

# Modernising and activating measures relating to work incapacity

Discussion Paper

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## Introduction

This discussion paper aims to contextualise and give a summary of the policy debate at the European level related to the problem of how to reduce too early exits from the labour market and reducing the take-up of early exit benefits in the Member States. The problem complex contains aspects as the population ageing in Europe, growing costs and increased burdens on public finances and increasing dependency rates. Worries for long-term sustainability of the social protection systems have been expressed.

The paper aims to describe the essential aspects of the debate concerning how to “redirect” the inflow to incapacity/disability benefit schemes to active labour market measures and normal employment. It sets out to support exploration of the main elements of approaches and frameworks that effectively support longer working lives and lifelong social participation. The paper describes the debates related to how to reduce early exits, inappropriate retirement behaviour and increase the employment rates of this group. Furthermore, it describes policy recommendations, measures and some good practices and lessons learned from the field in selected Member States.

## Part A. The policy debate at the European level

The EU is facing a substantial challenge due to population ageing, the result of low fertility rates and increasing life expectancy. As a consequence of these trends the population is expected to become much older, with a marked change in the age structure of both the overall and working-age populations, and with the labour market increasingly influenced by the activity patterns of the generations above the age of 50.

In a context where people can live on average a further 20 years or more after withdrawing from active life, *increasing participation and delaying the exit from the labour force* will be essential to support economic growth and ease the pressure on social protection systems. It has been argued that the problem is not higher life expectancy and ageing as such, but rather one of inappropriate retirement behaviour and too early exit from the labour market given the demographic context (OECD 2003).

Increasing labour force participation through mobilising the potential labour supply of inactive people has a major role to play in attenuating the negative impact of population ageing on economic growth. Older people aged 55–64 are expected to play a key part in this since they account for close to a third of all inactive people of working age in the EU. Currently over half of 55–64 year olds in the EU are inactive, mainly for reasons of retirement but also poor health or due to personal or family responsibilities, or the perception (right or wrong – but often right, as the evidence quoted at the end of this section suggest) that no work is available. It is important to

note that *the transition into inactivity is essentially a path of no return*. At the same time, older workers are subject to significant difficulties if they lose their job, as evidenced by the relatively low hiring rates and the high incidence of long-term unemployment for this age group. (Employment in Europe 2007).

*Health problems and disabilities* are important reasons for early exits from the labour force. Not surprisingly, the prevalence of disability gradually increases with age: disability prevalence rates in the 50-64 age groups are around 25% in the OECD area, but only 10% in the 20-49 age range. In general, the employment rates of working-age disabled persons are significantly lower compared to non-disabled<sup>1</sup>. This is particularly true for severely disabled people, and also generally for disabled people over age 50 and disabled people with low levels of educational attainment. (OECD 2003).

This is part of the context in which disability protection is currently debated in the EU as well as in the OECD area. In the rich countries, one can observe strong pressures for changes to disability protection, related to concerns for growing costs and the burden on public finances. The pressures have been reinforced by the growing concerns for demographic ageing, increasing dependency rates and the issue of long-term sustainability. Many policy makers therefore, are worried that replacement levels of income benefits may create disincentives to work and thus undermine efforts to promote the entering or return to employment for people with disabilities. There is also a fear that disability-related income transfers can undermine the goal of old age pension reforms to prolong working careers by providing early exit options. Both national governments and supra-national bodies like the OECD and the EU have expressed such concerns. (Hvinden 2009:9).

In this context, it should be noted that the signature and ratification of the United Nations' "Convention on the Rights of Persons with Disabilities" in 2007 is underlining the commitment the Member States and the EU have entered into concerning employment of people with disabilities (Art. 27). It also emphasises a change to a rights based approach.

Moreover, the European Disability Strategy<sup>2</sup> and the Framework Employment Directive adopted in 2000<sup>3</sup> established a general framework for equal treatment in employment and occupation to prevent people in the European Union from being discriminated because of religion, disability, age or sexual orientation. Article 5 of the Directive has created an obligation for all employers to provide reasonable accommodation at work for persons with disabilities.

"Active ageing" is an important component of Lisbon Strategy, which includes the modernisation of social protection systems in the EU. A way to strengthen social cohesion is to increase labour market and social participation, notably through enhanced, continuous investment in education and training, especially targeting the low-skilled, and through the promotion of quality jobs]. High employment rates and long working lives as well as reduction in long-term unemployment are

<sup>1</sup> Over all age groups and countries, the employment rates of *severely* disabled people are only about one-third of those for the general non-disabled population, and for *moderately* disabled people around 70%. In total this gives an average relative employment-population ratio of around 60% (OECD 2003:33).

<sup>2</sup> European Action plan (COM/2003/650); Communication from the European Commission on the situation of disabled people in the enlarged European Union: the European Action plan 2006 – 2007 (COM/2005/604); Communication from the European Commission on the situation of disabled people in the European Union: the European Action Plan 2008-2009 (COM/2007/738). See: <http://ec.europa.eu/social/BlobServlet?docId=1957&langId=en>

<sup>3</sup> Directive 2000/78/EC.

important ways to fight social exclusion, which is also an objective of the Lisbon Strategy. The European Employment Strategy, a key element of the overall Lisbon Strategy for Growth and Jobs, has the ambition to develop and implement comprehensive and effective active-ageing strategies and to address the main barriers affecting the labour market participation of older people. Comprehensive active inclusion strategies<sup>4</sup> have been recognised as major tools to fight poverty and exclusion, and the current crisis has made their implementation all the more urgent. To be successful, it is seen as necessary to remove incentives for early exit from the labour market, to encourage employment of older workers, ensuring better opportunities to work for longer and to design employment policies as a whole in such a way that they create more job opportunities for older workers.

Due to pension reforms and improvements in the labour market situation, the employment rate of 55-64 has increased in recent years, from 36 % in 1997 in EU27 to 44 % in 2006<sup>5</sup>. (However, it still remains below the Lisbon target of 50%). The projected increase in life expectancy - in particular at 60 or 65 - is seen as a key driving force of future demographic pressure on pension systems, which underlines the need to increase employment rates among 55-64 in the coming decades.

Despite the recent increase in the employment rate of 55-64, labour market participation of older people in Europe remains low by international standards, and many workers still exit the labour market at relatively early ages. It has therefore been argued that the challenge of demographic ageing and its impact on the workforce will require a wider implementation of more integrated strategies than have been the case to date. Measures are needed both in the labour market and in the workplace, which aim at enhancing job quality, emphasise the integration of older workers and improve their employability, as well as closing off routes for early exit from the labour market, it has been argued.

Lessons learned from countries performing relatively well in this area, indicate that some key success factors are a holistic approach, a broad social consensus, involvement and commitment of the social partners and other concerned stakeholders. A one-stop shop approach is helpful for employers willing to employ ageing workers with disabilities. The employer should know where to turn to. Such a contact point "should have an overview of all available supportive measures and channel its clients to the appropriate organisations. It should involve all stakeholders to assess its service and be updated concerning legal requirements, funding, support services, etc. The one-stop-shop must be made well known in the business as well as in the community of the persons with disabilities and have an adequate publicity".<sup>6</sup>

EU Member States have been developing various strategic responses to the ageing population and its impact on the labour market. A number have adopted substantial reform programmes to pension and benefit systems, others have strengthened their efforts, while some remain at an early stage of the reform process. In addition to pension reforms, improvements in participation of older workers in lifelong learning, promotion of better health in the workplace, improvements in public employment services, and implementation of stricter legislation banning age discrimination in employment and age awareness campaigns have been among the recent approaches used by a number of Member States.

<sup>4</sup> E.g. Joint Report on Social Protection and Social Inclusion 2009, <http://ec.europa.eu/social/main.jsp?catId=757&langId=en>

<sup>5</sup> Employment in Europe 2007.

<sup>6</sup> Austrian Institute for SME Research 2008.

In the early 1970'ies facing persistently high unemployment, many European countries introduced early retirement schemes, which lowered the employment rates in the age group 55-65. This strategy of reducing activity rates developed at each wave of higher unemployment, in the early 1980s and in the early 1990s. This model of retirement is now questioned. Continental countries have to move from an 'early exit' culture to an 'active ageing policy'. (Gould and Saurama, 2004 cited in Sterdyniak 2007).

Early exit benefits (mainly special early retirement schemes for certain professions, unemployment and disability pensions) tend to be one of the main elements in the path out of the labour market. The take-up of these benefits represents often around 20% of the population aged 55-64. It is argued that by reducing the take-up of various benefits before going on statutory pension can provide a strong contribution to the objective of promoting longer working lives. This is therefore seen as a key step to achieving higher employment rates of those aged 55-59 and thus of older workers as a whole<sup>7</sup>.

One has observed that the recent improvement in the employment situation of those aged 55-64 differs somewhat between groups, revealing slower progress for some groups (men *versus* women, higher educated *versus* lower educated). Worries have been expressed that such slower progress could weaken future adequacy and sustainability of pensions, as future pensions levels will more and more depend on pension rights accrued throughout professional life.

It has therefore been argued that regarding early exits from the labour market one should also aim at focusing on these groups where progress is slower. Most Member States however, are currently engaged in reforms to adapt these schemes and reducing the take-up of early exit benefits. These reforms are focused on the design of unemployment, early retirement benefits and access to disability pensions and rehabilitation.

While recent trends in take up of these benefits are showing a decrease in a number of Member States, in others take up is still increasing. Given the current high levels of take up of these benefits and the significant drop of employment rates from age 55, it is argued that more steps are needed in a number of Member States in order to achieve more systematic reforms of these schemes and reduce significantly the length of the period between the end of the last job and the take-up of a statutory pension. About half of the Member States are to be currently in the process of developing further steps in reforms to further adapt the way these schemes are designed<sup>8</sup>. In the debate it has been stressed that such steps in reform also need to be part of a holistic approach to create labour market opportunities for older workers and less skilled ones as they can be less employable. *Retraining* and updating of skills is therefore seen as a vital part of this strategy, as well as preventing early retirement by strengthening prevention and improving workplace health and safety standards.

In a study of workplace accommodation for people with impairments from 2008<sup>9</sup>, it was observed that "although the majority of the countries rely on employment quotas for persons with disabilities, unemployment of persons with disabilities still is a major issue. These persons also have greater difficulties in obtaining an unlimited work/employment contract". Workplace accommodations for employees with disabilities will undoubtedly also prepare enterprises to better deal also with an ageing workforce and thus contribute to preventing early retirement and

<sup>7</sup> Employment in Europe 2007.

<sup>8</sup> Employment in Europe 2007.

<sup>9</sup> Austrian Institute for SME Research 2008.

create opportunities for jobseekers with needs for workplace accommodations to stay in employment.

The same study identified some *key factors* that seemed to facilitate sustainable integration of persons with disabilities in the open labour market. Important company internal factors are commitment of the management, involvement of the staff, structures enabling clear responsibilities and consultation of experts. Important company external factors are complementary public support, provision of adequate services and expertise, availability of financial support, flexibility of public support measures and adaptable regulations.

Based on the key factors, the study identified some *intervention fields* concerning how national and/or European policies should be improved and better geared towards employers' and employees' needs to foster the idea of reasonable accommodation. The fields were:

- Tailored support services must be available whereas the design of these services should involve the know-how of NGOs and all stakeholders representing the interests of persons with disabilities.
- Flexible funding for reasonable accommodation as well as general funding compensating for possible productivity shortfalls of persons has to be provided.
- Labour market instruments supporting the integration of persons with disabilities in the labour market should aim at minimising the risk of the enterprise and the concerned person (e. g. longer trial periods, combined employment models with the support of NGOs).
- One-stop-shops bundling the know-how concerning all issues with regard to the integration of persons with disabilities and reasonable accommodation and providing an overview of all available supportive measures should be created or further improved.
- Awareness raising measures disseminating examples of good practice, practical information and incentives (financial incentives and additional positive effects for companies) should be launched.

## Recent reforms to prevent early exit from the labour market

Early retirement benefits are a key element in the path out of the labour market as they are taken up often by around 20% of the population aged 55-64<sup>10</sup>. Their adaptation, by reducing the take-up (or its length) of various early exits benefits before they take up a statutory pension can help to promote longer working lives.

It is argued that reforms that address early exit paths from the labour market should be designed along the following lines:

- Restrict eligibility conditions while creating an adequate framework for older workers' continued participation in the labour market, allowing for exceptions in the case of particularly demanding or hazardous jobs;
- Increase incentives to work longer for employees (notably through fiscal rules) and also for employers to hire older workers and not rely on early exit schemes;
- Enhance work opportunities for older workers and disabled workers. Important aspects include improving working conditions (notably by preventing health problems), developing active measures such as training or specific programmes to help re-enter the labour market, and providing reasonable accommodation.

Reforms of special early retirement benefits are taking place in several Member States<sup>11</sup>. Some of the reforms aim in particular at ensuring that employers bear all or at least a significant share of the costs, and at finding an appropriate manner to compensate for particularly demanding or hazardous jobs. In some other Member States, eligibility rules are tightened or schemes closed. An important dimension in the reforms is ameliorating working conditions so that the nature of the job will be less harmful to workers' health.

Let us have a look at some of the reforms that have been implemented by the Member States during the recent years.

*Reforms of unemployment benefits for older workers*<sup>12</sup> have in particular been aiming at reducing the differences between eligibility conditions for older workers and those for the whole active population and at developing active measures in order to enhance labour market opportunities for older workers.

*Reforms of invalidity benefits*<sup>13</sup> have in particular aimed at offering better possibilities to combine benefits and work, retraining, improving adaptation of enterprises, including of workplaces. Also incentives have been strengthened both for employers to employ the people with reduced capacity for work, while incentives for beneficiaries could also be reviewed to reduce barriers to returning to working life. The prevention of invalidity and professional rehabilitation of people with health problems is considered as an important contribution and it is stressed that it has to start from an early age.

<sup>10</sup> *Promoting longer working lives through pension reforms*. Second part. Early exits from the labour market. EC. The Social Protection Committee. February 2008.

<sup>11</sup> AT (2000, 2003, 2007), BE (2008), ES (2007), IE (2007), LV (2008), PT (2007), FI (2005).

<sup>12</sup> BG (2007), CZ (1993), DK (2007), DE (2003), LT (2005), HU (2005), NL (2006), FI (2003), UK (2000).

<sup>13</sup> AT (2000, 2003, 2008), ES (2007), LU (2002), PL (2006), HU (2008), LT (2005, 2006), PT (2007), MT (2007), NL (2005), FI (2004) and UK (2007).

*Reforms of supplementary pension benefits* are taking place in a few Member States to diminish or even stop early take-up of supplementary pension benefits, by tightening eligibility rules and increasing awareness of the consequences of early exit on future benefit levels.<sup>14</sup>

*Reforms of taxation*<sup>15</sup> aim at increasing incentives for employees to postpone or avoid taking early exit benefits as well as increasing incentives for employers to hire older workers. These reforms clearly aim at reducing the take-up of early exit benefits, notably by restricting eligibility conditions, increasing incentives to work longer and enhancing work opportunities for older workers in general and some categories of beneficiaries as well.

About half of Member States have plans for additional steps in reforms related to the early exit schemes from the labour market.<sup>16</sup> In UK for example, there are changes planned to the invalidity benefits regime to increase support for claimants to return to work and in addition to introduce the new Employment and Support Allowance, under which new claimants will need to participate in work-focused interviews and engage in work-related activity. Other countries (like BE) are planning extensive reforms in the sector of vocational rehabilitation stimulating the reintegration into the working life of the disabled. This is meant to supplement the current gradual limitation of early retirement options by increasing the age of access to various schemes.

Similar changes are planned by HU aiming at introducing new incentives to the rehabilitation scheme as well as limiting access to advanced pension by increasing the number of contribution years for eligibility. Other Member States are considering options for further changes to improve the design of early exit schemes, which still can be in the early stages of political debate.

### Issues in the disability policy debate

Disability was for a long time perceived in many countries (especial in Eastern Europe) as a physical or mental quality preventing a person from working rather than reducing his/her work capacity. Attitudes have however changed considerably in the last few years. Several Member States have introduced changes to their disability schemes, making assessment of incapacity to work more objective and broader, incorporating a larger variety of factors to be analysed and in a number of cases focusing on the remaining work capacity, trying to find a matching occupation/work conditions to the person.

As pointed out in the OECD (2003) study, working-age disability policies target a large and *heterogeneous* group. One-third of this group have severe disabilities, and people with congenital disabilities are a small minority. The diversity of this group is at the root of most of the policy challenges that face policy makers attempting to improve the living conditions of disabled people. A universal concept and definition of disability, and common measurement instruments, are not at hand. Definitions of disability vary largely across EU Member States as well as OECD countries and even within one country there may be various definitions of disability, depending on the background of the specific legislation (e. g. social insurance vs. labour market legislation) or on the legislative body (e. g. national vs. regional legislation).<sup>17</sup>

<sup>14</sup> BE (2003) and UK (2010).

<sup>15</sup> These are taking place in BE (2005), FR (2003, 2007), HU (2007), NL (2005), PT (2007) or SE (2007).

<sup>16</sup> *Promoting longer working lives through pension reforms*. Second part. Early exits from the labour market. EC. The Social Protection Committee. February 2008.

<sup>17</sup> Austrian Institute for SME Research 2008.

Depending on which definition one employs, the overall picture of the prevalence of disability will vary. However, there is ample evidence that self-reported disability indicators are a reasonable predictor of a person's objective health status. This seems particularly true for self-assessed disability relating to general (rather than work) limitations. (Benítez-Silva et al., 2000 cited in OECD 2003).

In a study performed by OECD in twenty countries in 2003, on average about 14 per cent of the working population classified themselves as disabled, while the average in countries in the EU was about one percentage point higher – 15 per cent. In the “Northern” European countries (including the Netherlands, Germany and France) and in Portugal, disability prevalence is above this average – in these countries, more than one in six persons in the 20-64 year-old population reports being disabled. In four countries, disability prevalence is lower than the overall average, among them is Spain.<sup>18</sup>As mentioned earlier, the prevalence of disability gradually increases with age: disability prevalence rates in the 50-64 age group are significantly higher than in the 20-49 age range.

OECD (2003, 2006) demonstrate in their studies that developments in sickness and disability benefits are not necessarily related to trends in objective or subjective health indicators but are influenced by policies and social phenomena. In some countries it can be socially less stigmatising to be out of work because of health reasons than unemployment. It can also be observed, that many people with health problems can work, and want to work. Designing policies based on the assumption that they are not able to work might therefore be erroneous.

It is well known that disability programmes may have several functions. In their 2003 study, OECD found that in one-third of the twenty countries they looked at, the disability programmes had an (implicit) early retirement function, with nine out of ten benefit recipients aged 45 and over, and still more than 85% of that age in the inflow. Although they were initially created to provide people incapable of work with a sufficient income, invalidity benefits sometimes became a tool to manage labour market difficulties in the 80s and 90s<sup>19</sup>.

In a cross-country perspective, there is however, again according to OECD, little evidence that high or increasing unemployment leads to high or increasing levels of disability benefit recipiency, while there is some indication that stricter access to disability benefits results in somewhat higher unemployment levels. There is also no evidence on programme interchangeability between early retirement benefits and disability benefits. On the contrary, countries in which the disability scheme is predominantly used by older workers tend to be countries with large numbers on early retirement programmes.

The level of education plays an important role: disability prevalence rates are significantly higher among groups with lower educational attainment, with an OECD average of 19%, compared to 11% among the better educated. The result is related to the fact that this group is often employed in physically more demanding occupations.

A problem is a considerable age profiling in disability benefit programmes. In many countries, disability benefit awards are highly concentrated among people over age 50. This reflects the age pattern of disability prevalence, at least in part.

<sup>18</sup> These figures are based on general population surveys and refer to persons who subjectively identify themselves as disabled, regardless of whether they are officially recognised as disabled.

<sup>19</sup> In the UK for example, the number of incapacity benefits claimants more than trebled between the late 1970s and the mid-1990s as employment in traditional industries declined rapidly.

There also seems to be an overall age bias in integration programmes, indicated by the fact that vocational rehabilitation and training is predominantly offered to people below age 45 (OECD 2003). Meanwhile, complexity of jobs and flexibility requirements are constantly increasing. Persons with disabilities are not always well included in the educational systems and provided with serious learning offers enabling them to build up skills and qualifications necessary to enter the labour market or maintain employment.

Income security is an important issue in the disability policy debate. Disabled people without a job have considerably lower personal financial resources than people without disabilities. While employment is crucial for determining personal income resources, the employment rates of working-age disabled persons are rather low. This is particularly true for disabled people over age 50 and disabled people with low levels of educational attainment.

Disability benefits are the main component of benefit income for working-age people with a disability. Permanent retirement benefits are also an important source of income for a considerable proportion of the working-age disabled population (either early or regular retirement, depending on the country). Unemployment benefits play a much less important role overall, despite relatively high non-employment rates among this group.

Disability benefit *recipiency* rates are high in many EU countries. Nonetheless, the majority of people with disabilities (disabled according to self-assessment) do not report receipt of such benefits (OECD 2003).

Growth in disability benefit recipiency slowed recently. This is explained by reforms affecting benefit access, which have led to a stabilisation or even a decline in annual rates of benefit *inflow* in most countries, in particular since 1995.

#### *In general a low outflow from disability benefits*

Outflow from disability benefits is however *very* low in virtually all the OECD countries, despite considerable cross-country differences in regulations on reviewing entitlements, the availability of partial benefits, work incentives, etc. This is one reason why disability benefit recipiency rates have been rising. The low outflow partly reflects that regulations on reviewing benefit entitlements are not stringently applied and that there is a low take-up of work incentives.

#### *Policy approaches benefit mostly the insiders*

Different employment policy approaches seem to have similar effects. While legislative approaches to employment promotion differ in many respects (rights-based, obligations-based, incentives-based), all approaches tend to benefit people already in employment much more than those who are out of work and looking for a job. Proper sanctions on employers not fulfilling their obligations and adequate instruments to enforce these sanctions are seen as crucial for an effective employment promotion policy.

#### *Rehabilitation*

A problem in recent reforms is how to design good return to work processes or rehabilitate disabled people back into the labour force. A part of the problem is employers' attitudes towards the disabled. Incentives may play a role. In several Member States, various incentives have been offered to employers to employ the people with reduced capacity for work paying part of their salary, offering tax incentives or setting certain quotas to be fulfilled regarding the percent of the disabled from the total of the employed in the company.

Other measures can be offering flexitime regimes and telework, combining partial incapacity to work with partial work regimes, retraining, counselling, internships in enterprises, rebuilding workplaces to take into account special needs of the disabled often financed by the state etc.

There are however also some disincentives for disabled workers who want to combine benefits and work in a rehabilitation process. In some Member States, recipients of disability pension are not allowed to work while getting their pension, though some Member States allow working and receiving benefits at the same time where no restrictions are imposed. In some others there are restrictions regarding the hours worked or wage earned an/or other income received and in some the allowance is reduced in a progressive way, which makes it possible to encourage the resumption of work.

### Recommendations and good practice examples

Based on analysis of trends in disability policy, the OECD has disseminated recommendations, goods models and best practices for how to regulate the influx of new recipients to the disability benefit schemes. Some of the recommendations address the rules for eligibility for benefits, others the services aimed at supporting entry or return to regular employment, and not least, argue for a stronger linking of the two.

Governments are encouraged to introduce or enforce 'work-availability' requirements for receiving benefits, based on sanctioning in cases of non-compliance, and more restrictive conditions concerning the situations or types of impairment that give entitlement to benefit. The OECD expresses concern for the possible disincentive effects of benefit levels or replacement rates and suggests that generous benefits might be reduced. Sometimes OECD however, warns that such reductions may have adverse effects for persons who are 'genuinely unable to work'. Similarly, they have also warned that imposing work-availability through sanctioning for persons with severe disabilities is not feasible. (Hvinden 2009).

In their major study of disability policies in twenty countries from 2003, the OECD concluded that "No single country in this review can be said to have a particularly successful policy for disabled people. Nevertheless, there are differences in outcomes that appear to be related to the policy choices that countries have made". Based on their comprehensive analysis, some important policy conclusions were:

- *Recognise the status of disability independent of the work and income situation*  
The term “disabled” should no longer be equated with “unable to work”. Disability should be recognised as a condition but it should be distinct from eligibility for, and receipt of, benefits, just as it should not automatically be treated as an obstacle to work. The disability status, i.e. the medical condition and the resulting work capacity, should be re-assessed at regular intervals.
- *Design individual work/benefit packages*  
It will not be enough only to look after the financial needs of disabled people through cash benefits as this will leave many excluded from the labour market and sometimes even from society in a broader sense. Each disabled person should be entitled to a “participation package” adapted to individual needs and capacities. This package could contain rehabilitation and vocational training, job search support, work elements from a wide range of forms of employment (regular, part time, subsidised, sheltered) and benefits in cash or in kind.
- *Introduce new obligations for disabled people*  
Benefit receipt should in principle be conditional on participation in employment, vocational rehabilitation and other integration measures (with caveats as above).
- *Involve employers in the process*  
Involving employers is crucial to the successful reintegration of disabled persons. Different approaches exist, ranging from moral suasion and anti-discrimination legislation to compulsory employment quotas. The effectiveness of the measures depends on the willingness of employers to help disabled persons stay in or enter work.
- *Promote early intervention*  
Early intervention can in many cases be the most effective measure against long-term benefit dependence. As soon as a person becomes disabled, a process of tailored vocational intervention should be initiated, where appropriate including, *e.g.* job search, rehabilitation and/or further training.
- *Make cash benefits a flexible policy element*  
The cash part of the work/benefit package needs to reflect the disabled person’s capacity to work, but also needs to take into account whether the person has actually been able to find a job.
- *Reform programme administration*  
A more individual approach will place a wide range of new demands on disability gatekeepers. More time will be required to assist individuals and follow each case. Implementation of a *one-stop approach* will help gatekeepers to manage the full menu of available interventions.
- *Design disability programmes as active programmes*  
Often, disability benefit systems function as early retirement programmes, providing a route for quasi-permanent exit from the labour market. Emphasising activation and the mutual obligations of both society and the disabled person moves disability policy closer to the underlying logic of unemployment programmes, which expect an active contribution and effort from beneficiaries.

Unreformed disability programmes are likely to attract applicants who may find it difficult to comply with the stricter obligations of unemployment schemes. There is a need for a consistent

strategy in disability and unemployment policy that extends the culture of mutual obligations to all labour market programmes.

### Good practice examples and lessons learned from previous Peer Reviews

In the following section we will look into three good practice models that were developed to tackle aspects of the problems discussed in this paper. The models have been discussed in previous Peer Reviews<sup>20</sup> and implemented in Finland, Sweden and Norway.

#### *Finland: Active Ageing Strategies to Strengthen Social Inclusion (2007)*

Finland might be a particularly interesting country to consider for the Spanish Peer Review, because it has succeeded in raising strongly older workers' employment rates despite a relatively high unemployment rate – from 35.5% in 1994 to 54.5% in 2006. This is the most important rise of older workers' employment rates in the EU. The Peer Review of the Finnish ageing programme in 2007 concluded that the programme “could be considered as a success story”.

What were the critical elements of the Finnish model and what were the lessons learned?

For a number of reasons it became clear in the end of the 1990's that the Finnish could not afford to pay any longer for the early retirement schemes. The employment rate of the older workers had to increase. Long standing traditions of negotiations between the social partners facilitated the reforms that were needed. Active ageing programmes were designed aiming at supporting ageing workers in their job and at facilitating the social acceptance of working longer by the mobilisation of social partners and firms and by the improvement of wellbeing at the workplace. These programmes were launched before the following institutional reforms were introduced and seem to have facilitated their implementation. Earnings-related reforms of pension systems were introduced in 2005 and was accepted by the trade unions because they improved the level of pensions in such a way that a longer working life resulted in a higher pension. Other Finnish specificities seem to facilitate recruitment of older workers senior activity: the system of 'last in first out' is generally implemented in collective agreements; wage dispersion is relatively small; seniority wage increase is relatively weak, especially for women (which from a gender perspective can be problematised as a negative development).

Some lessons learned from the Peer Review of the Finnish model were that “The Finnish model cannot simply be taken and implemented in other societies, but most aspects of it are useful. These include the holistic approach, the broad social consensus and the close interaction between the institutions involved”. (Sterdyniak 2007:5).

<sup>20</sup> See <http://www.peer-review-social-inclusion.eu/peer-reviews>

*Sweden: Integrated Services in Rehabilitation: Coordination of Organisation and Financing (2006)*

As in most EU countries, in Sweden the provision of rehabilitation measures is a responsibility of various actors. Main actors are employers, the Social Insurance Agency, the health and medical care services, the social services and the Public Employment Service offices. In addition, decisions relating to the aims and objectives of these various actors are made by different political assemblies. A number of issues are dealt with at national level, while others are decided at regional or local level (Prins 2006). In the 1990s, the Swedish government launched a number of projects aimed at promoting an integrated, multidimensional approach to social inclusion, and thereby offering better services to individuals in need. The policy that was being reviewed allowed for financial coordination on a voluntary basis at local level between social insurance offices, primary health care services, municipal social services, and employment boards. Each agency allocated an equal amount to a pooled budget, administered by an independent Coordination Association. The part of the national government authorities – the employment boards and the social insurance offices – was financed by the Social Insurance Office.

The Peer Review concluded that the model reviewed (the Delta model in Hisingen) was an innovative example of good practice. “Coordinated or integrated service delivery shows to be better equipped to identify and to serve the needs and demands of clients with complex problems, than when stakeholders work isolated, focussing on their (current) competencies and responsibilities (Prins 2006:3).

External evaluations of the model “demonstrated that the financial coordination model manages to create such a common responsibility, and it ensures structure and continuity in activities for clients with multiple problems. It also was found that the model has favourable results in terms of sickness benefit expenditures, social welfare costs, etc. The new organisational and collaborative structures and procedures had increased the knowledge and skills of project participants. A new way of working had been introduced, in which decisions based on a common approach emerged via new communication pathways. This increased professional experience also produced new ideas about ways to meet users and implement rehabilitation or treatment interventions. Also clients indicated that they had experienced the activities as positive. They felt to have been respectfully treated and had been taken seriously” (Prins 2006:9).

However, the model also had weaknesses. It was pointed out that it may be difficult to apply the model in countries with more centralized support and benefit structures. It was also stressed that the role of the employer in the process of rehabilitation or reintegration could be strengthened, even if they were already routinely approached by staff.

But overall, the model seems to be better equipped to identify and to serve the needs and demands of clients with complex problems than when stakeholders work isolated, focussing on their (current) competencies and responsibilities.

*Norway: Developing well-targeted tools for the active inclusion of vulnerable people (2009)*

The Norwegian “Qualification programme” is a new employment and rehabilitation scheme for supporting the integration of people with reduced working capacity into the labour market or labour related activities. It was launched in 2007 as part of the Norwegian “Action plan against poverty”. The target group for the programme is people who are remote from the labour market, who have substantial and complex problems, severely diminished working capacity, dependency

on social assistance benefits and who are trapped, or in danger of getting trapped, in a situation characterised by income poverty. The programme aims to assist participants into employment through a tailor made two-year process under which they receive standardised income support.

The programme has to be seen as a component of the welfare to work approach in Norwegian welfare policies. Social security benefits for persons in working age have since the beginning of the 1990's increasingly been linked to various activity requirements or assessments of eligibility, in order to enhance labour market participation of recipients of "passive support payments". Increasing the labour market participation of vulnerable groups is also a main part of the Government's anti-poverty strategy.

The programme is still in an early phase of implementation and it is therefore still too early to draw any rigorous conclusions regarding long term efficiency and impact. However, the way the programme is addressing the problems of labour activation of vulnerable groups, may be of interest for the Spanish Peer Review. The programme is administered by NAV – the Labour and Welfare Administration which since 2005 became a merger of the labour and national insurance administrations into a new labour and welfare administration, combined with more formal collaboration between this new administration and the municipal social services administration. The new administrative body aims to provide a better coordination of benefits, more effective and work-oriented case work and more user- oriented services and participation. One of the core elements is a NAV office in every municipality, a "one stop shop" for all types of clients who need various types of services. The one stop shop approach seems so far to have certain strengths when it comes to dealing with client groups with complex needs. Like in the Swedish model, financial coordination for example becomes easier in this kind of organisational set up.

Participation in the Qualification programme is voluntary. Participants receive a qualification benefit of approx. EUR 17.000 per year (2/3 of this if they are under 25 years of age) for a maximum of 24 months. In return, the participants are obliged to follow an agreed upon programme that is adapted to individual needs on full time basis (37.5 hrs/week). Each participant will take part in various measures supposed to facilitate a transfer from passive benefit reciprocity to active participation in the labour market.

As mentioned above, the programme is still in an early phase, but evaluations done so far, suggests that the overall approach behind the programme might be an adequate way to design labour activation measures for certain vulnerable target groups remote from the labour market.

## Part B. Some elements of the Spanish policy<sup>21</sup>

In Spain, one distinguishes between *temporary* and *permanent* incapacity benefits. The causes of incapacity may be related to illness or accidents. Illness may or may not be permanent and may or may not influence upon the person's work capacity.

Assessments of incapacity claims are made by doctors on individual case basis.

The management of the incapacity schemes involves two ministries: The Ministry of Health and Social Policy, which is in control of the medical process and the Ministry of Labour and

<sup>21</sup> This section is based on data and information concerning the Spanish policy provided by the host country.

Immigration which takes care of the economic aspects, like payment of benefits, etc. Since two Ministries are involved in the case-handling, there is a need for coordination between the two Ministries in order to prevent abuse and allocate resources in a cost-efficient way.

### **Temporary incapacity**

Temporary incapacity benefits normally have a maximum duration of 12 months, but can be extended by six more months. After a total of 18 months a decision must be made whether the claimant should receive Permanent incapacity benefits or not.

While the claimant receives temporary incapacity benefits, medical assessments are performed to decide whether the claimant's medical leave should be prolonged or one of the following conditions are met:

- The claimant is cured and must return to work.
- The illness has become permanent and the person therefore can claim a Permanent incapacity pension (which can be done at any time before the maximum period).
- The claimant has spent the maximum period of Temporary incapacity and a Permanent incapacity process is initiated.

The benefits of Temporary incapacity are paid by the National Institute of Social Security (Ministry of Labour and Immigration) and medical assessments are carried out by the National Health Service (Ministry of Health).

This division of labour and responsibilities previously caused certain control problems related to the Temporary incapacity processes. In 1995, a so called Disability Assessment Team was established introducing a new regime of medical supervision through the services of the National Institute of Social Security. This team was given the mandate and authority to review the status of work disability in individual cases and to accept or reject medical assessment made by the National Health Service. In this way the assessments of the doctors of the National Health Service could be re-assessed by the Disability Assessment Team and thus allowing for improved control and management of the in-flow processes.

### **Permanent incapacity**

A claim for Permanent incapacity benefits starts with an obligatory "Permanent incapacity dossier", which is a report from the medical services of the National Health Service proposing a pension. This report opens the procedure to verify that all required conditions are met and to calculate the amount of the pension.

The Permanent incapacity can be provided in three different forms depending on the type and degree of work related incapacity:

- Total Permanent Incapacity, which means that the claimant will not be able to work within his or her current profession, but will be able to do another job.

- Absolute Permanent Incapacity: the claimant is not able to do any type of work.
- Severe Invalidity: where a claimant with Absolute Permanent Incapacity also needs additional help and personal assistance.

Even if the procedure opens with the medical report from the National Health Service, doctors from the Disability Assessment Team may amend it if they consider it necessary.

A claimant must meet the following requirements to be granted a Permanent incapacity pension:

- To belong to the Social Security System.
- Prove a minimum period of contribution depending on age:
  - If the claimant is under 31, (s) he must prove contributions equivalent to 1/3 of the time elapsed since (s) he was 16 years and the date for claims on Permanent incapacity.
  - If the claimant has 31 or more years, (s) he must demonstrate contributions equivalent to ¼ of the time elapsed between the achievement of 20 years and the date on which the Permanent Incapacity occurs; in any case the minimum period required is 5 years.

### How the pension is calculated

In general, to obtain the amount of pension, the sum of the contribution bases (corresponding to wage levels) for a period of 98 months (8 years) is divided by 112. The bases of the last two years are taken in nominal terms and the remaining years are updated in line with Consumption Prices Index. There are several exceptions from this rule. The age of the claimant will influence upon the way the pension is calculated as well as any periods of non-contribution (for example due to unemployment). To the base obtained with the above calculation, one applies a certain percentage depending on the number of years of contribution at the moment of the declaration of the Permanent incapacity, plus the remaining years until 65. There is no specific contribution rate to finance incapacity pensions, as the general contribution for all kind of pensions in the Social Security system is made with only one rate (28,3%), which covers the cost of all pensions and economic benefits.

If it is expected upon approval of the pension that there might be changes in the degree of disability recognized in the future, one fixes a point in time where the degree of disability has to be re-assessed. The conclusion of such a re-assessment may be that the disability beneficiary returns to work.

Incapacity pensions that are below a certain level, have a means tested supplement to reach the minimum pension amounts provided. This supplement is financed by the General Budget.

### Exemptions: Accidents at Work and Occupational Diseases

Temporary as well as Permanent incapacity benefits are treated differently from the procedure describe above when the source has been an accident on the job or during transport to/from the job. Benefits resulting from such causes are financed on the basis of contributions from the employers only. To receive pensions based on such causes, there is no need to prove a previous period of minimum contribution. The calculation basis is the actual wage on the day of the

accident. In such situations the calculation basis are not affected by the percentage for the contribution years.

In these pensions, the same degrees of disability are recognized and the same percentages apply as in the cases of common illness. They also have a guarantee of a minimum complement.

The scheme is managed by the so-called Mutual Entities for Accidents at Work, which are employers' associations that are authorized by the Ministry to assist in the management of the risks of occupational accidents. These associations are non-profit.

### **Non contributive incapacity pensions**

People who have not contributed to the pension system may still have a right to incapacity benefit if they are residents in Spain and have been declared disabled and not able to perform any type of work. In such cases, claimants will receive a fixed amount which is financed through the general budget.

## **Part C. Some discussion topics**

1. How can the main inflow paths to disability benefits be handled in such a way that legitimate claimants and those in need are not rejected?
2. How can disability programmes be designed as active programmes conducive to social and labour market participation? How can education opportunities be improved for persons with disabilities, in particular for the low-skilled?
3. How can work conditions for older workers be improved in such a way that they motivate and enable the workers to stay longer in employment?
4. Which additional aspects of prevention beside training, education and accommodation/improvement of working conditions should be taken into consideration in the design of integration measures?
5. How can the social partners be involved in processes of reintegration and active ageing?
6. How can employers be involved in active ageing and in reintegration processes of disabled people in a good way?
7. The rate of outflow from disability benefit programmes is normally very low. How can the outflow be increased in a social legitimate and sustainable way? Are more frequent re-assessments or reviews of work capacity of recipients or a shift towards disability benefits granted only on a more short-term temporary basis ways to do it?
8. In the OECD area one has noted that the increase of beneficiary rates has been particularly strong among women with disabilities in a number of countries and that different kinds of health problems or impairments dominate among female and male beneficiaries. How should disability policies and schemes be designed to meet these differences in a good way?

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