuals on long-term sick leave provide the most effective ways to reduce benefit dependency. Disability benefits should not be awarded until such measures are exhausted. Because successful rehabilitation for work may require high-quality, personalised, and ongoing interventions, effective rehabilitation may not automatically translate into lower programme costs.

### 4. Increase employers' responsibility for long-term sick employees

To help reduce the inflow of recipients, measures that make employers responsible for providing sick pay during a predetermined initial period of employee absence and which induce employers to reintegrate employees into the workforce should be considered.

### 5. Re-assess incentives

All measures that use work or financial incentives to reduce caseload numbers can also have unintended effects. All incentives must be re-assessed to ensure desired outcomes are achieved and undesired outcomes avoided.

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## Sources

- <sup>1</sup> Kemp, P. A.; Sundén, A.; Bakker Tauritz, B. eds. 2006. *Sick societies? Trends in disability benefits in post-industrial welfare states*, Geneva, International Social Security Association.
- <sup>2</sup> Bloch, F.S.; Prins, R. eds. 2001. *Who returns to work and why? A six-country study on work incapacity and reintegration*, New Brunswick, Transaction Publishers.
- <sup>3</sup> OECD. 2003. *Transforming disability into ability*, Paris, OECD.

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