



# The Dutch Cure, or how the Dutch disease was cured

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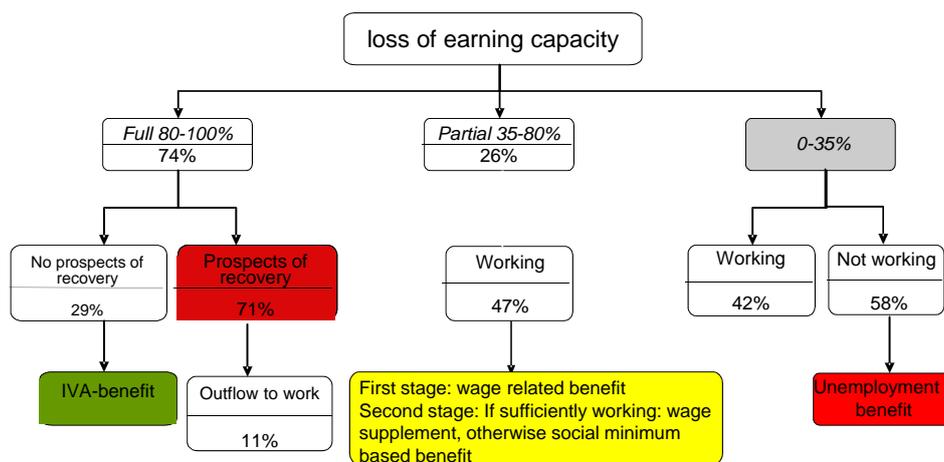
## The Dutch DI scheme for employees



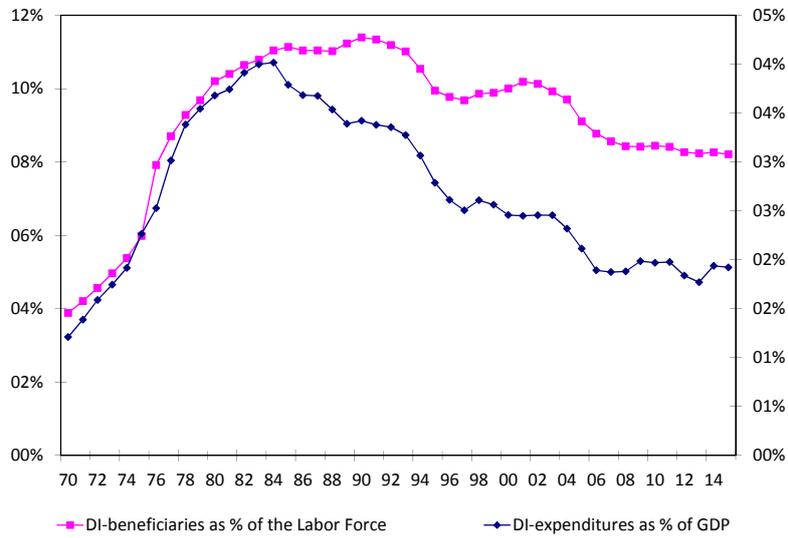
- introduced in 1967
- no distinction between work-related causes and others
- disability is defined as *loss of earning capacity*
- loss equals difference between one's usual pre-disability wage and the wage one still can earn with one's residual functional capacities *in any job*
- fine grid of disability classes depending on loss: until 2006 the minimum loss for entitlement was 15%; since 2006 it is 35% (35-45; 45-55; 55-65; 65-80; 80-100); full disability equals 80 to 100% loss
- since 2006 a distinction is made between:
  - (1) partial disability;
  - (2) full disability with prospects for recovery ('temporary' full)
  - (3) full disability with no prospect for recovery (permanent full)
- since 2004 *stricter eligibility rules* apply: more emphasis on residual functional capacities, and mental disabilities need to be counterchecked
- the first ten years of payment of partial and temporary full DI benefits are financed by *experience-rated premiums*; firms may choose between public or private insurance to cover this liability
- DI benefit entitlement starts after *two years* during which employees are entitled to Sickness Benefits
- DI is administered by a public body (UWV, see BSV)

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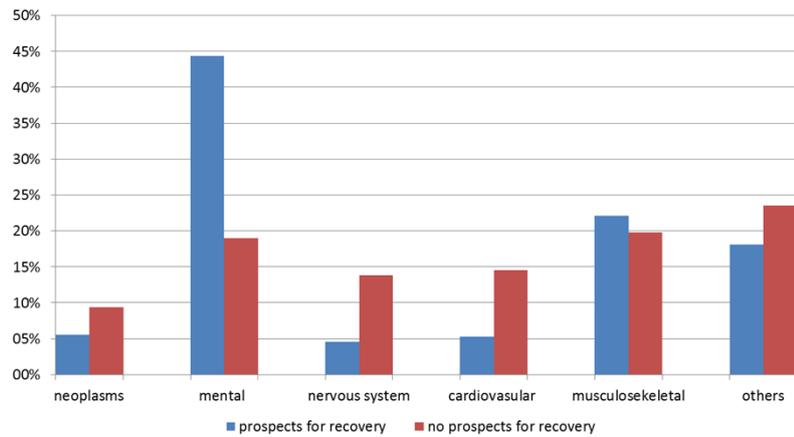
## Structure and outcomes in 2014 of the Dutch DI-system



**DI-beneficiaries as % of the labor force (left axis) and DI-expenditures as % of GDP (right axis), 1971-2015**

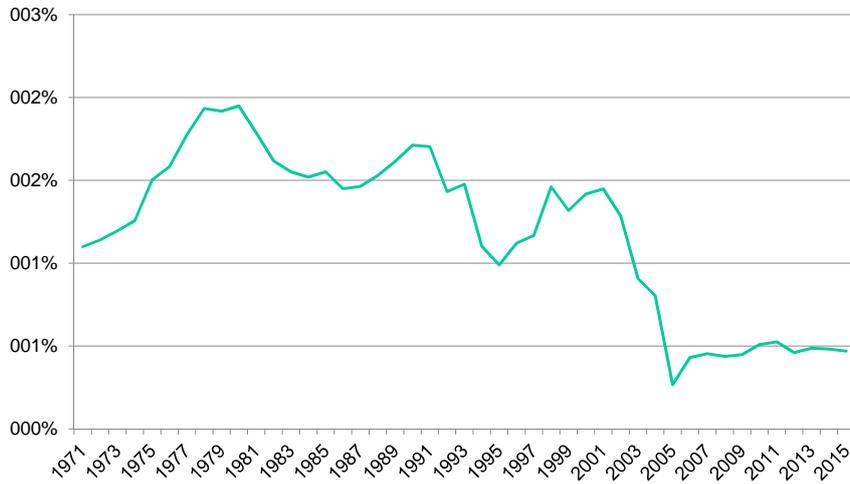


**Diagnoses of current DI beneficiaries in 2014**



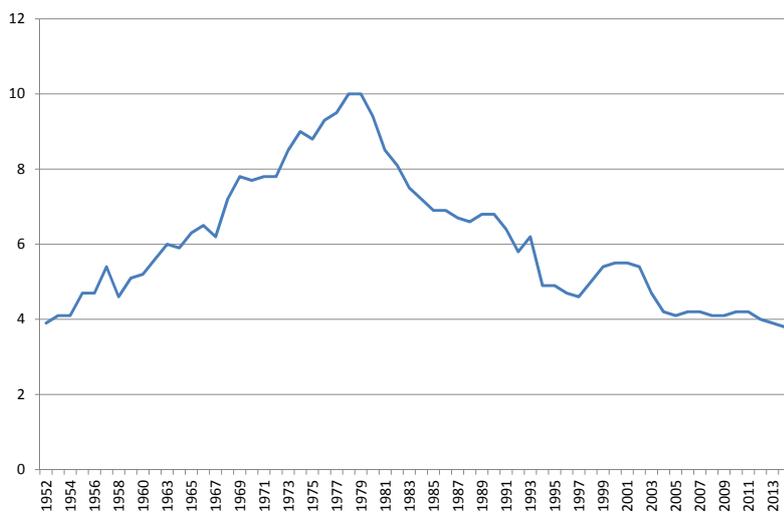
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DI inflow rate, 1971-2015



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sickness absence (sick days as a % of paid days), 1952-2014

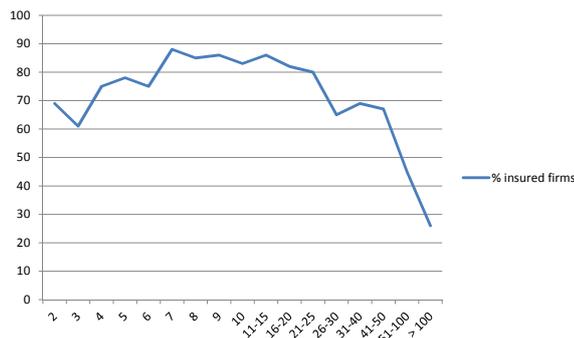


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## Sickness benefits



- every Dutch employer is legally mandated to pay sickness benefits for all of his employees when they report sick
- replacement rate is on average 85% of last wage (with a cap)
- employees are protected by a dismissal ban during 2 years after sick report
- no mandate to re-insure sick pay liabilities but most small firms take out insurance



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## Gatekeeper protocol (2002)



- rights and responsibilities of sick employees and employers are dictated by the so-called Gatekeeper protocol which intends to prevent long-term sickness and DI benefit claims.
- firms are obliged to contract occupational health services to prevent health risks, to check the legitimacy of sickness absence and the potential for recovery, to assess functional capacities and forecast work resumption possibilities, and the vocational interventions needed to resume work.
- the protocol defines the consecutive steps to be taken:
  - (1) after 6 weeks of sickness the company doctor makes a first assessment of medical cause, functional limitations and gives a prognosis regarding work resumption.
  - (2) on the basis of these data employer and employee together draft a vocational rehabilitation plan in which they specify an aim (resumption of current/other job under current/accommodated conditions) and the steps needed to reach that aim. The rehabilitation plan should be ready in the eighth week of sickness.
  - (3) Disability Insurance claims have to be delivered before the 92<sup>nd</sup> week of sickness. Claims are only considered admissible if they are accompanied by a *rehabilitation report*, containing the original rehabilitation plan, and an assessment as to why the plan has not (yet) resulted in work resumption. If the report is delayed, incomplete, or proves that the reintegration efforts were insufficient or inadequate, the claim is not processed and the employer is obliged to continue paying sickness benefits for a *maximum of an extra 12 months*, after the waiting period for disability benefit has elapsed. *It is the threat of this sanction that makes the protocol work.*

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### In short

Under the current Dutch SB-DI system:

- early intervention and work resumption are promoted by strong financial incentives *for firms* to reduce sickness absenteeism and to prevent entry into the DI scheme
- strict entry rules and stringent gatekeeping reduce the number of employees who apply for DI-benefit
- DI entry rate is since 2006 **70%** lower than across the 1985-2004 period, thanks to:
 

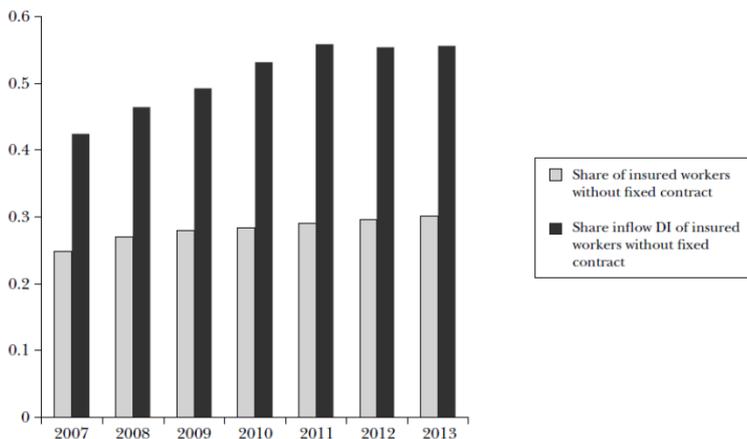
- gatekeeper protocol in SB	-22%
- experience rating in DI	-13%
- stricter eligibility rules in DI	-36%
Total	-70%

Source: Van Sonsbeek & Gradus, Estimating the Effects of Recent Disability Reforms in the Netherlands, 2011

**negative effects:**

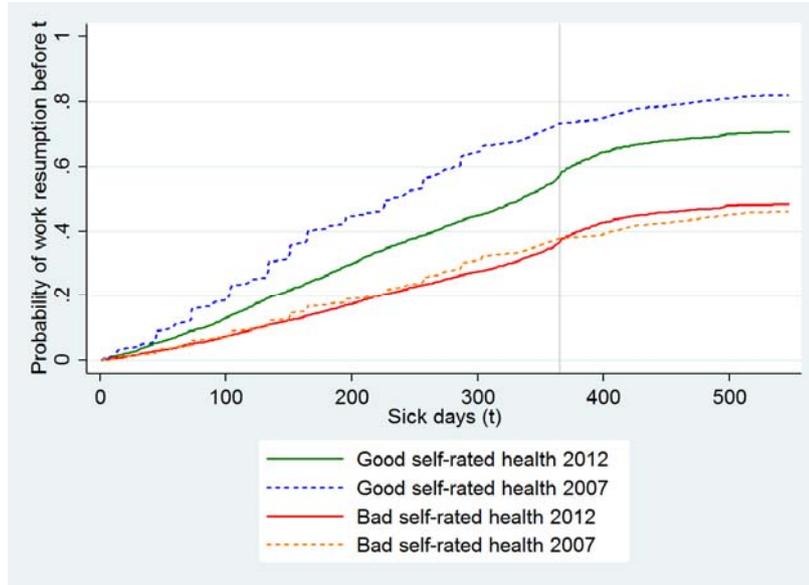
- firms use flexworkers and temporary jobs to escape the financial SB and DI liabilities
- the employment gap of the disabled has increased (from 26% in 1998 to 28% in 2010)

Workers in Flexible and Temporary Jobs Expressed as a Share of the Total Number of Insured and as a Share of DI Inflow (2007–2013)



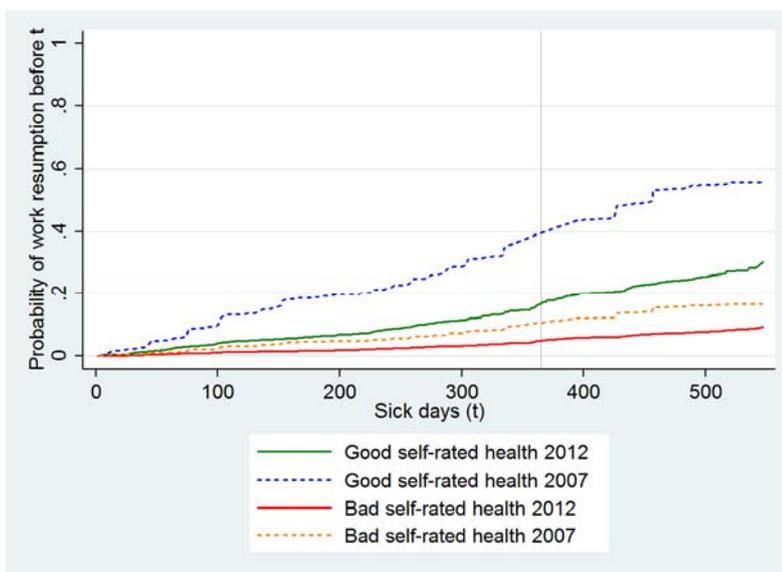
Source: Pierre Koning and Maarten Lindeboom, "The Rise and Fall of Disability Insurance Enrollment in the Netherlands", Journal of Economic Perspectives, 2015, pp. 151-172

### work resumption during sickness by regular employees: 2012 versus 2007



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### work resumption during sickness by flexworkers: 2012 versus 2007



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## Conclusions



- Reintegration of employees during the 2 year sickness period is driven by a combination of financial and administrative incentives.
- These combined incentives induced a 70% drop in DI-inflow rates.
- Thanks to the success of this incentive system the reintegration record of the DI scheme is much poorer.
- Despite this success the Dutch disability beneficiary volume is still much larger than that in Switzerland. This shows how large and lasting the unfunded liabilities are of letting a disability benefit system run out-of-hand.
- The Dutch disability benefit system still acts as a *social valve* for vulnerable groups, such as flexworkers.
- DI systems grow in their “soft edges”.