Learning from Others:

Temporary and Partial Disability Programs in Nine Countries

Todd Honeycutt & Sophie Mitra, Editors

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Program for Disability Research
303 George Street, Suite 405
New Brunswick, NJ 08901
Hhttp://www.disabilityresearch.rutgers.edu

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Abstract

This report presents and compares the disability benefit systems of nine countries with a focus on temporary benefits and partial benefits. The countries under study are Australia, Germany, Great Britain, Japan, the Netherlands, Norway, South Africa, Sweden, and the United States. We analyze the programs in different countries along the following lines: types of benefits offered, administrative structures, methods of financing, benefit amounts, disability definition and assessment, and rehabilitation and reintegration options. In addition, we examine the recent changes in the programs of interest. One common point across the nine countries is a concern regarding the growth of the benefit rolls and of the costs to administer and provide benefits. Persons receiving permanent disability benefits, including those with partial benefits, show low rates of exit due to employment. Several countries have developed new time-limited benefit programs, as an alternative to permanent benefits and as a way to promote employment. In addition, in temporary benefit programs, more financial responsibilities have been shifted from the government to employers and, in some cases, employees. The advantages and challenges of having a temporary or a partial disability benefit program are analyzed. This report is the result of a nine-nation study of disability benefit programs that was funded by the United States Social Security Administration.

Executive Summary

This report, funded by the United States Social Security Administration (SSA), reviews disability benefit systems in nine countries—Australia, Germany, Great Britain, Japan, the Netherlands, Norway, South Africa, Sweden, and the United States. These systems differ greatly in their definitions of disability, in the types of programs offered, in how they fund benefits, and in who is eligible to receive them. The objective of the project was to gain a general understanding of how these programs operate, with a particular focus on how countries deal with temporary and partial benefits—two types of programs that are not part of the United States federal programs—and to review the return to work efforts and implications of such programs.

With the assistance of Rehabilitation International, we identified several experts in each of the countries. These experts were drawn from academia, rehabilitation programs, and the benefit programs themselves. Each answered a written questionnaire that asked a variety of questions on the institutional structures of the disability benefit programs and on programs that relate to or promote employment and reintegration. The completed questionnaires, plus additional information from the available literature and in-depth discussions with our experts, formed the basis of the country-specific chapters found in this report. Using experts from the countries of interest did not remove the challenges of cross-national analysis: language and definition issues, differing socio-economic environments, and disparities in data availability and measures. The challenges of cross-national comparisons is salient in the field of disability given that there are stark differences in the way disabilities are perceived and reported across countries.

The first chapter of this report gives an overview of the research, including some macro-level background on disability programs in each of the nine countries, and details of our overall

findings. Chapter two describes aspects of the temporary disability benefit programs of the involved countries, while chapter three covers partial disability benefit programs. Chapters four through twelve focus on the programs of specific countries. Each chapter covers several key features of the disability benefit programs, including:

- types of benefits
- administrative issues
- methods of financing
- benefit amounts
- benefit utilization
- disability definitions and assessment
- rehabilitation and reintegration options
- recent changes in the programs.

Two tables at the end of this executive summary list the primary short-term and long-term disability programs for each country, listing the mode of financing, contributions needed, amount, duration, disability definition (for long-term disability), and the amount of payments. We briefly give below the key findings of this report.

1. More countries are offering time-limited programs as a component of or replacement for long-term benefits. Time-limited programs are limited in duration, serve as either a replacement or alternative to long-term programs, and are available only after short-term benefits have been exhausted. Some time-limited programs specifically target young adults or persons with rehabilitation potential. Germany, Norway, and Sweden all have time-limited programs as a replacement to permanent benefits. Germany has taken the strongest approach, with all German permanent disability beneficiaries except the most severely disabled restricted to a time limited benefit that may last up to three years. At the end of the benefit period, beneficiaries must reapply. Time-limited benefits may be a promising opportunity to improve the reintegration record of disability benefit programs, as persons who receive the benefit are not guaranteed life-

time benefits. In addition, some programs have a rehabilitation component to promote reintegration.

2. In some short-term programs, financial and other responsibilities are shifting from the government to employers. To stop rising beneficiary rolls and program expenses, governments are mandating that employers pay for an interim period between the onset of an illness or condition and the time when short-term benefits begin. In the Netherlands and Great Britain, employers are required to administer and fund their short-term programs. In the Netherlands, this responsibility also includes an increased focus on reintegration, including requiring rehabilitation plans from employers after employees have been on short-term benefits for a certain period of time.

3. While having a partial disability benefit program eliminates the need for making an "all or nothing" disability decision, the disability determination process becomes more difficult with partial benefits. Who qualifies for a disability benefit is a difficult and complex decision, and countries have responded to this complexity with varying definitions, ranging from impairment-based tables in Australia and Japan to wage-loss assessments in the Netherlands. Over the past decade, we find that many countries have altered or shifted their disability definitions and begun to evaluate a person's ability to work in any (rather than simply one's own) occupation.

4. Partial disability beneficiaries are more likely to work than full disability beneficiaries, and countries with partial programs have higher rates of employment among persons with disabilities. Across the countries that we examined, a large portion of persons receiving disability benefits do not work; however, persons with partial benefits are more likely to be employed than persons with full benefits. Also, the employment rate for persons with

disability is higher overall in those countries with partial benefits. This may reflect factors other than disability benefit policy, such as the provision of employment supports.

5. There are low rates of exit due to employment for all permanent disability benefit programs. Once persons become permanent disability beneficiaries, most remain on the rolls until death or transfer to another program. This is true no matter the country, size of benefit, the availability of a partial benefit, or the offer of rehabilitation services.

6. Working tax credits may be a valid alternative to disability benefits in some cases. In Great Britain, low-income and self-employed workers with disabilities may qualify for a tax credit. This tax credit is expected to reduce the incentive for enrolling in the permanent disability program and improve return to work rates for disability programs.

With a project of this scope, the information contained in this study asks more questions than it answers. There are several research projects that could be valuable next steps in expanding the knowledge of how disability benefit programs operate:

- The macro level data background presented in Chapter 1 suggests that having different types of benefit programs for persons with disabilities (e.g., sickness, time-limited, partial, full) may be associated with a larger disability benefit system and a higher employment rate for persons with disabilities relative to persons without disabilities. It may be because, when it comes to return to work, the provision of different types of benefits allows the government to deal more effectively with the heterogeneous needs of persons with disabilities. Countries with different types of disability benefits may also have other legislative or institutional features that promote return to work that were not covered in this study (e.g., employment quotas, anti-discrimination laws). This question could be the subject of further research

through a macro-level analysis of the determinants of employment rates of persons with disabilities relative to persons without disabilities in a large number of countries. It was not possible to conduct such macro analysis with only nine participating countries in this study.

- Disability benefit systems differ significantly in their approaches to reintegration, rehabilitation, disability management, and access to health services. An expanded cross-country comparison of the rehabilitation programs of disability benefit systems could identify emerging approaches and assess the efficacy of different techniques.
- Several countries have recently instituted programs as alternatives to permanent disability benefits. Following these programs as they are implemented would seem to be especially important. Two programs in particular should be watched carefully: Germany's time-limited benefit and its experience as it goes through the first wave of its reapplication process, and Great Britain's working tax credit with a disability component.
- This report has set the institutional framework of temporary and partial disability programs in nine countries. It could be followed by a country case study of the labor market implications and return to work experiences of the disability benefit programs at a micro-level. For instance, subject to data availability, evaluating the reintegration effectiveness of a youth-oriented time-limited program would offer an ideal opportunity for in-depth analysis. Another example of such a study would deal with the types of jobs that people with partial disability benefits have. This could be obtained in a follow-up study in one of the relevant countries. A household survey

providing data on benefit receipt and labor force participation (work hours, wages, occupation, industry, part-time/full-time) would be needed to undertake such a study.

In describing the various programs in each of the countries in our study, the Learning from Others final report reviews the many solutions that countries have tried to promote return to work among persons with disabilities. We hope that this report offers insight and generates discussions as to how to improve existing disability benefit programs or begin alternative ones.

Table 1: Primary Short-Term Disability Programs, by Country

Country	Program Name	Type of Program	Financing	Contribution Record	Benefit Calculation	Maximum Duration
Australia	Sickness Allowance	Sickness	General Revenue	None	Maximum amount of AU$385 biweekly (Single, no children)	4 years
	Youth Allowance	Time-limited	General Revenue	None	Dependent on age and whether or not living with parents	Age dependent
Germany	Short Term Sickness	Sickness	Employee/ employer contributions	None	Full salary for the first 6 weeks, then 70% of the person's gross earnings and no more than 90% of the after tax earnings	6 weeks paid by the employer and then up to 78 weeks paid by the state health insurance funds
	Invalidity Pension	Time-limited	Employee/ employer contributions	Contribution for 3 of the previous 5 years	Depends on the number of years the insured person has contributed to the statutory pension insurance funds, and the total income earned until the occurrence of incapacity	3 years
Great Britain	Statutory Sick Pay	Sickness	Employer	None	64.35 GBP per week	28 weeks
Japan	Sickness and Injury	Sickness	Employee/ Employer/ Government	Must be actively enrolled in health care plan	60% of average wages	18 months
Netherlands	Sickness Benefit Act	Sickness	Payroll tax	Minimum yearly earnings for contribution purposes is 13,159 EUR in 2001; maximum is 38,117	Sick pay replaces 70% of gross wages up to a maximum of 160 Euros daily	1 year (2 years starting 1/1/04)

Table 1: Primary Short-Term Disability Programs, by Country (cont.)

Country	Program Name	Type of Program	Financing	Contribution Record	Benefit Calculation	Maximum Duration
Norway	Daily cash sickness benefits	Sickness	Payroll tax	Working at least 14 days and earnings exceeding 1/2 of base amount (which was NOK 56,861 in 2003)	Full benefit (100% of pre-illness earnings) up to 6 times "basic" amount; with partial benefit payable for 20% disability rating	1 year
	Daily Cash Medical Rehabilitation	Time-limited	Payroll tax	Three years of coverage (same as traditional pension)	2/3 of earned income up to 6 times the basic amount	1 year
	Daily Cash Vocational Rehabilitation	Time-limited	Payroll tax	Three years of coverage (same as traditional pension)	2/3 of earned income up to 6 times the basic amount	1 year
	Time-Limited Disability Benefit	Time-limited	Payroll tax	Three years of coverage (same as traditional pension)	Daily cash benefit set at 2/3 of pre-disability earnings or average of last three years subject to minimum and maximum thresholds	Payable for 1 to 4 years
South Africa	Temporary Disability Grant	Sickness	General Revenue	None	R700 per month	12 months
Sweden	Sickness Program	Sickness	Payroll tax	Must have worked for an employer for 14 days	77.6% of prior salary; partial benefits available at 75%, 50%, & 25%	None
	Guaranteed and Income Related Activity Compensation	Time-limited	Payroll tax	Pension contributions (none for Income Related program)	Graduated rate based on age	3 years
	Guaranteed Sickness Compensation	Time-limited component of permanent program	Payroll tax	Must be pension eligible	Full Benefit = 2.4 x Price Base Amount; dependent on age and residency	None
	Medical/Vocational Rehabilitation Cash Allowance	Time-limited	Payroll tax	Pension contributions	80% of average income	
United States	No national programs					

Table 2: Primary Long-Term Disability Programs, by Country

Country	Program Name	Financing	Contribution Record	Disability Definition	Length of Time of Condition	Levels of Disability	Benefit Calculation
Australia	Disability Support Pension	General revenue	None	1) Permanently blind or 2) physical, psychological, or psychiatric impairment causing functional incapacity that has been fully treated and be either unable to work more than 30 hours per week or be participating in supported wage system	Expected to last at least 2 years	No specific levels of partial/total disability	Flat rate of AU$452.80/ bi-weekly; reduced by income/ asset amounts & by presence of spouse
Germany	Invalidity Pension	Employee/ employer contributions	Contribution for 3 of the previous 5 years	Reduced capacity to earn a living	N/A	Full (able to work less than 3 hours per day) and partial (able to work 3 to 6 hours a day)	Depends on the number of years the insured person has contributed to the statutory pension insurance funds, and the total income earned until the occurrence of incapacity
	Social Assistance	Local and federal taxes	None	Ability to be integrated into society is reduced due to physical, mental or psychological conditions.	N/A	No specific levels of partial/total disability, but different levels of needs in relation to disability	Flat rate of EUR 292
Great Britain	Disability Living Allowance	General revenue	None	For persons with difficulties getting around (mobility component) and for persons with care or supervision needs (care component)	N/A	For the care component, 3 levels. For the mobility component, 2 levels	Mobility and/or care weekly benefits
	Incapacity Benefit	General tax revenue and national insurance contributions by employees and employers	Yes	Persons whose ability to perform physical and mental activities is substantially reduced to a point where they should not be required to seek work as a condition to receive benefits, rather than the point at which works becomes impossible	N/A	N/A	Paid at three rates: lower rate short term, higher rate short term and long term
	Income Support	General revenue	None	Persons who are incapable of work because of illness or disability	N/A	N/A	Benefit amount depends on a person's needs and on other income and capital; premiums help with the extra costs of age, children or disability

Table 2: Primary Long-Term Disability Programs, by Country (cont.)

Country	Program Name	Financing	Contribution Record	Disability Definition	Length of Time of Condition	Levels of Disability	Benefit Calculation
Japan	Basic/ National Pension	Enrollee monthly premium (¥13,300); government pays for 1/3 of benefits plus administrative costs	Must be pension eligible	Meets list of qualifying conditions for First or Second Grade Disability	N/A	Grades 1 & 2	Grade 1 Disability - Flat rate of ¥83,025 monthly (fully insured rate); Grade 2 Disability - Flat rate of ¥67,017 monthly
	Employees' Pension	Premium for Basic Pension plus payroll tax of 8.675% by both employer and employee; government pays only administrative costs	Must be pension eligible	Meets list of qualifying conditions for First, Second, or Third Grade Disability	N/A	Grades 1, 2, & 3	Grade 1: Basic Pension amount + 120% of calculated pension; Grade 2: Basic Pension + 100% of calculated pension; Grade 3: 80% of calculated pension
Netherlands	WAO - Disablement Benefits Act	Employer and Employee Payroll Tax; the former has a variable-rate contribution (average of .85%) as it is experience-rated; employee contribution is 17.9% of income for old-age pension; 8.8% for the self-employed disability pension; earnings ceiling is 159 Euros daily in 2001	As part of the reforms of 1994, the amount and entitlement period of the earnings-related disability benefit is now dependent on age to stimulate a contribution years requirement	Loss of over 80% of earning capacity in current occupation for a full pension; pension is payable irrespective of the cause of the impairment; an inability to perform less than three functions of any job in the national economy that matches the person's remaining capacities	Must have lasted at least 12 months (24 months starting 1/1/04)	There are seven: 15-25%; 26-35%; 36-45%; 46-55%; 56-65%; 66-80%; above 80% is regarded as totally disabled	Pension depends on age at disability onset and earnings; up to 70% of before-tax earnings (with an upper-limit of earnings of 43,770 Euros in 2004)
Norway	National Insurance Scheme Disability Pension	Payroll tax of 14% for employers and 7.8% of income for employees with pensionable income exceeding $2,475 annually	Must have three years of coverage in order to receive the minimum benefit; full benefit requires 40 years of residential "coverage"	1) Diminished work capacity of at least 50% due to illness, injury or congenital condition and 2) an inability to perform any job in the national economy; reduction in functional capacity is evaluated	Generally, 1 year, after sick pay is statutorily terminated	At least 50%, with intervals of 5% all the way up to 100%	Basic Pension depends on periods of residence and is independent of earnings; supplementary pension is based on earnings up to a maximum benefit and pension points credited from the age of 17
South Africa	Permanent Disability Grant	General revenue	None	Unable to work to support self because of disability	Greater than 1 year	100% only	R700 per month for all grantees

Table 2: Primary Long-Term Disability Programs, by Country (cont.)

Country	Program Name	Financing	Contribution Record	Disability Definition	Length of Time of Condition	Levels of Disability	Benefit Calculation
Sweden	Guaranteed Sickness Compensation	Payroll tax	Must be pension eligible	Unable to make a living through work, or have work capacity reduced by at least 25%	Generally longer than 1 year	25%, 50%, 75%, Full	Full Benefit = 2.4 x Price Base Amount. Reduced by 1/40 for every year under 40 scored by the formula (number of years residency + number years until you turn 65)
	Income Related Sickness Compensation	General revenue	None	Unable to make a living through work, or have work capacity reduced by at least 25%	Generally longer than 1 year	25%, 50%, 75%, Full	Full Benefit = 64% of average income used to qualify
United States	Social Security Disability Insurance	Payroll Tax	Must be pension eligible	Unable to work and earn at the Substantial Gainful Activity Level as set by law	Must be longer than 1 year	Full	Benefit is based on contribution record
	Supplemental Security Income	General revenue	None	Unable to work and earn at the Substantial Gainful Activity Level as set by law	Must be longer than 1 year	Full	Benefit is set by law, USD564 per month for individual, USD 846 per month for couple[1]

[1] States may add to this benefit via a supplement administered either by the SSA or by the states. Currently, all states and territories except Arkansas, Georgia, Kansas, Mississippi, Northern Mariana Islands, Tennessee, and West Virginia add a supplement to these benefits.

Chapter 1

Introduction and Overview

Sophie Mitra

Summary: This chapter provides an introduction and overview of this study. It first outlines the objectives of the study. The primary objective of this study is to understand participating countries' different temporary and partial disability programs, in particular, how each partial or temporary program is designed and fits in with the overall disability benefit system. Our concern lies in institutional conditions and how they vary across countries. The secondary objective of this study is to attempt to determine if there are any policy packages that have proven successful at promoting the labor force participation of persons with disabilities or that have started to show signs of success in recent reforms. The chapter then explains the terminology used in the report and presents some macro-level background data on participating countries' disability prevalence and benefit programs and on the employment situations for persons with and without disabilities. All countries in the study have benefits for those who have full and permanent disabilities, but differ in the types of benefits they provide for partial or temporary disabilities or both. The chapter also includes a summary and analysis of the main findings of the study. In the analysis, the advantages and disadvantages of temporary and partial disability programs are discussed. In particular, time-limited benefits appear to have the potential to improve the return to work record of disability beneficiaries. Great Britain's working tax credit with a disability component is given particular attention as an alternative to a partial disability program. This tax credit is expected to reduce the incentive for enrolling in disability benefit programs and improve return to work rates for disability programs. This chapter ends with an analysis of Japan since, among the countries under review, Japan stands out in different ways with a small disability pension program and a disability definition that does not link disability and work.

Governments typically have three goals with respect to their disability programs: provide economic security by protecting the living standards of persons with disabilities, encourage work among persons with disabilities, and keep government costs low. The inconsistency of these goals is often noted in the literature. For instance, the goal of providing income security may create disincentives to work and therefore may be in tension with the objective of promoting the participation of persons with disabilities in economic and social life. Disability programs can be designed to achieve one or more of these objectives. This report deals with how the employment

objective is attained through temporary and partial disability programs in nine countries. Of course, consideration is also given to the cost implications of these programs. However, the extent to which temporary and partial benefit programs achieve the economic security objective is beyond the scope of this study.

This report provides a comparative analysis of disability policies in nine countries, with a particular focus on temporary and partial benefit programs. Partial and temporary disability programs are targeted at two groups: first, persons with a partial disability, i.e. persons who are capable of work but are limited in the amount or kind of work they can do; second, people with a temporary disability, i.e. a disability that prevents them from working for a limited time period. The participating countries are Australia, Germany, Great Britain, Japan, the Netherlands, Norway, South Africa, Sweden and the United States.

Objectives and Structure of the Study

The literature on cross-country disability policy analysis is extensive. Since the 1980s, international disability policy research has reviewed and analyzed disability policy challenges and reforms taking place in a variety of countries[2]. OECD (Organization of Economic Cooperation and Development)'s recent study, *Transforming Disability into Ability,* is a seminal contribution to the field and a testimony of the importance of comparing disability policies across borders.

In the context of growing public expenditures and numbers of beneficiaries for disability programs in a large number of countries worldwide, temporary and partial benefit programs may present some advantages compared to permanent disability programs, in that the former may bring income support while providing at the same time strong incentives for persons to stay or

[2] e.g., Haveman, Halberstadt and Burkhauser (1984), Berkowitz and Dean (1989), Aarts, Burkhauser and de Jong (1996, 1998), Fultz and Ruck (2002), Marin (2003), OECD (2003), Marin, Prinz and Queissier (2004).

return to the labor force. In addition, having the option of partial or temporary benefits may well make the disability determination process easier. Instead of an "all or nothing" decision as in full and permanent benefits, there is the opportunity for a type of compromise where the applicant is awarded a partial or a temporary benefit. On the other hand, it substitutes one difficult decision with another. If there is a program for partial benefits in place, it becomes necessary now to fix the percentage of disability, and that may prove to be difficult.

Finally, partial and temporary benefit programs may prove to be more supportive of "independent living outcomes". Partial benefit programs recognize the continuum between dependence and independence, rather than forcing a benefit system to label individuals as 100% or 0% disabled, while temporary benefit programs encourage persons to achieve independence after a period of support.

In this context, the primary objective of this study is to understand participating countries' different temporary and partial disability programs. In particular, it is essential to analyze how each partial or temporary program is designed and fits in with the overall disability benefit system. At the same time, it is important to understand how each temporary and partial program is implemented with regard to the disability determination system, the generosity of the benefits, and return to work incentives and services. Our concern lies in institutional conditions and how they vary across countries.

The secondary objective of this study is to attempt to determine if there are any policy packages that have proven successful at promoting the labor force participation of persons with disabilities or that have started to show signs of success in recent reforms. Our main focus is on the overall disability system and the role and design of the temporary and partial programs within this system, in particular, the linkages between temporary, partial and permanent

programs and on how such linkages may encourage return to work. Evaluating and singling out the effect of specific policy measures is beyond the scope of this study: this would require the conduct of micro-level analyses of a variety of individual, labor market and programmatic variables for each country.

These two objectives were mainly achieved through the analysis of data on country programs that was collected from technical representatives in each participating country through structured questionnaires.

The rest of this chapter provides some macro-level background data on participating countries and a summary and analysis of the main findings of this study. Temporary and partial programs in the nine countries will be described in chapters two and three. Chapters four to thirteen of this report are presentations of each participating country's disability programs, with a focus on temporary and partial programs.

Macro-level Background on Participating Countries

Below we provide a framework for our analysis of temporary and partial benefit program in the participating countries. We provide an overall picture of the countries disability programs and employment situations for persons with disabilities. Each country's disability policy package is multi-dimensional and it is difficult to characterize each of them. To make our analysis manageable, we will not cover programs targeted at specific populations such as persons injured on the job and in road accidents, veterans and government employees. We concentrate on programs that pay disability benefits to the insured population and to the needy, with an emphasis on temporary and partial programs.

Before proceeding, it is useful to clarify the terminology that we use in this report, as we employ terms that can be used to mean different things. We will refer to two types of programs that provide benefits for a limited period of time: sickness benefits and time-limited benefits. Sickness programs replace lost earnings due to a short-term sickness or disability. For the most part, sickness benefits are mandated and administered by governments, but they may be administered by quasi-governmental agencies. Time-limited programs are different from sickness benefits in that they are administered by the government or under its direct supervision. The "temporary program" term will be used as an umbrella term for both sickness and time-limited programs.

Table 1: Temporary, Partial and Permanent Disability Programs in the Nine Countries

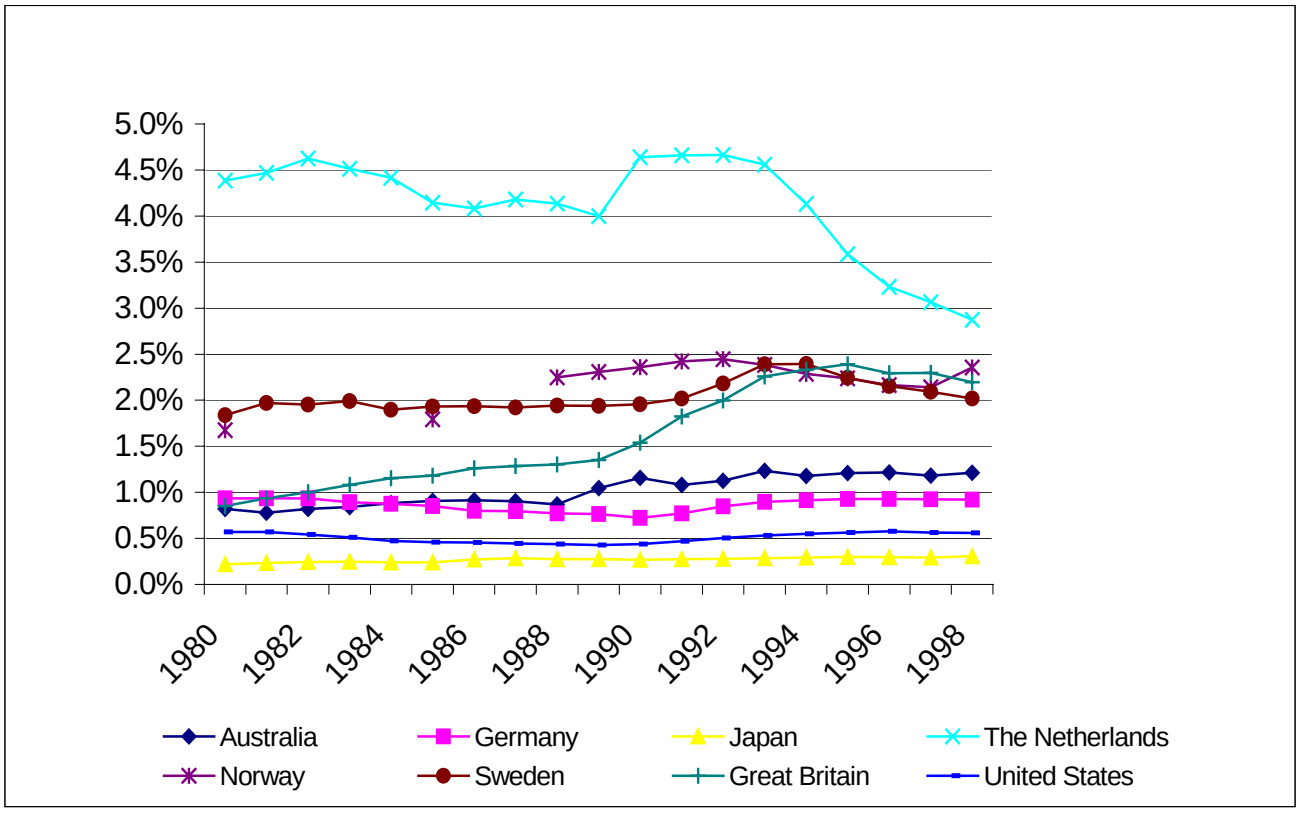
Country	Sickness	Time-Limited	Permanent-Partial	Permanent-Full
Australia	yes	yes	no	yes
Germany	yes	yes	yes	yes
Great Britain	yes	no	no	yes
Japan	yes	no	yes	yes
Netherlands	yes	no	yes	yes
Norway	yes	yes	yes	yes
South Africa	yes	no	no	yes
Sweden	yes	yes	yes	yes
United States	no	no	no	yes

Table 1 presents an overview of the patchwork of disability programs encountered in the participating countries. All countries in the study have benefits for those who have full and permanent disabilities, but differ in the types of benefits they provide for partial or temporary disabilities or both. All countries except the United States have temporary benefits either in the form of sickness benefits (Great Britain, Japan, the Netherlands, South Africa) or in the form of both sickness benefits and time limited benefits (Australia, Germany, Norway, Sweden). In the United States, there are no statutory provisions for sickness benefits at the federal level, but five

states have introduced them (California, Hawaii, New Jersey, New York and Rhode Island). Except in these states, "sick pay" is provided voluntarily by the employer or is a part of the collective bargaining agreement negotiated by the employer and its unions.

Five of the participating countries have partial disability programs: Germany, Japan, the Netherlands, Norway, and Sweden. In these countries, partial programs provide partial benefits on a permanent basis (Netherlands), and on both a time limited and permanent basis (Germany, Japan, Norway and Sweden). In Great Britain, while there is no formal partial benefit program, we shall review the disability component of the Working Tax Credit program, which encourages persons with disabilities to stay in or return to the labor force.

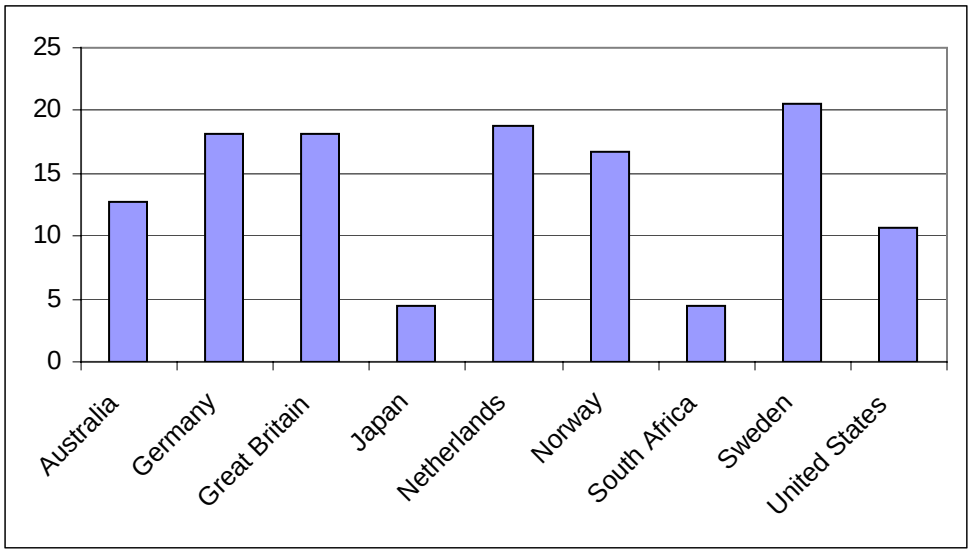
Figure 1: Disability Cash Benefits as a % of GDP



Source: OECD (2004) Social Expenditure Data base, there is no available data for South Africa.
Notes: For Great Britain, this data refers to the United Kingdom and data for Norway is available only for selected years.

Figure 1 shows the trends in the share of the GDP dedicated to disability cash benefits from 1980 until 2001. Disability cash benefits include benefits from contributory and non-contributory benefit schemes, as well as permanent, partial and time-limited programs. In 2001, all the countries stood within a relatively narrow range from 0.33% in Japan to 2.67% in the Netherlands, following some converging trends over the last two decades. Japan, Germany, the United States and Australia have had a relatively stable and low share of GDP dedicated to disability cash benefits at or below 1%. Great Britain, Norway and Sweden have had a higher share of GDP spent on disability cash benefits (above 2%) and have experienced more fluctuation, including a significant rise in the early 1990s for Great Britain and Sweden. The Netherlands stands out with a share of GDP from a high of 4.7% in 1991 down to 2.7% in 2001. This sharp reduction in the case of the Netherlands is explained by changes in the way benefits are calculated and in the definition of disability (De Jong, 2004).

Figure 2: Disability Prevalence, late 1990s

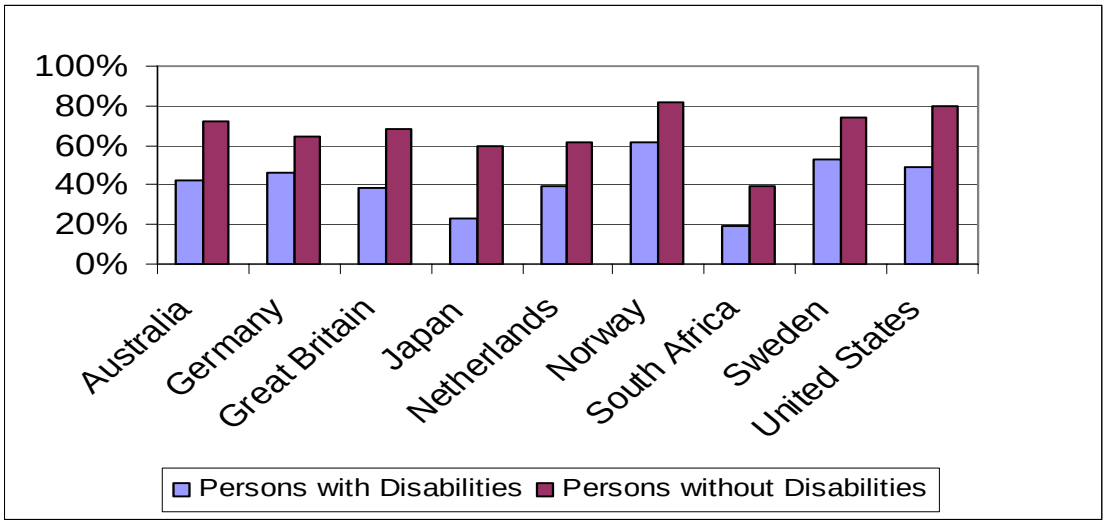


Sources: OECD (2003), for South Africa Census (2001) and for Japan the data is from the Ministry of Health and Welfare and published in JEED (2005).
Notes: (i) For all countries except Japan and South Africa, the definition used for severe and moderate disability in each country can be found in OECD (2003; p. 181). (ii) For South Africa and Japan, the data is for 2001.

Figure 2 presents disability prevalence rates among the participating countries. Obviously, Figure 2 needs to be interpreted with caution given that different countries use different disability definitions and survey designs, and that cultural norms can also influence responses to a disability question. The prevalence figures are from general household survey or census estimates. For all countries except South Africa and Japan, prevalence rates refer to persons who identify themselves as having a severe or moderate disability in relation to activities of daily living or work. South Africa and Japan aside, disability prevalence ranges from 10.7 in the United States to 20.6 % in Sweden. The European countries (Germany, the Netherlands, Norway, Sweden and the Great Britain) have the largest disability prevalence rates. For Japan and South Africa, prevalence estimates were derived from impairment questions, strictly speaking such estimates are not comparable to those of other countries in the study. Japan's prevalence estimate is the lowest among participating countries at 4.4%. South Africa's disability prevalence stands relatively low at 4.5%. This is consistent with the fact that developing countries such as South Africa typically have disability prevalence estimates that are below those of developed countries (such as the other countries covered in this study) in part due to population ageing in developed countries and to differences in survey design[3].

[3] For an explanation of the reasons why disability prevalence estimates are lower in developing countries than in developed countries, see Mitra (forthcoming).

Figure 3: Employment Rates of Persons with and without Disabilities, late 1990s



Sources: OECD (2003), for Japan, Survey on the Actual Status of People with Physical Disabilities 1960-2001, and for South Africa, Statistics South Africa (2002).
Note: Japan's employment rate only accounts for persons with physical disabilities; employment data for persons with other disabilities are not available.

Figure 3 compares the employment rates of working age persons with and without disabilities in the participating countries. Australia, Germany, Great Britain, the Netherlands, Norway, Sweden, and the United States have employment rates for persons with disabilities in the 39 to 53% range. Norway has employment rates that are higher than those of other countries: for persons with disabilities, the employment rate stands at 61.7%. Japan and South Africa have the lowest employment rates for persons with physical disabilities, 22.7% and 18.9% respectively. Of course, in the case of South Africa, this statistic needs to be understood in the context of rampant unemployment.

Table 2: Labor Force Participation and Unemployment Rates

	1970	1975	1980	1985	1990	1995	2000
Labor Force Participation Rates							
Australia	71%	70%	71%	70%	74%	75%	75%
Germany	69%	69%	68%	67%	70%	71%	72%
Great Britain	72%	74%	74%	74%	77%	75%	75%
Japan	71%	70%	72%	72%	74%	76%	78%
Netherlands	n/a	57%	58%	59%	67%	70%	75%
Norway	64%	71%	75%	77%	78%	78%	78%
Sweden	n/a		81%	82%	83%	78%	77%
South Africa	n/a	n/a	n/a	n/a	n/a	47%	52%
United States	68%	69%	72%	74%	78%	78%	79%
Unemployment Rates							
Australia	1%	4%	6%	8%	7%	8%	6%
Germany	1%	4%	3%	7%	5%	8%	8%
Great Britain	2%	3%	6%	11%	7%	9%	6%
Japan	1%	2%	2%	3%	2%	3%	5%
Netherlands	n/a	5%	6%	11%	8%	7%	3%
Norway	1%	2%	2%	3%	5%	5%	3%
Sweden	n/a	n/a	2%	3%	2%	9%	6%
South Africa	n/a	n/a	n/a	n/a	n/a	17%	23%
United States	5%	8%	7%	7%	6%	6%	4%

Sources: OECD Labor Market Statistics 2003, for South Africa, Kingdon and Knight (2001) for unemployment rates and Stat South Africa (2002; p. 32) for labor force participation rates.
Notes: For Great Britain, this data refers to the United Kingdom, for South Africa, under 2000 is data for 1999.

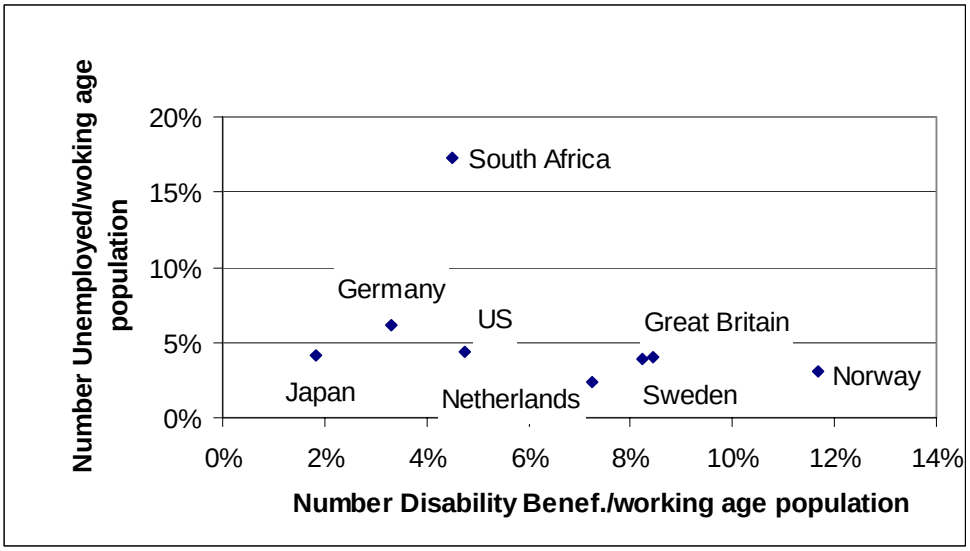
Table 2 gives a dynamic view of labor force participation and unemployment rates for the participating countries except for South Africa, where data was not available prior to 2000. For the non-economist reader, it is useful to clarify two terms. The “labor force” consists of all working age adults (typically persons aged 16-64) who are available, capable and wanting to work. The labor force participation rate measures the share of the labor force in the adult population. The “unemployed” includes persons who are not employed but are available and searching for work. The unemployment rate is the number of unemployed persons as a percentage of the labor force. Except for Sweden, all countries have had increasing rates of labor force participation over the last three decades, with Norway and the United States experiencing the sharpest increases. South Africa aside, in 2000, labor force participation rates ranged from 72% in Germany to 81% in Sweden, while unemployment was between 3% in the Netherlands

and Norway and 8% in Germany. South Africa stands out from other participating countries given a low labor force participation rate at 59%, which is in part due to a large share of the population under working age. By international standards, South Africa has a remarkably high unemployment rate at 23%, and that rate has tended to increase since the mid-1990s, the only period for which data are available (Kingdon & Knight, 2000).

Disability Policy Outcomes in Participating Countries

We analyze below the main outcomes of the disability policy packages of the participating countries by considering first the relation between disability and unemployment, and second the link between the disability policy mix, on the one hand, and employment and beneficiary rolls outcomes, on the other.

Figure 4: Disability Benefits and Unemployment



Note: Data is not available for Australia.

Figure 4 plots the share of disability beneficiaries out of the working age population and the share of the unemployed out of the working age population for each country. Disability

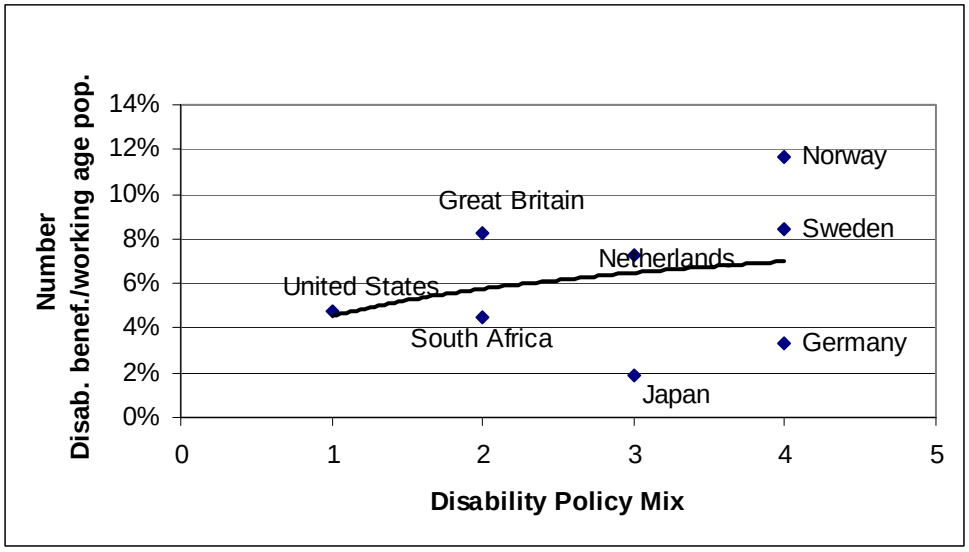
beneficiaries are recipients of permanent (full, partial) and/or time limited disability programs, sickness benefit recipients are not included. Two countries stand out in this graph: Norway, given its high share of the working age population on disability benefits and South Africa, given its high share of unemployed. This graph suggests that in South Africa, with a very high share of unemployed and a relatively low share on disability benefits, the disability benefit system does not seem to have been used to lower unemployment by inducing less healthy workers out of the labor force.

Overall, there is a limited variation in the share of the unemployed out of the working age population. South Africa aside, it ranges from 2% in the Netherlands to 6% in Germany. However, there is a considerable variation in the disability beneficiary rate across countries from 2% in Japan to 12% in Norway. Of course, such variation is unlikely to be explained by cross-country differences in health alone and motivates an investigation of the labor market effects of the disability benefit systems across countries and in particular of the effects of partial and temporary programs.

Below, we use a very simple scale to classify the disability policy mix of the participating countries. We use this classification as a starting point for our comparative analysis and will later present the results of a qualitative analysis that will be better able to capture the complexities of each country's policy package. We are concerned with the disability programs listed in table 1 above: each country is allocated one point for each type of program it has, and the number of points of a country is the number of dimensions of the disability policy mix, which is given in Table 1 above. For instance, the United States has only one program among the four types of programs listed in table 1 and is allocated one point; Germany, Norway and Sweden have four

types of disability programs in table 1 and thus are given four points[4]. Australia, Japan and the Netherlands have three points, while Great Britain and South Africa have two points. We then plot the number of dimensions of each country's policy mix against two outcomes, the share of disability beneficiaries out of the working age population in Figure 5 and employment in Figure 6.

Figure 5: Disability Policy Mix and Disability Beneficiary Rate



Notes: (i) Data is not available for Australia. (ii) The data on disability beneficiary rates is for 2001 for Japan and the Netherlands, 2002 for Norway, Sweden and the United States and 2003 for Germany, Great Britain South Africa. (iii) Except for South Africa, disability beneficiaries in Figure 5 do not include sickness benefits recipients and include recipients of time-limited, partial and permanent benefits. (iv) In the case of Norway, the data on disability beneficiaries was collected in 2002, while the time-limited disability benefit program was only established in January 2004.

Figure 5 suggests that the more dimensions a disability policy package has, the higher is the share of disability beneficiaries out of the working age population. For instance, the United States, with a one dimensional policy package, has a share of disability beneficiaries out of the working age population at 4.73%, while Norway's share stands at 12% with a four-dimension policy package. The case of Germany does not fit in this general pattern: with a policy mix with

[4] In the case of Norway, it is important to note that Norway's time-benefit program started in January 2004.

four dimensions including partial/permanent, and time-limited benefits, the share of the working age population on disability benefits stands at only 3.30%.

Figure 6: Disability Policy Mix and Employment Ratio

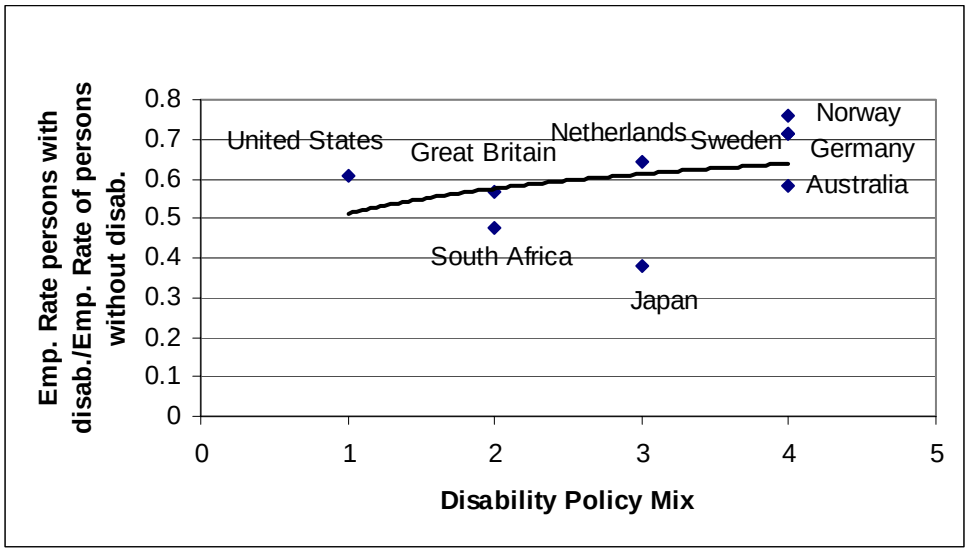


Figure 6 plots the disability policy mix and the employment ratio. This ratio is the employment rate of persons with disabilities, divided by that of persons without disabilities. The employment ratio conveys the degree of integration in the labor market for persons with disabilities relative to that for persons without disabilities. Figure 6 may suggest that overall, the more dimensions a disability policy package has, the higher is the ratio of the employment of persons with disabilities with respect to that of persons without disabilities. This may be because countries that have temporary or partial disability programs are better able to keep or return persons with disabilities to the labor force. Of course, figure 6 does not demonstrate that there is a causal link between the disability policy mix and the employment ratio. Many factors (e.g., anti-discrimination laws, quotas for persons with disabilities in the workplace) may affect the employment ratio and are not accounted here. Attempting to establish the relation between the

disability policy mix and other institutional factors, on the one hand, and the employment ratio, on the other, would require further research.

Study Findings and Analysis

As noted earlier, disability programs are established or altered to achieve one or more of the following goals: enhancing economic security for persons with disabilities, encouraging their participation in economic life, and controlling government costs.

The importance granted to each of the three goals of disability programs varies across countries and over time. At the risk of over-generalizing, one can say that during the 1970s and 1980s, the focus was often placed on economic security. Since the 1990s, the emphasis seems to have been increasingly given to the employment and self-sufficiency objective. OECD (2003) has detailed this shift from a focus on income replacement or compensation to a focus on reintegration. Symbolically, among the countries under review in this study, we observed that several countries have changed the names of their programs or disability tests from "invalidity or incapacity" to "ability and activity" programs or tests, which conveys the idea that recipients are expected to participate in social life and possibly integrate into the labor force. This is, for instance, the case of Sweden's "activity compensation" program for young adults. More importantly, this shift is taking place through increasing roles for temporary and partial benefit programs, as well as in the design of new in-work benefits such as Great Britain's working tax credit with a disability component.

An Increasing Focus on Temporary Programs

The countries under review in this study have a variety of temporary disability programs, which are described in chapter two. As mentioned earlier, we group temporary programs into two different types of programs: short term programs and time-limited programs. The traditional temporary disability program is a *short-term disability benefit* program, often beginning after a period of mandated income support by an employer (sick-leave). In the literature, short-term disability benefits are also referred to as sickness benefits, and both terms are used interchangeably in this report. Short-term benefits are typically provided to individuals who are unable to work because of a non-work related injury or illness[5].

The other type of temporary benefit is a *time-limited benefit*. A time-limited benefit is of limited duration, typically from one to four years, and starts after sick-leave and short-term benefits, if any, have been exhausted. All of the time-limited benefits under review in this study are financed and administered by the government, either through social insurance or social assistance programs. Time-limited benefit programs are interesting in that they have features of both short term and permanent programs. Like short-term programs, time-limited programs are of limited duration. Like permanent programs, persons eligible for time-limited benefits have disabling conditions, which have lasted for at least a year and are therefore long-term. Countries under review with time-limited benefits include: Australia, Germany, Norway and Sweden.

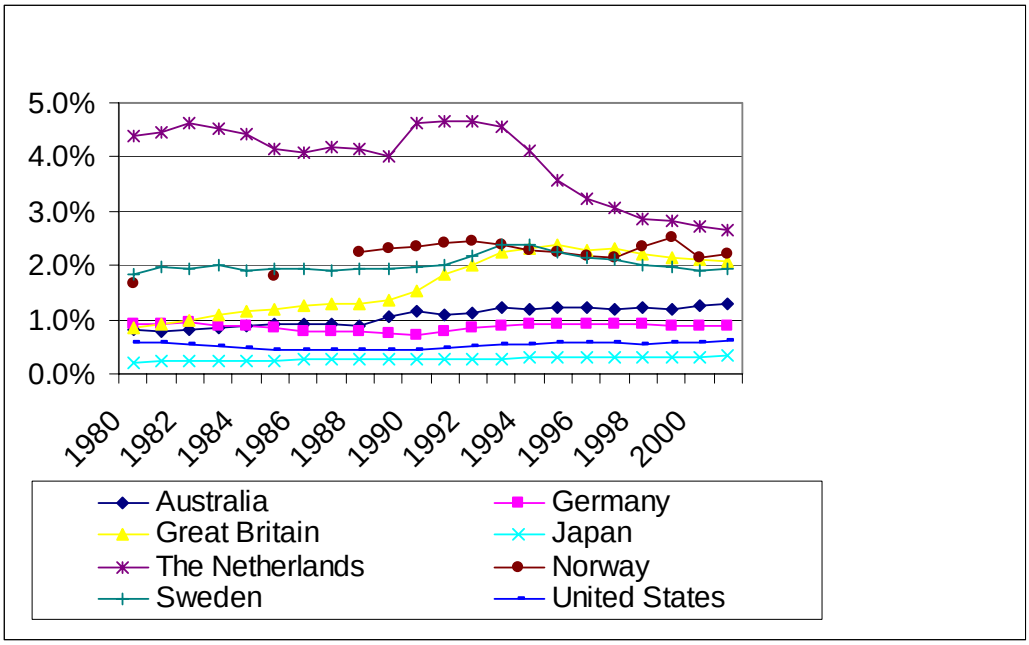
It is important to bear in mind that the above typology of temporary programs has a degree of arbitrariness, and that the border between short-term and time-limited benefits, as defined above, is sometimes fuzzy. This typology is useful, though, in our analytical exercise of

[5] It is not the case in the Netherlands, where disability benefits do not vary according to whether disability results from illnesses and injuries that are work and non-work related.

comparing programs in nine countries. Below, we give the report's findings first for short-term programs and then for time-limited programs.

Short term programs. Among the participating countries, short-term benefits are provided as part of different institutional frameworks: social insurance (Germany, Norway, Sweden), social assistance (Australia, South Africa), health insurance (Japan) and private programs (Great Britain, the Netherlands, the United States). Under private programs, we place programs that are funded and run by employers; they may be mandated by the government as in Great Britain and the Netherlands, or not, as in the United States[6].

Figure 7: Sickness Benefits as % of GDP



Sources: OECD (2004) Social Expenditure Data base, there is no available data for South Africa.
Note: For Great Britain, this data refers to the United Kingdom.

As shown by figure 7, there is no simple relationship between the institutional frameworks of the programs and their sizes as a percentage of GDP. For instance, among social

[6] Except in five states where employers are obliged to provide short-term disability benefits.

insurance sickness programs, the size of the program ranges from less than 0.7% of GDP in Germany up to 1.62% in Sweden. Figure 7 also shows the trends in the share of the GDP dedicated to sickness benefits from 1980 until 2001. Countries had a relatively small and stable share of their GDP dedicated to sickness benefits. This is not the case for Great Britain, Norway, the Netherlands and Sweden. In Great Britain, the share of the GDP dedicated to sickness benefits significantly increased in the late 1980s and early 1990s before stabilizing and going down in the rest of the 1990s. Norway's share of the GDP dedicated to sickness benefits has hovered around 1.5% over the last decades. The Netherlands and Sweden have seen sharp reductions from 2.73% in 1980 to 1.28% in 2001 for the former, and from 2.32% in 1980 to 1.62% in 2001 for the latter. Some of the reasons for such reductions are explained below.

Over the last few years, some of the countries under review have shifted part or all of the financial burden of short-term benefits from governments onto employers. This shift has mainly taken two forms. First, in several countries, there has been an increase in the period during which short-term benefits are required from employers. This was the case in Great Britain, where the duration of short-term benefits paid by employers increased from eight to 28 weeks in 1995, and in Sweden, where employers' responsibility increased from two to three weeks in 2004.

The Netherlands followed a different approach through a regulated privatization of the sickness program. Since 1996, employers have been obliged to pay short-term benefits, and the period of short-term benefits paid by employers increased over the recent years, reaching two years in 2004. This strategy of shifting the financial burden and the reintegration responsibility to employers is designed to cut program costs, reduce sickness absenteeism, and promote the return to work of workers following illnesses or injuries. The program's size was reduced as shown in figure 7 above.

Initial evidence on the effect of the Dutch reform on absenteeism (De Jong (2004)) indicates that the sickness absence rate has been reduced by 25% since the privatization of the program. Generally, a policy that shifts the financial responsibility for short term benefits to employers may also have a perverse impact on the integration of persons with disabilities in the labor force. Employers may be concerned about the potential absenteeism and related costs that may be associated with persons with disabilities and be reluctant to hire such persons.

One common thread across a majority of the participating countries is an increasing focus on reintegration services to decrease the amount of time beneficiaries spend away from employment. More importance has been given to reintegration in different ways. One way has been to increase the use of disability management practices. For instance, there are advancements in the need for physician certification at earlier points in the benefit claim, as well as a change in the focus of what the physician is looking for; the emphasis is increasingly on abilities instead of incapacities (e.g., in Norway). Perhaps more importantly, there have been changes in review standards practices. First, in some countries, the frequency of review has increased, as in Australia. Secondly, there is a change in the sources of information used in such reviews. In the Netherlands, reporting occurs from all parties, including the employer, who provides documentation as to the steps used to return a beneficiary to work.

In Great Britain, Japan and South Africa, there are no formal programs in place to provide return to work services to short-term disability recipients; reintegration efforts are generally left at the employer's discretion. In the other countries, the government and employers may play a variety of roles in the reintegration of short-term recipients. For Germany and Norway, the social insurance agency administering the benefit is responsible for developing reintegration plans. In Sweden, responsibilities are shared; while the employer is responsible for

assessing the return to work potential of each individual, the social insurance office develops a vocational rehabilitation services plan. In Australia, the government directly oversees return to work efforts.

The government can also play a role when short-term benefits are entirely paid and administered by the employer. In the Netherlands, the Occupational Health Services department assesses a beneficiary's return to work potential, following which the employee and the employer agree to a reintegration plan. Moreover, because short-term benefits may serve as a pathway to long-term disability benefits, the former are an appropriate place to provide early interventions aimed at preventing or postponing the shift onto the latter. In Great Britain, short-term recipients have traditionally not received reintegration services. The administrator of its long-term disability program, the Department of Work and Pensions, is currently running a pilot program to assist in the reintegration of short-term benefits recipients.

Determining which form of reintegration model is the most effective at reintegrating short-term recipients is beyond the scope of this study. It remains an important question for future research.

Time-limited programs. In four of the participating countries, persons who have exhausted their sick-leave and short-term benefits, if any, and are still unable to return to work, may be able to receive time-limited benefits. The countries are Australia, Germany, Norway and Sweden. These countries have time-limited programs that we break down into two types: time-limited programs targeted at young adults and time-limited components of the country's disability pension programs. Clearly, we find that there is a trend among the participating countries to grant disability benefits for a limited period of time, both as part of programs targeted at young adults and as part of the long-term disability pension programs.

One of the difficult issues faced by many countries is the rise in relatively young working-age persons receiving long-term disability benefits. For instance, in the United States, the growth in the numbers of young adult beneficiaries on Disability Insurance (DI) and Social Supplemental Income (SSI) are, as noted by Burkhauser *et al* (1996), "new and extremely worrisome phenomena for those who would like to see people with disabilities of working age integrated in mainstream employment. A lifetime of disability benefits is not the appropriate policy option for younger people with disabilities either from a social point of view or from their own perspective." These young adults, often with mental illness as a primary diagnosis, represent significant potential costs, as these individuals could well stay on the disability rolls for up to 45 years.

In response, two countries have recently developed time-limited programs targeted to young adults: Australia and Sweden. These time-limited programs are administered independently of the long-term disability pension system to provide support to young adults with disabilities. Australia's *Youth Allowance* is a means-tested benefit that provides sickness and unemployment benefits to students between the ages of 16 and 25 and to workers between the ages of 16 and 21 who are too ill to work. Its aim is to provide support to young adults while they are studying, or looking for or preparing for paid employment. Support includes cash benefits and training, or other activities to promote entry into employment.

Sweden's program operates differently from the Australian program. Its two *Activity Compensation* programs are targeted at persons between the ages of 19 and 29. One program is social insurance based, for those who have previously worked and paid into the pension system, and the other is a means-tested program for persons without a sufficient work history. The two programs operate in a similar manner, and the time on each benefit is restricted to three years. In

Sweden, young adults on these programs are not eligible for the long-term disability pensions. This is an interesting difference compared to Australia where young adults are also eligible for the permanent disability pension and may apply for a permanent benefit while receiving the Youth Allowance. In Australia, the Youth Allowance may thus be used as a pathway to the permanent disability pension program.

No data is available in either country on the impact of the programs in terms of return to work and transition to permanent disability rolls for young adults. However, carefully designed programs targeted at young adults with disabilities seem to be appropriate for countries that have an increasing portion of permanent pension recipients under the age of 30. These programs recognize that young adults are a group that deserves particular attention and requires specific intervention. The key challenge appears to be to design a program where the limited period of time available can be used to effectively increase the future labor force attachment of young adults by enhancing the health and human capital of this population group.

The second type of time-limited benefit programs consists of programs that are part of a country's long-term disability pension system when that system has two components: a permanent and a time-limited one. Three of the participating countries have time-limited components in their disability pension system: Germany, Norway and Sweden. In the three countries, one disability assessment determines whether the person receives a time-limited or a permanent benefit. This assessment as to whether the person is granted a time-limited versus a permanent benefit is made on an individualized basis: there is no algorithm that predicts a person's ability to return to work, and thus the suitability for a time-limited versus a permanent one.

In Germany, before 2001, most disability recipients received a permanent pension. Since 2001, time-limited benefits have become the rule and permanent benefits the exception in disability determination decisions. Persons receive benefits for up to three years, at which time they must reapply. There are exceptions for several groups, including the most severely disabled. The time-limited pension can be a partial or a full benefit, and the benefit amount is based on the number of years insured. In Norway, the time-limited disability benefit program began in early 2004. It is given to persons whose work capacity is expected to improve at some time in the future. Finally, in Sweden, there is a time-limited program for persons aged 30 to 64. In the three countries, rehabilitation services are available to persons on time-limited programs.

All the programs presented above are relatively new, except for the time-limited component of the long-term disability pension program in Sweden, which has been in place since 1960. It is too early to tell how the German and Norwegian time-limited programs will affect the reintegration of persons with disabilities, and we have no data on return to work and transitions to the permanent pension program for the Swedish time-limited program.

If designed and implemented carefully, time-limited benefits may be an effective way to promote employment, cut permanent benefit rolls and control disability expenditures. Time-limited programs recognize that some persons have severe disabilities that are going to last for some time but that with intervention, return to work is possible. They seem to be particularly suited for persons with temporary or episodic disabilities. In addition, the limited duration of the benefits is, in and of itself, an incentive for persons to return to work by the time benefits end. However, how the time-limited program is linked to the permanent program is critical in making the limited duration of the benefit an incentive to return to work. If a transition to the permanent program is smooth and expected by recipients, then surely the program will not give the

incentive to return to the labor force. In addition, the provision of return to work services that are effective at placing people in jobs within a limited period of time and that help people maintain those jobs is also an important determinant of the return to work effectiveness of such programs.

Finally, it is important to realize that if a country with no time-limited program adopts such a program, two groups of persons with disabilities could be significantly affected. The first group includes current recipients of the permanent disability benefit that may be reassessed as having a temporary instead of a permanent disability. The second one includes "windfall beneficiaries," that is, current non-recipients who will qualify for time-limited benefits but would not have qualified for permanent benefits in the absence of a time-limited program. A large share of windfall beneficiaries may not necessarily increase the cost of the long-term disability program. In particular, it will not lead to a program cost increase if the time-limited program fulfils a prevention role by avoiding that temporary disabilities become permanent ones. This role can be played by an early return to work, which may limit the deterioration of a person's human capital, and an access to health care that may prevent a medical condition from worsening.

Permanent Partial Programs

Another focus of this study is on partial disability benefit programs, which provide benefits to persons who are considered to have a partial disability. In general, having a partial disability means being capable of work but limited in the amount or kind of work that can be done, or in the amount of work earnings the person can have. Certain countries have programs that provide partial benefits to persons who have been assessed as fully disabled. These programs are not within the scope of the analysis of partial programs in this report. For example, Australia

provides partial benefits to persons who are considered as being fully disabled but have incomes in a bracket above the means test. There are also programs where persons who passed a full disability test are given a partial benefit if they work and earn above a level of earnings disregard (e.g., the SSI program in the United States). These programs, where partial benefits are granted at the exit of the program, are also beyond the scope of this report.

Five of the nine countries under review provide partial disability benefits as a part of their social insurance programs: Germany, Japan, the Netherlands, Norway and Sweden. These programs differ widely in their eligibility criteria, disability ratings, benefit payments, and utilization rates, and we will not review here the specifics of each program, which can be found in chapter three.

While having a partial benefit program removes the need to make an "all or nothing" disability determination, it certainly does not reduce the challenge and complexity of the determination process. How full versus partial disabilities are assessed varies tremendously across countries. In all of the above countries except Japan, disability is determined in relation to work or earnings. In Germany, the program evaluates the number of hours a person is able to work daily; while in the Netherlands, Norway, and Sweden, evaluations are based on the loss in earnings capacity. In Japan, medical listings are used to determine whether a person should be granted a partial versus a full pension. Several of the countries under review with partial pension programs have undergone drastic reforms in the past decade in the way disability is determined, perhaps reflecting the challenge of designing and implementing a partial disability determination process.

How do partial benefit programs achieve the employment objective of disability programs? Let us first note that partial disability benefits are not in-work benefits, since persons

can receive such benefits while not working. Significant portions of partial pensioners in participating countries do not work. With regard to the employment objective, at the macro-level, countries with partial benefit programs tend to have a higher employment ratio for persons with disabilities than countries that only have full benefit programs. This ratio is the rate of employment for persons with disabilities relative to that of persons without disabilities and is represented on the vertical axis of Figure 7 above. In addition, we find that persons with partial disability pensions are more likely to work (albeit part-time) than those with full pensions in countries having both types of pensions. For instance, in the Netherlands over half of the partial pension recipients worked in 2001, compared to only one-sixth of the full pensioners. This propensity for partial pensioners to work is to be expected, given that partial benefits have lower income replacement rates than full benefits, and that limits on work earnings while receiving a pension tend to be more generous for partial benefits (e.g., in Germany).

We also find that partial benefits do not seem to foster benefit terminations due to return to work. Almost all countries under review have low rates of benefit termination due to return to work, whether or not countries have partial programs.

Now let us turn to the public finance implications[7] of partial benefit programs. Countries with partial pension programs, except Japan, tend to have higher overall disability benefit recipiency rates. As shown in Figure 5 above, the Netherlands, Norway, and Sweden have about ten percent of the working-age population on the disability rolls. Nevertheless, overall disability expenditures are not necessarily higher in countries with partial and full benefits than in countries with only full benefits (Figure 1), which may result in part from the lower costs of partial benefits. The share of partial benefits awards out of all benefit awards has increased

[7] A comprehensive analysis of the public finance implications of a partial benefit program would also need to cover the tax revenues from beneficiaries' earnings, which is beyond the scope of this study.

among participating countries, except Japan. This may indicate an attempt to cut program costs or to encourage work.

For countries that do not have a partial program, setting up such a program would affect two groups of persons with disabilities: current recipients with full pensions that would be reassessed as partial pensioners, and "windfall recipients" (i.e. current non-recipients that would now qualify for a partial pension but would not have qualified for a full pension). The cost impact of establishing a partial program would depend on the relative sizes of these two groups. In countries where permanent partial disabilities are much more prevalent than permanent full disabilities, the group of windfall beneficiaries could be sizeable, and introducing a partial program may thus significantly increase the overall cost of the disability program.

The introduction of a partial disability program would also have labor supply implications. These implications will vary depending on the specific parameters of the partial benefit program, including earnings disregards and implicit tax rates. However, one can say that the first group, recipients who are reassessed as partial pensioners, would have an increased incentive to work as their benefits are reduced. The second group, windfall recipients, would have a reduced incentive to work as their non-labor income is increased. The overall labor supply effect of the introduction of a partial benefit program among persons with partial disabilities will thus depend on the relative sizes of these two groups and on the magnitudes of their behavioral responses.

Finally, an important question is whether partial pensions keep people off the full disability pension rolls by fostering more work. This may in part depend on the type of impairments persons on partial rolls have. For persons with chronic conditions that deteriorate over time, clearly the transition onto full benefit rolls seems logical. More generally, whether

partial pensions may act as a diversion or as a pathway with respect to the full pension program is likely to depend in large part on program design. Germany offers an interesting illustration in this respect. Until 2001, German partial beneficiaries automatically transferred to the full pension program if they had not found a job after one year of receiving partial benefits. Obviously, most partial pensioners ended up with full pensions after a year. Since 2001, the transfer from a partial to a full pension is now possible only if there is a limited availability of part-time employment or "a closed part-time labor market," a situation that is officially stated by the federal government. The future success of this program reform requires that the part-time labor market picks up in Germany. The fact that the Statutory Pension Insurance will continue to grant full pensions due to reduced (or no) part-time employment opportunities, as long as the labor market remains slack, is an explicit recognition by the German government that partial pensioners cannot be expected to find part time jobs if part time employment prospects do not improve. The German example illustrates that the extent to which a partial disability program may keep people off the full disability rolls also depends on the strength of the labor market when disability is defined with respect to work.

An Alternative to Partial Benefits: Great Britain's Working Tax Credit

There are ways to encourage persons with permanent partial disabilities to work that lay outside the traditional disability benefit system. This is the case of Great Britain's Working Tax Credit (WTC) with a disability component. Among our participating countries, Great Britain is the only country that set up a working tax credit program with a disability component. A first generation of tax credits for persons with disabilities was established in 1999 under the Disabled Person's Tax Credit program. This program was short lived and was subsumed in April 2003 by

a new integrated tax credit system, the Working Tax Credit. The working tax credit is paid to a range of lower-income employed and self-employed persons, including persons with disabilities (disability element), and is administered by the taxation authority (the Inland Revenue). A person qualifies for a disability element of the working tax credit if they work for at least 16 hours per week, have a disability that puts them at a disadvantage in getting a job, or receive a qualifying benefit. The working tax credit has not yet been evaluated, since it was only introduced in April 2003. An evaluation of the previous Disabled Persons' Tax Credit found that 19% of recipients claim that the tax credit was the key factor in the decision whether to work or not (Atkinson, Meager, & Dewson, 2003).

Can Great Britain's working tax credit serve as a model for other countries? Such a program has several advantages. Persons with disabilities who work part time or full time but at low wages are the target group of a tax credit program such as Great Britain's WTC with a disability component. It recognizes that some persons may have a partial permanent disability, in that they are able to work on a part time basis, and that others with an impairment have the capacity to work full time, but at low wages. This latter group would have a high benefit replacement rate if they joined the disability rolls and therefore have an incentive to get onto the disability rolls and stay on until retirement age. A working tax credit program may prevent entries into the contributory or means-tested disability benefit programs by topping up work earnings. In addition, because eligibility for disability benefits can be used as qualifying criteria for the disability component of the WTC, such a program can also encourage the return to work efforts of disability beneficiaries, thus promoting exits from these programs.

In general, though, it is important to note that the effect of a tax credit program on labor supply is not necessarily a positive one. Standard economic theory suggests that a reduction in

the tax burden stimulates the participation of persons who are currently not working, but it may either increase or decrease the number of hours worked by persons who already work. The effect of a tax credit on labor supply is an empirical matter: it depends on the sizes of the two groups (out of the labor force and working); and for those working, on their labor supply elasticities and earnings levels compared to the different ranges of the tax credit. In the US, empirical evidence on the labor supply effect of the Earned Income Tax Credit is mixed (Scholz, 1996; Browning, 1995).

It is also essential to realize that there are several disadvantages with tax credit programs. The first disadvantage is inherent to a tax credit program in a self assessment tax system, and that is low take-up rate. The tax credit is not received automatically; a person must apply for a tax credit, and receipt requires that he or she is ready and able to negotiate the administrative system. This arises in the United States with the Earned Income Tax Credit, where take-up is estimated to fall in the 80 to 86% range (Scholz, 1994). Historically in Great Britain, there were major problems in the take-up of the means-tested benefits that preceded the tax credits, and these problems are expected to remain. In addition, there is a high error rate in the administrative calculation of entitlement to tax credits, resulting from the end of the year reconciliations by the Inland Revenue and leading to technical "overpayments."

Another difficulty is the disability determination system that needs to be developed for persons who do not receive qualifying disability benefits. In Great Britain, this system is administered by the Inland Revenue. If the person does not receive one of the qualifying disability benefits, the person must have one of 21 "prescribed conditions." These prescribed conditions are physical, mental, and social functional limitations and include the inability to work an eight hour working day or a five day working week, due to a medical condition or pain

(Pilling, 2003). To qualify, the person declares to have one or several of the prescribed conditions. The Tax Credit office will then write to the person's doctor to confirm that the person has the condition(s) listed and will continue to have the condition(s) for at least six months or for the remainder of her life. Thus, prior to setting up a working tax credit, a country has to allocate adequate resources to develop the administrative capacity for the disability determination system necessary for the working tax credit. The country must also decide which agency would determine whether a person has a disability or not. In the US, as explained by Graetz (1996), Congress in the 1960s was unable to enact an additional tax exemption for persons with disabilities, because it was thought that the Internal Revenue Service could not administer a disability determination process.

Of course, if a country were to introduce such an income tax credit with a disability component, the design of the program would greatly vary across countries. This is particularly the case with regard to health insurance coverage. In countries without universal health coverage, such as the United States, the health insurance coverage provided under the Social Security Disability Insurance (SSDI) program would clearly act as a work disincentive. In order to design a working tax credit that prevents persons with partial impairments from joining the disability rolls, one might consider pairing the program with the means tested Medicaid program. Eligibility requirements of the working tax credit program in terms of family income would need to be made consistent with the Medicaid program.

In countries that have a tradition of applying cost-benefit analysis to government programs, justifying a working tax credit may be a challenging exercise. In 1996, a disabled worker tax credit, which was developed along the lines of the National Academy of Social Insurance (NASI)'s disability policy panel, was estimated to have a price tag of $3 billion per

year (Burkhauser *et al,* 1996). The extent to which the working tax credit will prevent persons from joining the rolls or encourage them to exit the rolls is unknown, and the potential savings that may result from a tax credit program are therefore uncertain. One could argue, though, that a working tax credit program would not be viewed as a disability program, so the costs of such program and the size of the recipient population would not attract the same political attention as disability programs do[8].

Great Britain's working tax credits is one among few in-work benefits for persons with disabilities. While a tax credit program has disadvantages that need to be carefully examined by countries that may want to adopt such a program, its main innovation is that, by breaking the link between disability and inability to work, it has limited work disincentives when compared to compensation programs that define disability in relation to work and income.

The Japanese Exception

Japan is an exception among the nine countries in this study in several ways. First of all, Japan stands out from other countries in the size of its disability pension program. It has the lowest disability pension expenditures as a percentage of GDP and the lowest percentage of the working age population on disability benefits (figures 4 and 7 above).

Japan is also the only country where disability is consistently given a medical definition. The medical definition is used to calculate disability prevalence rates, to assess the disability status of persons who are employed but may fall under employment quotas, and to determine eligibility for the disability pension system. This requires us to exercise great caution in comparing Japan with other countries, where disability is understood in terms of limitations in relation to work or life activities.

[8] An analogous point was made by Blank *et al* (1999) regarding the Earned Income Tax Credit in the US.

In Japan's long-term disability pensions, disability is not defined in relation to work and income. Medical conditions are listed under seven different grades, which reflect the severity of the impairment. Only persons with first, second or third grade disabilities are eligible for a permanent pension. Persons with a first grade disability are given a full cash benefit plus an additional 25%, while persons with a second (for the Employees and Basic Pensions) or third grade (for the Employees Pension) disability are given a full benefit. The disability pension has in fact two main components: a basic pension that covers everyone who contributes and the employees' pension for persons who are employed through larger employers. Employee's pension recipients are allowed to work and have no limits on their work earnings while receiving a pension. This system has thus no disincentive to work for pensioners, whether in its disability definition or in the rules applying to work earnings.

May such a disability pension system, based on an entirely medical definition of disability, explain why Japan has a small disability pension system? It may well be that the lists of impairments in the first three grades are so restrictive that only a very limited percentage of the population with disabilities ends up on the rolls. However, there may be other factors at play, such as a better health in terms of morbidity and longevity compared to other countries.

With a small disability pension program and a disability definition that does not link disability and work, one might expect to find in Japan a relatively strong labor force participation for persons with disabilities. In fact, in Japan, only 22.7% of persons with physical disabilities worked in 2001, a large drop from 46.7% in 1960[9]. As indicated in Figure 6 above, Japan's employment ratio (i.e. the employment rate of persons with disabilities divided by the employment rate of persons without disabilities) is the lowest among the nine countries at 38%. Where are persons with disabilities then, if they are not found on disability pension rolls and in

[9] Data is from the Department of Health and Welfare. Data is not available for persons with mental disabilities.

the labor market? While this question may require further research, based on the macro-level data above and our country data, it appears that when compared to other countries, a larger share of persons with disabilities in Japan live at home dependent on family support. In this way, they are not counted as part of the disability pension rolls, nor as part of the labor market. These persons may not qualify for the employees' pension because of their long-term detachment from the labor force.

Japan's case illustrates the difficulty of comparing disability benefit systems across countries in a multi-country study. This challenge is handled through a careful analysis of the institutional backgrounds of the temporary and partial disability programs in the following two chapters, and a detailed presentation of each country's programs in the nine country chapters.

Conclusion

Overall, from the review of temporary and partial disability benefit programs in selected countries, three main points are worth noting. First of all, in several countries, the development or the expansion of time-limited benefit programs and the design of specific programs for young adults are important recent developments. None of these programs has been thoroughly evaluated so far. Nevertheless, time-limited benefits appear to offer some potential in terms of improved return to work and reduced program costs.

Secondly, in all the countries with partial disability benefits except Japan, the share of partial benefit awards out of all benefit awards has increased, perhaps as an attempt to cut program costs or encourage return to work. Partial disability benefit programs can be difficult to administer, especially at the determination stage, and thus require a strong administrative capacity in place.

Finally, the working tax credit with a disability component in Great Britain is promising and its impact on employment for persons with disabilities should be closely watched as evaluation results come out in the years ahead.

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Chapter 2

Temporary Disability Benefit Systems
Characteristics and Recent Changes

Todd Honeycutt

Summary: Temporary disability benefits can be categorized into two distinct programs. Sick leave or short-term disability benefits provide cash and other benefits to individuals who are unable to work due to a disabling condition. These benefits usually serve as a bridge between employment and long-term disability benefits. The second type is time-limited benefits. Time limited benefits may function as an alternative to permanent disability benefits or are targeted to specific groups, such as young adults. The first part of this chapter provides a brief sketch of the different short-term and time-limited sickness and disability programs in the nine countries for this study. The available numerical data—expenditures and number of beneficiaries—are then reviewed. The third part discusses characteristics of short-term programs, comparing and contrasting their key programmatic features: financing; defining disability and the assessment and determination process; the waiting period involved in obtaining benefits and the maximum period of the benefit; the amount of benefits; the role of the employer and benefits for the unemployed; rehabilitation options and disability management; and the relationship between the short-term and permanent disability benefit programs. The fourth part of this chapter reviews the different implementations of time-limited programs: as a replacement for long-term disability benefits, as an alternative for young adults with disabilities, and to promote vocational and medical rehabilitation. There are several key observations or lessons regarding short-term disability benefits. We see, first, an increased shift of fiscal responsibility for both the employer and the recipient. In addition, to avoid long-term disability, there is a renewed emphasis on reintegration services and early intervention programs. Short-term benefits offer opportunities for better disability management practices. Finally, some systems are moving away from sickness benefits to other types of activity, rehabilitation, and reintegration benefits.

As disability benefit policy increasingly focuses on integration and employment, temporary disability benefit programs may offer significant potential at promoting return to work and avoiding a transition to the permanent disability rolls. Temporary disability benefit programs have many different forms and have more variation than permanent disability programs. Some programs are entirely employer funded, others are tied to the general pension system, and still others are means-tested and require no recent attachment to the labor force. How programs are financed, the duration of benefits, the relationship of the program to employers and to long-term disability programs—all of these issues influence how temporary disability programs operate and

how successful they may be at promoting return to work. With the assortment of programs, there is only one commonality: the provision of benefits is finite, intended to support a person only long enough for, 1) the condition to improve so that return to work is possible, or 2) a determination to be made that the condition is permanent and the individual should receive long-term disability benefits.

Temporary disability programs involve a sick-leave or short-term disability benefit, often beginning after a period of mandated income support by an employer. It provides temporary cash benefits to individuals who are unable to work because of a non-work related injury or illness[10]. In addition to cash benefits to replace lost wages, other services and supports might include rehabilitation services, disability management, and disability-related allowances.

A different type of temporary benefit is characterized as "time-limited." Time-limited programs have aspects of both short-term and permanent disability benefit programs. Persons move to time-limited programs after exhausting short-term benefits instead of moving to the permanent rolls. In one approach, time-limited benefits serve as a buffer between short-term and long-term disability programs and may be given to individuals who are anticipated to have medical improvements or vocational rehabilitation potential. A different approach is to offer time-limited benefits as a replacement to the long-term permanent disability benefit. At its extreme, all disability beneficiaries are subject to reapplication every few years. The third type of time-limited benefit focuses on youth. The essence of all of these time-limited benefit programs is that individuals with disabilities should have both the opportunity and the expectation of employment.

[10] Though these programs are generally distinct from work-related injury programs, this is not the case in the Netherlands, where their disability programs cover both work and non-work related illnesses and injuries.

This chapter is structured as follows. The first part summarizes the different short-term and time-limited sickness and disability programs in the nine countries for this study. More detailed information may be found in the specific country chapters of this report. The available numerical data—expenditures and number of beneficiaries—is then reviewed. The third part discusses characteristics of short-term programs, comparing and contrasting key programmatic features. The fourth part of this chapter reviews the different implementations of time-limited programs. The final section concludes with lessons and findings regarding short-term and time-limited programs.

Description of the Temporary Programs in Each Country

This section provides a brief overview of the major temporary disability programs for each of the nine countries in the Learning from Others study. Table 1 lists these programs, the institutional affiliation, whether it is a short-term or time-limited program, how the program is financed, and the need for a contribution history on the part of the beneficiary.

Australia's system of temporary disability benefits is predicated on a non-contributory system that is means-tested. Three types of programs are available, all of which pay a flat rate of benefits (indexed to 25% of male average weekly income), with income and assets over maximum limits reducing the benefit accordingly. The first, Sickness Allowance, is for employees (or students 25 years of age or older) who are unable to work 8 hours or more a week due to a temporary medical condition. Claims are reviewed at regular intervals, and those cases assessed as likely not to return to work or study within two years are sent to the Disability Pension (permanent disability benefit). For those who are unemployed or are applying for the

permanent disability pension, the Newstart Allowance pays benefits, while the Youth Allowance targets students aged 16 to 25 and the unemployed aged 16 to 21 who are too ill to work or study.

Table 1: Temporary Disability Benefit Programs and Characteristics, by Country

Country	Program Name	Institutional Affiliation	Type of Program	Financing	Contribution Record
Australia	Sickness Allowance	Dept. Family & Community Services	Sickness	General Revenue	None
	Newstart Allowance	Dept. Family & Community Services	Unemployment	General Revenue	None
	Youth Allowance	Dept. Family & Community Services	Time-limited	General Revenue	None
Germany	Invalidity Pension	State Pension Insurance Funds	Time-limited	Employee/ employer contributions	Contribution for 3 of the previous 5 years
	Short Term Sickness	State Health Insurance Funds	Sickness	Employee/ Employer Contributions	Must be actively enrolled in health care plan
Great Britain	Statutory Sick Pay	None (Employer specific)	Sickness	Employer	None
Japan	Sickness and Injury	National or Managed Health Insurance	Sickness	Employee/ Employer/ Government	Must be actively enrolled in health care plan
Netherlands	Sickness Benefit Act	None (Employer specific)	Sickness	Payroll tax	Minimum yearly earnings for contribution purposes is 13,159 Euros in 2001; maximum is 38,117
Norway	Sickness Insurance Benefits	National Insurance Agency	Sickness	Payroll tax	Working at least 14 days and earnings exceeding 1/2 of base amount (which was 56,861 NOK in 2003)
	Daily Cash Medical Rehabilitation	National Insurance Agency	Time-limited	Payroll tax	Three years of coverage (same as traditional pension)
	Daily Cash Vocational Rehabilitation	Directory of Labor	Time-limited	Payroll tax	Three years of coverage (same as traditional pension)
	Time-Limited Disability Benefit	National Insurance Agency	Time-limited	Payroll tax	Three years of coverage (same as traditional pension)
South Africa	Temporary Disability Grant	Department of Social Development	Sickness	General Revenue	None
Sweden	Sickness Program	National Social Insurance Board	Sickness	Payroll tax	Must have worked for an employer for 14 days
	Guaranteed and Income Related Activity Compensation	National Social Insurance Board	Time-limited	Payroll tax	Pension contributions (none for Income Related program)
	Medical/Vocational Rehabilitation Cash Allowance	National Social Insurance Board	Time-limited	Payroll tax	Pension contributions
	Guaranteed Sickness Compensation	National Social Insurance Board	Time-limited component of permanent program	Payroll tax	Must be pension eligible
United States	No national program				

Temporary sickness benefits in Germany are first paid by the employer, who must provide six weeks of benefits at 100% of wages when a physician reports that an employee cannot work. When the illness or condition lasts more than six weeks, up to 78 weeks of benefits at 70% wage replacement are paid through the Statutory Health Insurance. This insurance is paid through employer and employee contributions. In 2001, Germany altered its permanent disability program (through Statutory Pension Insurance) to be a time-limited program of three years for all but the most disabling conditions. Beneficiaries must reapply for benefits after the three years have expired. Persons who reach the age of 60 or who apply for and receive disability benefits more than three times become permanent beneficiaries.

Great Britain has a temporary disability program in which employers are responsible. The Statutory Sick Pay began in 1983, with employers paying eight weeks of flat rate benefits. The period of benefits was increased to 28 weeks in 1995. After exhausting these benefits, individuals can apply for the permanent disability program. The employer decides after seven days if the employee is incapable of working based on a physician report.

In Japan, short term disability benefits are offered through some, but not all, health insurance plans. While health insurance plans for employees of large companies offer short-term benefits, basic health insurance plans that insure employees of small businesses and the self-employed are not required to provide short-term benefits. Those who do qualify for benefits receive 60% wage replacement for up to 18 months. As with permanent disability benefits in Japan, few individuals actually access the short-term rolls. Other temporary benefits are paid through unemployment insurance (for those who are unemployed and who are too sick or ill to work or look for a job). These benefits pay the rate for unemployment benefits and may last for up to 360 days.

In the past decade, the short-term disability program in the Netherlands has undergone the most significant changes of all of the countries in this study. The Netherlands was confronted in the 1980s and 1990s with rapidly rising disability claims, and the disability system was being used by employers and employees as an alternative to unemployment or early retirement. Originally, the short-term program was a quasi-public system, administered by Industrial Associations (which were comprised of employer organizations and employee trade groups). Beginning in 1994, short-term disability benefits were privatized, thereby shifting the financial responsibility of the program and making employers responsible for 12 weeks of short-term wage replacement, which was increased to one year in 1996 and two years in 2004. To manage the program, employers may either self-insure and pay benefits themselves, or involve private insurance firms. Benefits are paid at 70% of previous wages, though employers may supplement that amount up to 100% for the first year of benefits. Additionally, rehabilitation and disability management have become prominent in the Netherlands' short-term system, with employers required to involve Occupational Health Services in the treatment and return to work of short-term beneficiaries.

The Sickness Insurance program provides benefits in Norway for disabling conditions. It pays 100% of wages for up to 52 weeks, and it also pays a partial benefit. Beneficiaries who are actively receiving medical or vocational rehabilitation and who have at least a 50% work capacity at the end of 52 weeks may turn to cash allowances specifically for rehabilitation rather than the permanent disability pension. These allowances also have a duration of up to 52 weeks. Alternatively, persons who apply for permanent disability benefits after Sickness Insurance benefits are exhausted may be given a time-limited benefit for 1 to 4 years in lieu of the

permanent benefits. This benefit is given to individuals who are thought to be likely to be able to return to work.

South Africa offers, as part of its grant support program, a Temporary Disability Grant in tandem with its Permanent Disability Grant. Persons whose conditions will prevent them from working for more than six month but less than a year qualify for the temporary grant. It pays a flat rate of benefits for a period of time specified by the reviewing physician, and that benefit is subject to a means test.

Sweden has four temporary disability programs, each targeted to a specific population. The Sickness Program is a short-term program that pays benefits after 21 days of lost work at 77.6% of wages and has no time limit. Employers are responsible for the first 21 days of payments. The second program, Activity Compensation, is directed at persons between the ages of 19 and 29 who are unable to work due to a medical condition. Benefits are limited to three years. A third program offers a time-limited benefit as a part the long-term disability benefit program, Sickness Compensation. Finally, rehabilitation benefits, for those actively involved in medical or vocational rehabilitation, are available for persons moving from Sickness Compensation benefits. For all programs, there are both pension-related and means-tested components.

The United States has no national temporary disability system. Aside from a mandatory sick pay benefit and state-specific Workers' Compensation programs, the provision of short-term disability benefits is at the discretion of the employer. However, in five states (California, Hawaii, New Jersey, New York, and Rhode Island), the enrollment in state-administered temporary disability programs is mandatory for employers. These programs offer benefits for 26 to 52 weeks in the absence of Social Security Disability Insurance or Supplemental Security

Income. Additionally, the Family Medical Leave Act, enacted in 1993, allows employees 12 weeks of unpaid leave from work to cope with a medical condition, to support family members who are ill, or to care for a newborn or newly adopted child.

Program Expenditures and Beneficiaries

Statistics on short-term disability systems are difficult to collect for many reasons. First, systems that are privately financed (e.g., Great Britain) may not have readily available the numbers of persons receiving short-term benefits nor the amount of annual expenditures. Second, as with any benefit program, there is confusion in obtaining program statistics that are comparable between programs. Invariably, these are issues related to stock (or current beneficiaries) and flow (new persons coming into the program). Some program administration statistics report the number of new beneficiaries for a year, some the total number of beneficiaries for a year, and others report the number of beneficiaries for a point in time (such as a month or day).

One useful measure of short-term programs is the yearly amount that programs spend. We use data from the OECD Social Expenditure database (2004), focusing on public expenditures related to paid sick leave and that is unrelated to occupational illness. While this amount excludes data for certain time-limited programs reviewed above and so does not represent the total amount spent publicly on temporary programs, it provides a reasonable metric for comparing the importance of short-term benefits among this study's countries. The countries fall into two groups based on the size of expenditures. Figure 1 shows sickness benefit spending as a percent of gross domestic product (GDP) for the Netherlands, Norway and Sweden for the years 1980 to 2001. Each of these countries spent more than 1% of their GDP on sickness

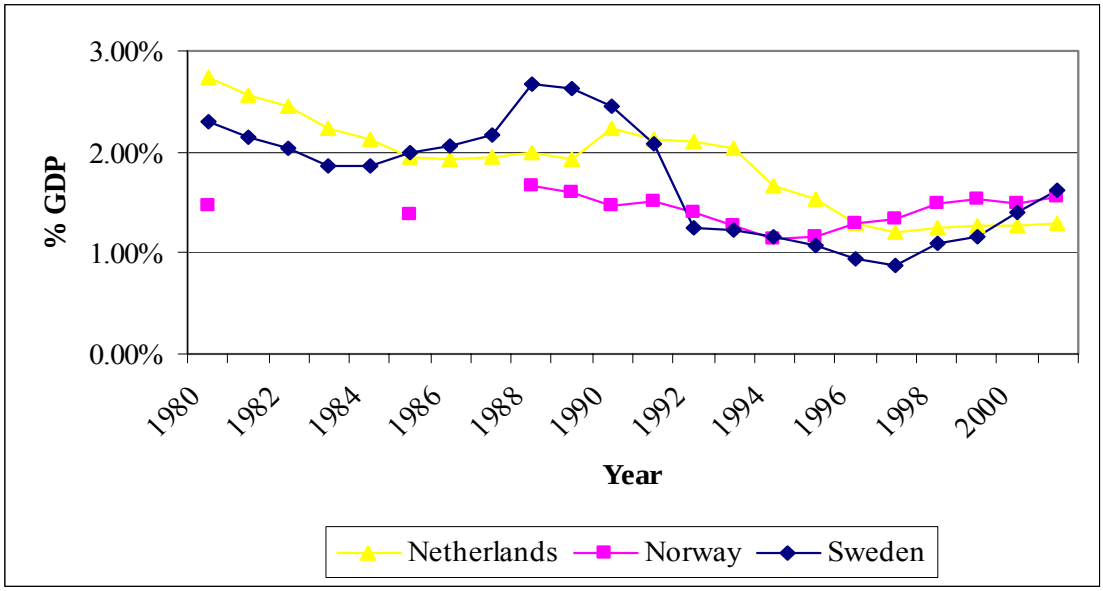
benefits during this period. The Netherlands, with the highest amount spent on sickness benefits in 1980 (2.7% of GDP), cut their spending by more than half by 2001. For Sweden and Norway, there is a clear downward trend in spending up until the mid-1990s, when expenditures increased.

Figure 2 shows the sickness benefit expenditures during the same years for Australia, Germany, Japan, the United Kingdom, and the United States[11]. None of these countries exceeded 0.5% of GDP in spending on sickness benefits. Australia and Japan had the lowest amounts, with an almost negligible amount of spending compared to their GDP. The other three countries can be considered moderate in what each spends on sickness benefits. While there is some variation for each country, in general, expenditures have declined with a slight increase in the past few years.

The OECD Social Expenditure database also contains data on mandatory private spending on sickness programs for four countries: Australia, Germany, the Netherlands, and Norway (Figure 3)[12]. Germany had the largest private mandatory spending amounts, though Norway equaled Germany, beginning in 1998. Both countries had increases in private expenditures since that time. In the Netherlands, private sickness expenditures rose beginning in 1994 concurrent with the move to privatization of short-term benefits and the decline in public spending observed in Figure 1. Data from Australia, which starts in 1995, shows a downward trend.

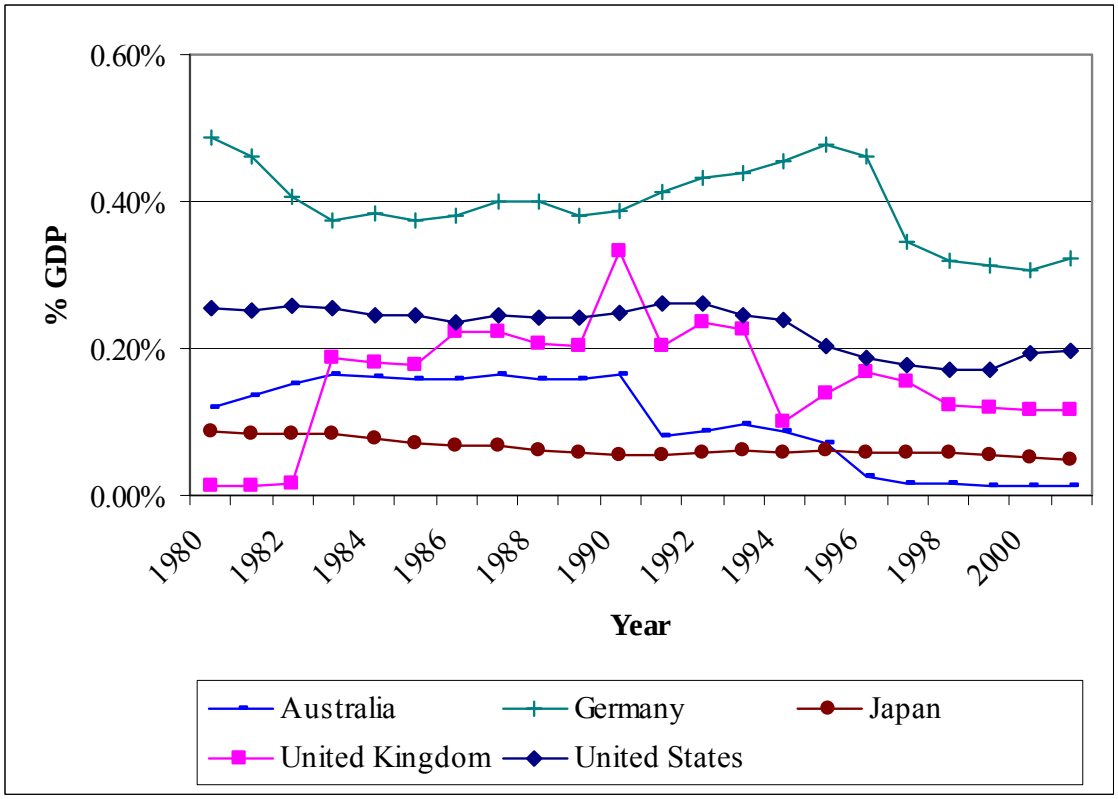
[11] Data for South Africa is not available.
[12] While data exists for the United States, it is less than 0.02% of GDP.

Figure 1: Public Spending on Sickness Benefits as Percentage of GDP, Sweden, Netherlands, & Norway: 1980-2001



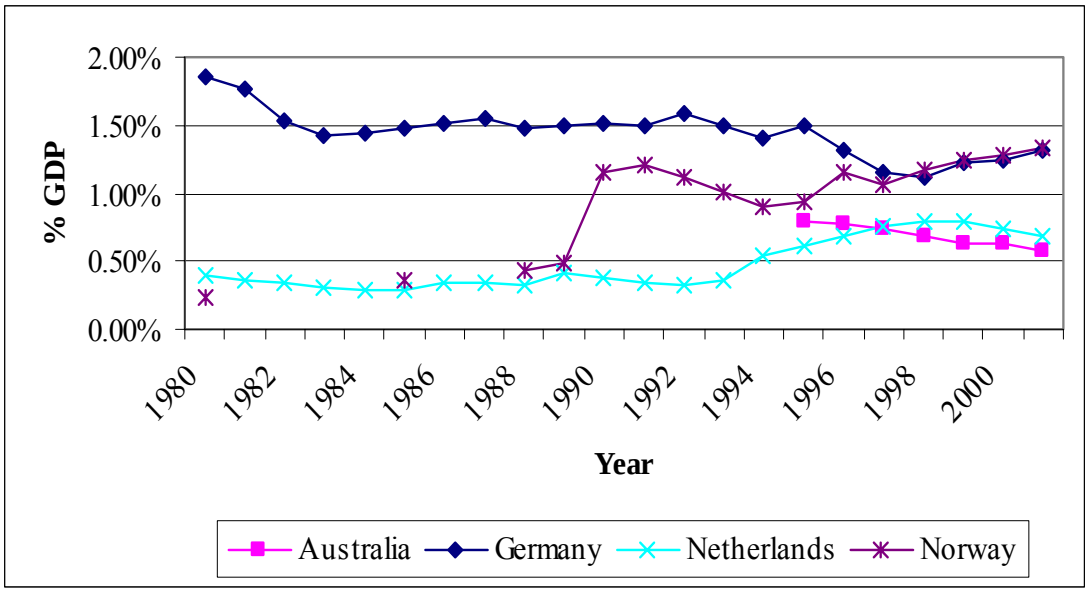
Source: OECD (2004).

Figure 2: Public Spending on Sickness Benefits as Percentage of GDP, Australia, Germany, Japan, United Kingdom, & United States: 1980-2001.



Source: OECD (2004).

Figure 3: Mandatory Private Sickness Benefit Spending as Percentage of GDP, Australia, Germany, Netherlands, & Norway: 1980-2001.



Source: OECD (2004).

The spending amounts of sickness programs reflect a combination of the number of beneficiaries receiving short-term benefits and the generosity of benefits. Table 2 presents the number of new beneficiaries receiving short-term benefits during a recent year, the total number in active payment status for a particular day, and those numbers as a percent of the working age labor force or persons covered by the program. Note that we have data only for the primary short-term program in each country, and for three of the systems under review, we could obtain no data on the size of the short-term program. Despite the lack of data in some countries and comparability issues for available data, we can get a sense of the differences and disparities among the programs. In Japan, employees use the sickness and injury program only as a last resort, and as such, less than 3% of the covered population accessed this program in 2001. Germany, on the other hand, has over 33 million persons receiving benefits through its short-term program each year. This number includes all sick pay cases during the year and represents two-thirds of persons who are covered. The number of people who move to Statutory Health

Insurance after 6 weeks of employer benefits, however, is much smaller—3.6 million, or 7% of the covered population (data not shown). For Norway and Sweden, there is a waiting period before obtaining public short-term benefits during which the employer must replace lost wages, and persons who receive only benefits from their employer are not represented in the data in Table 2. The number of persons accessing the public short-term rolls at any time during the year is, respectively, 28% and 17% of the working age population for each country. The higher number for Norway may reflect the shorter duration of responsibility for the employer (16 days) versus the duration in Sweden (21 days). Data for Norway includes the number of beneficiaries receiving sickness benefits on a particular day. Over 136,000 persons received benefits, representing almost 6% of the working age population. Similar data for South Africa shows a daily total of 368,000 beneficiaries, representing 2% of the 2004 population.

Table 2: Number of Persons Covered and Program Beneficiaries for Short-Term Disability Programs

Country	Program Name	Year of Data	New Beneficiaries	New Beneficiaries as Percent of Covered Population	Total Daily Beneficiaries	Total Daily Beneficiaries as Percent of Covered Population
Australia	Sickness Allowance	a				
Germany	Short Term Sickness	2001	33,717,209			
Great Britain	Statutory Sick Pay	a				
Japan	Sickness and Injury	2001	929,560	2.7%		
Netherlands	Sickness Benefits Act	a				
Norway	Daily Cash Sickness Benefit	2002	675,661	28.2%	136,044	5.7%
South Africa	Temporary Disability Grant	2004			368,179	2.1%
Sweden	Sickness Program	2002	756,000	17.2%		

Note: a = No data.

Short-Term Program Characteristics

This section describes seven aspects of short-term programs: how programs are financed; the disability definition, assessment, and determination process; the waiting period involved in obtaining benefits and the maximum period of the benefit; the amount of benefits; the role of the employer and benefits for the unemployed; rehabilitation options and disability management; and the relationship between the short-term program and permanent disability benefit programs.

Financing. Financing for short-term programs falls into one of three sources: social insurance, social assistance, and private. Two types of social insurance systems were observed. In the first, found in Norway and Sweden, the short-term programs operate as a part of the national pension program. In this model, there is an umbrella of social support systems—aged, survivors, long-term disability, short-term disability, and unemployment—that persons and employers contribute to in the form of payroll taxes.[13] To qualify for short-term disability benefits, a person must be pension-eligible or insured. Most or all aspects of the short-term programs—disability determination, rehabilitation, monitoring and review, and length of time on benefits—are administered or monitored on a national level by a government agency (e.g., the National Insurance Agency in Norway). The important role of the national government does not preclude local or regional government activities or influence. For instance, in Sweden, disability decisions are made by the local social insurance office, which is comprised of locally elected officials.

The second social insurance option for funding short-term disability programs is through an insurance plan separate from the pension system. For both Germany and Japan, short-term

[13] For Norway, the payroll tax for employees is 7.8%, for the self-employed, 10.7%, and for employers, 14%. In Sweden, payroll taxes vary based on use of the insurance schemes. The payroll tax for sickness insurance for 2000, 2001, and 2002 was 8.50%, 8.80%, and 11.08%, respectively (National Social Insurance Board, 2003). In contrast, the tax for the aged pension for each of these years was 10.21%. Payroll taxes in Sweden are paid by employers and the self-employed.

sickness benefits are offered through their health insurance plans. These funds are paid through employer and employee financing, with additional supplements from the national government. Though different insurers exist in both countries, the plans and benefits are government mandated and regulated. In Japan, a basic level of coverage is provided by larger employers through Employees' Health Insurance. For persons enrolled in the National Health Insurance (which covers the self-employed and persons not a part of a company with more than 5 employees), short-term disability benefits may or may not be a part of their plan; regional and municipal plans offer different benefits, and there is no national mandate for sickness benefits. In Germany, employers are directly responsible for paying the first six weeks of an illness or injury; if the condition last for longer than six weeks, coverage is then provided for up to 78 weeks through Statutory Health Insurance.

The second option for financing short-term disability programs is through a social assistance system. Individuals and employers do not contribute specifically to the program, as with social insurance systems; instead, financing comes from general revenue. Claims and benefits are paid according to financial need, and so the short-term disability benefit acts as a safety net for those with limited financial resources. In other words, persons may meet the disability tests for the program, but if they fail to pass the means tests, they are ineligible for benefits. Australia has a long history of funding its support programs through social assistance, beginning with an aged pension in 1909. South Africa also bases its program on this model. Both of these systems share another characteristic—a low rate of wage replacement. In Australia, the short-term benefit is indexed to 25% of the average weekly earnings of male workers. While other countries also have systems of means-tested support persons who do not qualify for the standard temporary benefit programs, these systems supplement the primary short-term program.

Private financing is the third method for funding temporary disability benefits among countries in this study. Private financing places the responsibility of benefits on a combination of employers, employees, and/ or a third party that is not a government agency, with fewer regulations or mandates on what is to be provided. This may result in wide variability within a country for certain aspects of the short-term program, such as disability review and rehabilitation issues, which would otherwise be uniform for all beneficiaries. Three countries in our study use this type of financing: Great Britain, the Netherlands, and the United States. Great Britain requires that employers pay for 28 weeks of flat rate benefits for persons with a medical condition that prevents employment. After 28 weeks, individuals may apply for benefits through the long-term disability benefit program. The Netherlands has undergone a dramatic shift in its short-term program. Before 1996, short-term disability benefits were provided through quasi-public institutions. In an effort to curtail increasing disability rolls and to improve accountability, temporary benefits were privatized beginning in 1996. Employers were first mandated to provide six weeks of benefits, then one year, and, beginning in 2004, two years of short-term disability coverage at 70% wage replacement. Employers may carry the risk themselves or use private insurance policies to cover the costs or manage the program. Finally, the United States has a private system of short-term disability benefits that is voluntary for employers. Aside from five states with mandatory short-term disability benefits, employers are not required to provide any short-term disability benefits beyond mandatory sick time allowances. There is, however, the Family and Medical Leave Act that allows employees up to 12 weeks of unpaid leave for medical or family emergencies.

Disability definitions, assessment, and determination. Unlike long-term disability benefits, short-term disability programs are surprisingly consistent in their definitions of sickness

or disability. For all of the reviewed systems, persons qualify for short-term benefits when they suffer from a medical condition that interferes with the ability to work. Australia is unique in having a work component for its Sickness Allowance; eligible persons are defined as being unable to work more than 8 hours per week. In some countries, the definition of disability has a temporal qualifier. To receive short-term benefits in Australia, the condition must be temporary, with an expectation of improvement within two years. In Japan, the condition must last for more than four days.

Whereas there is little variation for the definition, short-term systems do differ in terms of the disability assessment process. Self-certification is usually adequate for brief periods or directly after the onset of a condition before a physician report is required. In Great Britain, this self-certification period lasts seven days. In Sweden, a person can self-report a work-preventing condition for 30 days (including the 21-day period of employer coverage and the first 7 days of public benefits) before needing to secure a medical certificate.

At some point, though, a medical assessment is required, and all of the programs allow for a person's own physician to make a medical assessment with two exceptions: the Netherlands and South Africa. The Netherlands uses physicians employed by the Occupational Health Services to make a determination as to whether a person qualifies for short-term benefits and how long benefits will last. This assessment is also integrally related to the program's emphasis on reintegration. In South Africa, physicians employed by the Department of Social Development review the applicant and determine whether he or she qualifies for the permanent or temporary disability grant.

In Norway, there has been a change in focus in the physician assessment process. Rather than assessing an applicant's incapacity, the physician instead evaluates the abilities of the

applicant. This is significant in that the emphasis is not on how long the applicant should be out of work, but on what work the person is capable of performing. Norway is even going so far as to remove the licenses of physicians not adapting to this new style of assessment.

The decision for receipt of benefits usually falls on the administrative agency responsible for benefits. For example, the National Insurance Office in Norway makes the claim decision based on medical evidence. However, Great Britain has an unusual determination process. After the period of self-certification, the employee must submit a physician report to the employer. The employer then makes a decision as to whether further benefits are warranted. This method is the opposite of the process in Germany, where the employee's physician makes the assessment and then informs the employer how long the employee will be on benefits; there is no requirement for the physician to submit the medical report or even inform the employer about the condition.

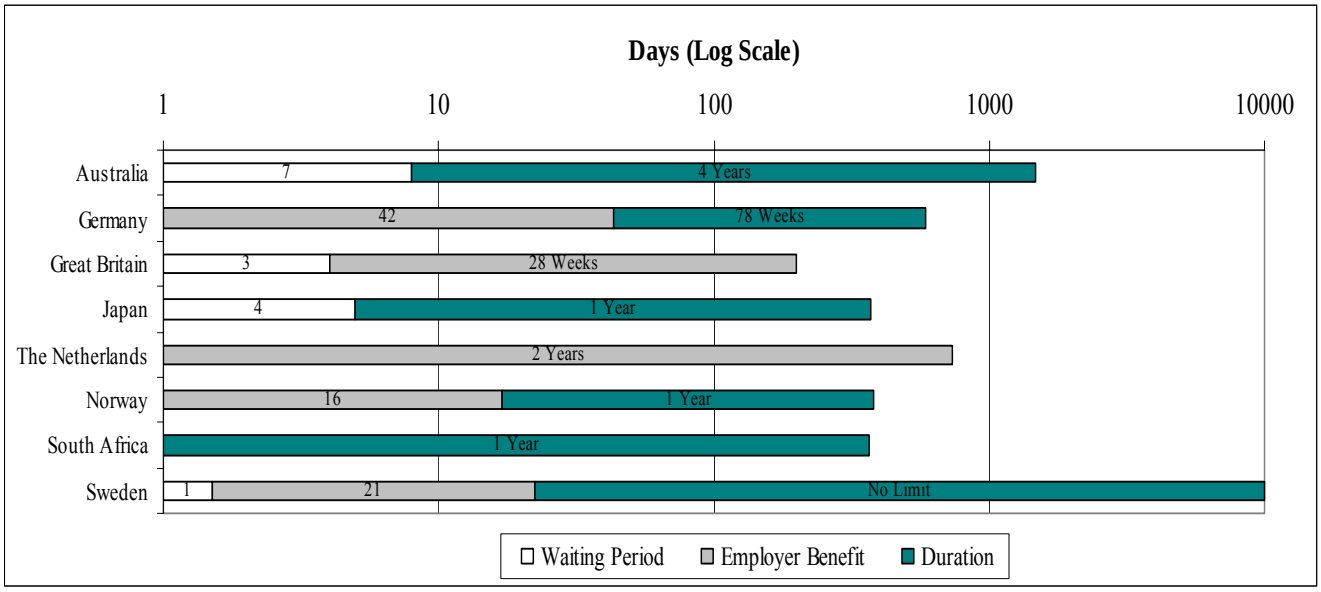
Waiting period and duration of benefits. Short-term benefits can serve simultaneously as a gateway and a buffer between employment and qualifying for the long-term disability benefit program. Figure 2 shows, for the primary short-term disability system in each country, the relevant time periods for benefits, including waiting period, employer responsibility for benefits (if any), and the maximum duration of benefits.

A waiting period may exist for employers to provide a brief period of sick leave benefits or to have beneficiaries rely on their own resources. In several countries (Australia, Great Britain, Japan, and Sweden), there is an obligatory waiting period from 1 to 7 days before sick leave benefits begin where there is no obligation for employer or public financial payments. Australia, with its means-tested program of support, also has a "liquid asset waiting period" where beneficiaries with accessible resources of support must wait up to 13 weeks .

Employers in Germany, Norway, and Sweden have a specified duration of employer financed interim benefits before the public short-term program begins. That period is 16 days in Norway, 21 days in Sweden (recently increased from 14 days), and 42 days in Germany. In Great Britain and the Netherlands, the employer is responsible for the entire amount of short-term benefits.

Short-term benefit programs vary in the maximum amount of time that a beneficiary may receive benefits. In general, the short-term program ends when a beneficiary becomes eligible for permanent benefits. There are two exceptions to this rule. In Australia, beneficiaries with temporary conditions (i.e., expected to last less than two years) may remain on the program for a maximum of four years. Persons with longer lasting conditions experience no waiting period for the long-term disability program. The second exception is Sweden, which has no time limit for its Sickness Program, and whose average tenure on benefits in 2002 was 132 days for women and 124 days for men (National Social Insurance Board, 2003).

Figure 2: Maximum Duration of Waiting Periods, Employer Benefits, and Public Benefits for Short-Term Disability Systems, by Country, in Log Days



Amount of Benefits. Table 3 shows the main short-term programs for each country and the characteristics of their cash benefits, including how benefits are calculated, the maximum benefit and partial payments rates, and any additional benefits offered. There are two ways of calculating benefit amounts: flat rates and wage replacement. Benefits in Australia, Great Britain, and South Africa provide a flat-rate of support irrespective of previous income. Supplemental allowances, for dependents, may be allowed. The second type of benefit amount, wage replacement, provides a specified percentage of one's previous wage, which can range from 60% in Japan to 100% in Norway. For some programs, the wage replacement rate may vary. For example, in the Netherlands, the national government mandates 70%, but employee contracts can specify that employers supplement that amount up to 100% of wage replacement for the first year of benefits. The replacement rate may also differ according to who is paying. In Germany, when the employer pays for the first six weeks of benefits, the replacement rate is 100%, but if the employee moves to the Statutory Health Insurance, the replacement rate decreases to 70% or no more than 90% of the after tax earnings. However, as with the Netherlands, this amount may be supplemented by employers according to the employment contract. For certain programs, there is also a maximum amount (e.g., Norway, with a maximum benefit of 6 times the basic level of benefits). Partial short-term benefits are paid formally in two programs (Norway and Sweden).

Table 3: Benefit Characteristics for the Primary Short-Term Benefit Programs, by Country

Country	Program Name	Benefit Calculation	Maximum Amount	Partial Benefit Rates	Additional Payments
Australia	Sickness Allowance	Standard rate of AU$385 biweekly (Single, no children); reduced amount based on income/ asset tests	N/A	None	Dependents
Germany	Short Term Sickness	Full salary for the first 6 weeks, then 70% of the person's gross earnings	90% of after tax earnings	None	Employer may supplement
Great Britain	Statutory Sick Pay	Standard rate of £64.35 per week	N/A	None	None
Japan	Sickness and Injury	60% of average wages	None	None	None
Netherlands	Sickness Benefits Act	Sick pay replaces 70% of gross wages	Daily rate of 160 Euros	None	Employer may supplement
Norway	Daily Cash Sickness	100% of pre-illness earnings	6 times basic amount	20% - 100%	None
South Africa	Temporary Disability Grant	Standard rate of R700 per month; reduced amount based on assets	N/A	None	R150 per month if personal care is needed
Sweden	Sickness Program	77.6% of prior salary	7.6 times basic amount	25%, 50%, & 75%	None

Role of the employer. Most short-term programs have a direct relationship with the employer—there is a job to which the beneficiary is expected to return. This seems to be either a requirement for some programs, or implied through pension or employment-related financing for others. For example, in Australia, to qualify for the sickness benefit a person must have a job waiting for them. Without a job, they are transferred to unemployment benefit programs. We find some supplementary programs, for example in Australia, Japan, the Netherlands, and Norway, that are specifically for the unemployed who are too ill to work or to look for a job. In Japan, these are the same as regular unemployment benefits, though the length of time may be extended because of having a disabling condition.

Countries differ in what they require that employers do in accommodating employees with disabilities, but in general, they are either mandated by law and/or encouraged through tax incentives and cash payments to make appropriate accommodations for returning employees. In some systems, employers are also involved in the reintegration process (see next section.)

Rehabilitation and disability management. Some form of medical or vocational rehabilitation is available to short-term beneficiaries in all of the countries in this study. However, it is a mandatory or explicit part of temporary programs in only half of the countries: Germany, the Netherlands, Norway, and Sweden. For the others, rehabilitation is implied: to receive the long-term benefit, all rehabilitation options must be exhausted. There are also issues related to the labor market when considering rehabilitation. In South Africa, where the official[14] definition of the unemployment rate in 2002 was 31% (South Africa Department of Labour, 2003), there are few jobs for rehabilitation to focus on.

[14] Reflecting those actively looking for work within the past four weeks.

Germany, which has long promoted "rehabilitation before pension," incorporates rehabilitation measures for short-term beneficiaries. These efforts, however, focus on returning individuals to their same job. More substantial occupation rehabilitation measures (moving an individual to a different job in the labor market) are the domain of the Statutory Pension Insurance, the long-term disability program.

The Netherlands require that employers involve Occupational Health Services (OHS) at an early stage in the short-term disability process. OHS supervises the sickness and reintegration process, including performing the initial medical assessment to receive benefits. By the first six weeks on benefits, OHS assesses the beneficiary's medical condition, the functional capacity, and return-to-work prognosis. Based on this assessment, the employer and employee agree to a reintegration and vocational rehabilitation plan, which is a legally binding contract, within eight weeks of receiving benefits. As mentioned in the previous section, to receive long-term disability benefits, OHS has to explain the rehabilitation plan and why the beneficiary failed to resume work. Employers are required to accommodate workers with disabilities, assist in the reintegration of short-term disability beneficiaries, and provide modified duties to promote reintegration. They are eligible to receive wage subsidies related to making accommodations, including a one-third subsidy for workers with extreme readjustment costs. Beneficiaries are obligated to take acceptable work, whether through their original or different employer. OHS services extend beyond being involved with short-term beneficiaries. OHS may be involved in health issues related to the worksite, including disability prevention, minimizing health risks, and assistance with reintegration. Despite these efforts, rehabilitation expenditures in the Netherlands are 0.5% of total disability costs, which is sizably lower than Germany, with 4.2% (Aarts & de Jong, 2003).

The sickness benefit in Norway specifies that at 12 weeks, the National Insurance Administration create a rehabilitation plan for the employee. Privately run "enterprises" are involved in returning employees work. These organizations have relationships with both employers and the National Insurance Administration for funding and reintegration services.

Sweden has two key rehabilitation components. First, the employer is responsible at 4 weeks for a vocational and functional assessment to return the beneficiary to work. Second, for persons who have exhausted their short-term sickness benefit at one year, but who are actively involved in vocational rehabilitation, Sweden has a separate benefit that lasts for up to one year for rehabilitation. This program allows persons additional financial support but without moving to the long-term rolls.

In contrast to the Netherlands, Great Britain, which also has a private system, has not required any type of disability management or rehabilitation program for its short-term benefit program. There is a pilot project, however, sponsored by the Department of Work and Pension, which administers the long-term program (Incapacity Benefits), that targets short-term beneficiaries in an effort to provide services that may help to prevent them from moving to long-term benefits. No results are yet available for the project.

An integral part of the disability management process is the implementation of an active review process. The Netherlands has one of the most developed processes, with employer/ employee reports at 13 weeks (in the form of a progress report), eight months (a reintegration report), and nine months (employee report to the social security administration). Australia also has a multiple review system, comprised of mailed surveys and in-person reviews.

Relationship between the short-term program and long-term disability benefits. Reaching the end of short-term benefits does not automatically qualify a person for the long-term program.

For none of the countries under review is the transfer from the former to the later "seamless," and all long-term programs require a separate application. Sweden has perhaps the easiest, since both programs are administered by the same organization. Short-term beneficiaries with severe conditions do get an automatic transfer to the long-term program. We have information on only two countries in terms of the flow of individuals from the short-term to the long-term programs. About one percent of short-term beneficiaries in Norway transfer to the long-term program, while the number in Sweden is 7.2%.

Time-Limited Benefits

New forms of temporary benefits ("time-limited") have emerged with characteristics of both short-term and long-term disability programs, yet these time-limited benefits are significantly different from both. Several key traits define these programs. First, time-limited benefits may serve as a replacement for or alternative to receipt of permanent disability benefits. Rather than receiving permanent benefits, where the likelihood of being reintegrated into the workforce is minimal, time-limited benefits are temporary and there is an expectation that the beneficiary can return to the labor force. Second, persons qualify for these programs after their short-term benefits have been exhausted. Third, they are of limited duration of from one to four years. We can think of these programs as being "medium-range," in between a country's short-term and permanent disability programs and perhaps serving as a mediator.

Other characteristics are often found in time-limited programs, though they are not found in all programs. A person's disability or qualifying condition would otherwise allow an applicant into the long-term disability program if the time-limited program were not in place. Rehabilitation activities may be a requirement for participating in the program, whereas this is

not the case for the short-term or permanent disability program components. Four of the programs we will review require specific activities oriented toward reintegration, medical rehabilitation, or vocational rehabilitation. Finally, all of the programs we have studied have been financed by the national government, either through social insurance or social assistance.

Three kinds of time-limited programs are described below. The first is an alternative or replacement for long-term disability programs. The second type is specifically for young adults. The third program is a rehabilitation benefit for persons who are identified as needing rehabilitation assistance to improve their work capacity.

Time-limited benefits as an alternative to permanent benefits. There are three countries where time-limited benefits are an alternative to permanent benefits: Germany, Norway, and Sweden. Sweden has had a temporary aspect of its permanent program since the early 1960s. The characteristics of temporary benefits—the requirements, benefit amounts, levels of partial awards, employment incentives—are the same for permanent benefits under the Sickness Compensation program. The difference is that temporary benefits are awarded when the work capacity of a beneficiary is considered to be reduced for a considerable time-period, rather than permanently. When Sweden's disability system was reformed in 2002 (changing from a pension program to a sickness insurance program), the temporary aspect was retained.

In Norway, persons with the possibility of improvement in their work capacity at some time in the future receive the time-limited disability benefit. The program in Norway is a social insurance funded program that began on January 1, 2004. All applications for permanent benefits, which occur after applicants have exhausted their short-term sickness benefit, are considered for both the permanent and time-limited programs. Persons with at least a 50% disability rating who have the potential of regaining their work capacity are placed in the time-

limited program rather than the permanent program. The duration of the benefit varies between one and four years, depending on the decision by the local National Insurance Office, and benefits are paid at two-thirds of pre-disability earnings or the average of the previous three years of earnings, with thresholds for minimum and maximum payments, and with partial payments available. Rehabilitation is not mandated, though supports for employment include reductions for earnings and the ability to return to the program within three years of leaving the rolls for employment.

Germany's disability program was restructured in 2001. Their disability benefit program shifted towards a time-limited benefit. Rather than receiving disability benefits indefinitely, beneficiaries must reapply every three years. The benefit continues to be pension-related; benefit amounts are dependent on the number of insured years. Partial payments are given for beneficiaries who do not meet the criteria for full disability. Before the reform, beneficiaries with partial benefits who were not employed after a year were automatically promoted to receiving full benefits. Partial benefits are no longer systematically upgraded.

The permanent receipt of disability benefits has not been entirely eliminated. Persons who are severely disabled or who are 60 years of age or older are given a permanent benefit. There is also a clause in the current system that persons who qualify for the time-limited pension benefit three times receive a permanent benefit and no longer need to reapply.

Youth-oriented time-limited programs. One of the most difficult issues facing many disability benefit systems is the rise in relatively young working-age persons receiving long-term disability benefits. These individuals, often with disabling conditions involving mental illness, represent significant costs, with each case having the potential for being on the disability rolls for more than 40 years. In response, two countries have developed time-limited programs targeted to

youth. Young adults are channeled into time-limited programs in the hopes of avoiding entry into the long-term disability program. These programs are administered separately from other disability programs.

Sweden's Activity Compensation programs are targeted to persons between the ages of 21 and 29, an age group that is not eligible for the permanent disability pension. One program is social insurance based, for those who have previously worked and paid into the pension system, and the other is a means-tested program for persons without a sufficient work history. Both programs operate in a similar manner. Eligible persons receive an Activity Compensation rather than a disability pension. To receive benefits, a person must be unable to make a living through work or have a reduced capacity to work of at least 25%, and the disabling condition must have lasted for at least one year. In addition, their rehabilitation options have been exhausted. Benefits are paid on a graduated scale or at 64% of the individual's average income, and the time on the benefit is restricted to three years. Rather than require specific vocational rehabilitation, there are no rules on the activities of beneficiaries. The activities, though, should have a positive effect on general performance and lead to or improve work capacities (Möller, 2004). Examples of activities include school courses, involvement in sports, exercise programs, and work training experiences.

Australia's Youth Allowance is different from Sweden's in that persons on the program are not restricted from accessing the permanent disability benefit program. However, it does support youth, specifically those with potentially debilitating health issues. As with its other disability and support programs, the Youth Allowance is a means-tested benefit. It is for students between the ages of 16 and 25 and employees between the ages of 16 and 21 who are too ill to study or work. In addition to youth with disabilities, it also serves as the unemployment program

for this age group. The unemployment component has activity requirements, from which beneficiaries on the program due to health issues are exempt.

Rehabilitation programs. Another alternative to permanent benefits are benefits specifically for persons who are involved in rehabilitation or who have return-to-work potential. These programs may not be strict time-limited programs, in that the beneficiaries of the programs may or may not have qualified for a long-term disability program, but they are worth mentioning because they are a valid addition to the tools available to return persons to the labor market. Germany, Norway, and Sweden all have such programs. Since each of these programs has similar characteristics, we describe in detail the programs in Norway.

Norway has two rehabilitation programs. Medical rehabilitation benefits are offered through the National Insurance Agency, while vocational rehabilitation benefits are administered by the Directory of Labor. Both programs are funded through the social insurance scheme. To qualify for benefits, applicants must have a disability rating of at least 50% and the condition has to have lasted for at least one year (i.e., they have received sickness benefits for one year). They also must be actively involved in rehabilitation. Cash benefits are paid at a rate of two-thirds of former earnings. These benefits are granted for a period of one year, and beneficiaries may apply for permanent disability benefits at the end of that year. In 2002, 52,778 persons received the Cash Vocational Rehabilitation benefit, of whom 44,275 (84%) left the program rolls. Of those who left, 10,438 (24%) transferred to the permanent disability program.

With the exception of Norway's rehabilitation benefit, there is no information on the number of persons who receive these benefits or their outcomes. It is too early to tell how these time-limited programs will affect the reintegration of persons with disabilities and the movement of persons to the long-term rolls. A particular concern will be what happens as individuals reach

the end of their benefits. The first wave of German beneficiaries is now reapplying to receive benefits that are coming to an end. How many will reapply and how many will return to work? In the Swedish Youth Program, what will happen when beneficiaries reach the maximum benefit? If these programs have the intended effect, there should be two distinct and measurable outcomes: the rates for participation in rehabilitation services and in reintegration should be greater than the rates for traditional permanent programs.

Despite the lack of results, there are some possible advantages from having time-limited programs:

- The limited duration of benefits provides a possible incentive for persons to return to work by the time benefits end.
- Time-limited programs recognize that persons with disabilities have rehabilitation potential.
- Reintegration, rehabilitation, and return-to-work services should be not only available, but should expect to be utilized by recipients.
- Young adults with disabilities are a group that deserves specific (vocational) attention.
- Time-limited programs may have the potential to control the growth of permanent disability programs and reduce program expenditures if they are effective at returning persons to work.

Findings and Lessons

The changes among temporary disability programs reflects those for disability systems in general. A recent OECD report (2003) has detailed this shift away from income replacement or

compensation to reintegration, with mutual obligations for support and returning to work on the part of all parties (the disability benefit program, the beneficiary, and the employer). Short-term benefits for many countries have been a rising cost, both in terms of utilization and budget. Temporary benefits also serve as a gateway for moving to the long-term program. Four clear lessons emerge from our analysis.

Increased emphasis on the financial role of employers and employees. We see an increased emphasis on the role of both the employer and the recipient regarding fiscal responsibility. One way is through the delay of benefits. A waiting period, such as found in Australia (1 to 13 weeks), places the burden of financial support on the beneficiary. Another option is to increase the amount of time that an employer must support an employee before the sickness benefit begins. In Sweden, where employers had been responsible for two weeks of sickness benefits, a commission examining the rise in disability benefit systems recommended that employers be responsible for 60 days of benefits (Rydh, 2004). Instead, employers' responsibility increased to three weeks, over much protest. In Great Britain, the period during which short-term benefits are paid increased from 8 to 28 weeks in 1995. In the Netherlands, this shift took a more extreme form, as short-term benefits were at first privatized and the duration of benefit increased to two years. All of these measures were taken to offset the costs of the long-term program.

Increased reintegration services and opportunities for early interventions. There are two reasons why short-term benefit systems have increased their emphasis on reintegration. First, increased rehabilitation and disability management services can decrease the amount of time beneficiaries spend away from employment. Second, because sickness and short-term disability

benefits may serve as a stepping stone to long-term benefits, early intervention has the potential to defer this process.

Different players are responsible for reintegration in the examined countries. The Netherlands, with its private system of short-term support, has mandated that the Occupational Health Service be involved, not only in the disability management of short-term beneficiaries, but also with employers to help them manage risks. In Sweden, reintegration is the primary concern of the employer. For both Germany and Norway, the agency administering the benefit creates the reintegration plan. Norway, however, is moving toward a third party for its reintegration services through private enterprises. We have no information to decide which method is more successful in its return to work efforts.

For each of these programs, the emphasis is on identifying issues, developing plans, and offering appropriate services at early stages– within the first three months—of the condition onset. This is relevant for long-term disability programs as well. In Great Britain, the fact that the administrator of its permanent program is sponsoring projects to assist in the reintegration and rehabilitation supports of short-term beneficiaries provides substantial evidence that early intervention is a primary concern.

Movement toward increased disability management. There are several ways that temporary disability programs are integrating better disability management practices. Standard disability duration guidelines, with specific allotments of time for specific conditions, reduce some of the variability in time-off for illnesses. There are also advancements in the need for physician certification at earlier points in the benefit claim, as well as changing the focus of what the physician is looking for in terms of incapacity or ability (e.g., in Norway). Perhaps most important are increases in review standards. This takes two forms. First, the frequency of review

is increasing, as in Australia, with administrators requiring at least minimal checkups about every three months. The type of information is also important. In the Netherlands, reporting occurs from all parties, including the employer, providing documentation as to the steps beginning to be used to return a beneficiary to work.

Movement away from sickness benefits to other types of activity/ rehabilitation/ reintegration benefits. Many programs have changed their orientation from "sickness benefit" to "activity benefit." This represents a significant shift in the zeitgeist of these programs, where beneficiaries are expected to be involved rather than just receive a benefit. This move accompanies what is essentially the creation of a variety of programs, or benefit strands, oriented toward specific disability populations. Rather than a "one benefit fits all" model, the availability of multiple options for persons with disabilities within a coherent disability benefit system—short-term benefits, youth-oriented programs, cash rehabilitation benefit programs, unemployment programs for persons for disabilities, time-limited benefits—may improve the access to employment opportunities and improve the outcomes for persons with disabilities.

Conclusion

This chapter has reviewed the characteristics of temporary disability systems among the various countries in this study and has noted recent developments in the temporary programs among participating countries. Many countries have recently shifted fiscal and rehabilitation responsibilities to employers. In addition to the traditional sickness program, which offers benefits to persons when they first become ill or injured, temporary programs have also expanded into areas, which were once the sole domain of long-term disability programs. Some

countries are indeed using temporary programs as a means to divert or assist persons before their condition gets to a point where they should or must apply for permanent benefits.

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Chapter 3

The Role of Partial Disability Pension Schemes:
Is There a Role for Partial Benefits in a Country's Contributory Disability Pension Insurance Program?

David Dean

Summary: Partial disability pension programs provide benefits to persons who are capable of working but, due to a medical impairment, are limited in the kind or amount of work performed. While most industrialized countries face rising disability pension rolls and decreasing labor force participation for persons with disabilities, little is known as to whether partial disability pension programs reduce or exacerbate pension program growth. Five of the nine countries included in this study have partial disability pension programs: Germany, Japan, the Netherlands, Norway, and Sweden. There is significant variation among these countries' partial pension programs with respect to features such as eligibility determination, benefit payments, and work incentives. This chapter attempts to compare the different partial disability programs in the selected countries and to analyze their labor force and public finance impacts. The first section provides some background on partial benefits programs in our selected countries. The second section examines the relationship between full and partial disability pension programs for the countries in our sample having both. A third section examines the utilization of the partial pensions, including both recipients and new applicants and provides some explanations for the recent increase in their utilization. The fourth section examines the amount of employment being undertaken by persons receiving partial pensions and discusses work incentives available to persons on partial versus full disability pensions. The last section summarizes some general findings concerning partial disability pension programs.

The introductory chapter showed that in most of the countries under review disability insurance pension expenditures are a relatively high share of GDP and that this share has generally been rising in most countries over the past several decades, particularly the 1990s. Along with these rising expenditures is an increase in both the numbers of recipients and applicants for disability insurance. Compounding the problem is the dearth of persons with disabilities who exit the disability rolls by returning to the labor force. In response, many countries are undergoing a dramatic transformation of their disability insurance program's eligibility criteria, and duration and amount of benefit payments. For instance, of the countries in

the current study, significant reforms have taken place in the last decade in Australia, Germany, Great Britain, the Netherlands, Norway and Sweden.

One consideration in this discussion of rising disability rolls and subsequent reforms is the role of partial disability benefit programs. Such programs provide payments to persons who are capable of working but, due to a medical impairment, are limited in the kind or amount of work performed. Five of the nine countries included in this analysis allow for partial disability insurance-related payments: Germany, Japan, Netherlands, Norway, and Sweden. However, there is significant variation among these countries' partial benefit programs with respect to features such as eligibility determination, amounts of benefit payments, and return-to-work incentives. There is also considerable controversy as to whether these programs increase or decrease the overall expenditure on disability benefits. On the one hand, partial benefit programs may allow for more work and serve to reduce the high unemployment rates for persons with disabilities. On the other hand, partial pension programs may serve as a gateway to receiving a full disability pension.

This chapter seeks to compare the different partial disability programs in selected countries and attempt to analyze their labor force and public finance impacts. The first section provides some background on partial benefits programs in our selected countries. Extreme caution must be taken when trying to make such cross-country comparisons. The second section examines the relationship between full and partial disability pension programs for the countries in our sample having both. A third section then examines the utilization of the partial pensions, including both recipients and new applicants and provides some explanations for the recent increase in their utilization. The fourth section examines the amount of employment being undertaken by persons receiving partial pensions and discusses work incentives available to

persons on partial versus full disability pensions. The last section includes findings and concluding remarks concerning partial disability pension programs.

Examining Partial Disability Benefits - Comparing Apples to Apples?

Determining which Countries Meet the Disability Pension Criterion. Attempting cross-national comparisons of disability policy is a tricky business. Cultural differences, language barriers, definitional distinctions, data collection, and reporting issues all must be grappled with. It is imperative to compare "apples to apples." This section provides a framework to allow comparisons across the countries in our sample that provide partial disability benefits.

Many countries have two distinct disability benefit programs for their citizens with disabilities. One program is based on a "social insurance" principle, wherein disability benefits are earned, much like retirement benefits, through payments made via a mandatory payroll "contribution" to a national pension plan. Eligibility for benefits is usually predicated on the contribution's exceeding some minimum amount and period of time. In the United States, this program is called Social Security Disability Insurance (SSDI).

The other program is a social assistance program where eligibility for benefit receipt requires meeting both a disability criterion and a "means" test. Benefit payments, usually smaller in magnitude, are made to persons who are unable to work due to congenital or early-onset impairments that preclude them from significant labor force attachment. These benefits, such as those paid through the United States Supplemental Security Income (SSI) program, are funded from general government revenue (i.e. "non-contributory"). The latter involves having family income and assets below some prescribed thresholds.

For the most part, partial disability benefits are part of social insurance programs. As such, comparisons will be made only with respect to partial disability *pensions*. This examination excludes from consideration partial disability benefit payments resulting from "indemnity"-related payments, such as a country's work injury or war-related injury compensation programs. For instance, the United States provides partial disability benefits through the state-administered workers' compensation system. Depending on the state, "permanent partial" benefits are payable through a medical listings, wage-loss, or hybrid system combining aspects of both these approaches. Along these same lines, we are not considering the United States Veterans' Compensation and Pension program, which has two million beneficiaries receiving benefits from 106 USD to 2,239 USD monthly for service-connected disability ratings from 10% to 100% (Department of Veterans Affairs, Compensation and Pension Service, Fact Sheet Website, 2004). These indemnity payments are generally independent of any other income sources, including earnings from work.

Some countries' partial programs do not precisely fit the above criterion. First, the Netherlands has included work injuries in its national disability pension programs since 1960. The Dutch do not break out reporting of payments according to the nature or source of the impairment. Thus, unlike almost all other countries, the reporting of partial pensions for the Netherlands includes those persons with permanent partial impairments due to work injury.

In some countries the distinction between their social insurance and social assistance programs is not so clear cut. Japan's two-tiered social insurance system combines a mandatory employees' pension insurance and a national pension program. All persons in the employer pension plan are also enrolled in the basic national pension plan, which is for everyone. There are four times as many persons enrolled in the national pension plan as in the employer pension

plan. Both are financed by equal employee and employer contributions, with a one-third contribution from government general tax revenues for the national pension. Thus, the Japanese system is really a hybrid, wherein the contributory program finances two-thirds of the basic "pension" available to those who have not been contributing to the employee pension program. The reporting for partial pension purposes in the remainder of this chapter will focus only on those eligible for the latter contributory pension plan.

Australia and South Africa do not have contributory national disability pension programs, and instead have means-tested programs in both income and assets. It is important to note that Australians are also eligible for partial disability benefit payments if they have an income or asset level *above* the designated threshold. This qualifies the person for a reduced pension, even though the person may be totally disabled. In other words, entitlement for partial benefits is not related to the disability level. Consequently, we exclude from further consideration the reduced disability payments in Australia's non-contributory program system.

Finally, this focus on disability pension programs precludes comparisons with Great Britain's Working Tax Credit Program, which was covered at length in Chapter One. This means-tested disability-related tax credit scheme provides incentives for persons with disabilities to engage in paid employment on a part-time basis. It is aimed at providing financial assistance to those persons with disabilities who are already working, as well those seeking to leave the long-term Incapacity Benefits. The tax credit initiative was first established in 1999 and significantly reformed in April of 2003. This wage subsidy program can be considered a partial *benefits* program as it may apply to persons who are partially disabled. However, it is not limited to those making contributions to the disability *pension* program. Its non-contributory nature do not allow for comparisons to the other partial pension programs examined in this chapter.

Comparing DI Recipient Rates among All Countries in the Sample. Before making cross-national comparisons it is important to observe the similarity between the percentage of a country's GDP expended on their national disability pension payments, provided in Figure 1, and the disability recipient rate provided in Figure 2. Indeed, the correlation coefficient for these two figures for the eight countries (including the United States., but not South Africa) is quite high, at 0.76. It indicates that limiting the costs of a program requires controlling the number of beneficiaries. Further, as will be discussed later in this chapter, virtually all countries have very low exit/termination rates from their disability insurance rolls through return-to-work programs. Thus, the only way to reign in disability insurance costs is through reducing the inflow of beneficiaries.

Figure 1: Disability Pension Expenditure as a Share of GDP in 1999

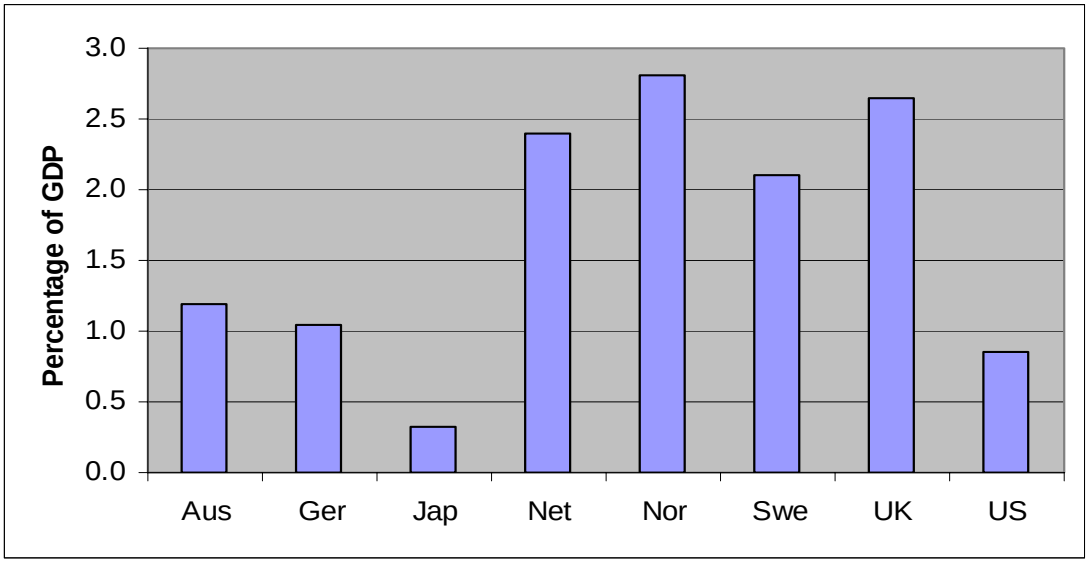


Figure 2: Disability Pension Recipiency Rate in 2002

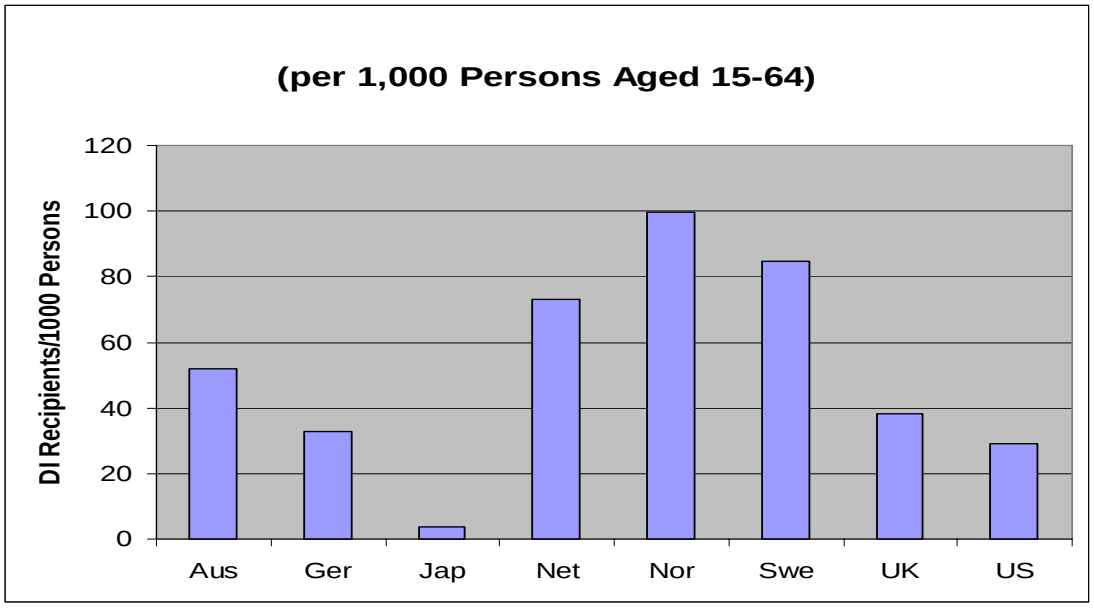


Figure 2 provides an overview of the disability pension recipient rate in 2002, including both partial and full pension beneficiaries, for the various countries included in our study. The numerator in this rate calculation consists of the number of beneficiaries in current payment status in 2002 (typically reported as the number of persons receiving benefits on the last day of the year). The denominator includes the number of the total working-age population (i.e., 15-64). The age group data were not collected on the survey and are not available yet for the 2002 period. Instead, the number in the age interval 15-64 is generated from OECD reports for 1999. The assumption is made that the numbers in each country did not change over the three-year period. Since South Africa does not have a partial disability pension program, they are not mentioned further in this analysis.

This is particularly noteworthy given the apparent direct relationship between the availability of partial disability pension benefits and the disability insurance recipient rate. Norway, the Netherlands, and Sweden, which all provide partial disability pensions, have significantly higher disability insurance recipient rates–at 100, 85, and 73, respectively, per 1,000 working age persons–than the other five countries examined. This finding is consistent with the OECD (2003, page 66) analysis that "countries with a graduated system of partial benefits reflecting different degrees of disability are by and large countries with particularly high disability beneficiary rates."

The situation in Japan, however, reveals that there is certainly not perfect correlation between disability insurance recipient rate and the presence of partial disability insurance pensions. Japan has, by far, the *lowest* disability insurance benefit recipient rate – at only four "employee plan" pensioners per 1,000 working-aged persons. As we detail in the next section, one explanation is the higher threshold for eligibility in the Japanese system. Unlike most other partial pension systems, Japan's eligibility determination process is based solely on the person's functional limitations, independent of that person's labor market and "earnings capacity" status.

Finally, Germany has a fairly low disability insurance recipient rate at 33 beneficiaries per 1,000 working age disabled. Both Australia, which is a non-contributory program, as well as Great Britain have higher disability pension recipient rates, at 52 and 38 beneficiaries per 1,000 working-age disabled. Indeed, at 29 per 1,000, the disability pension recipient rate for Germany is comparable to that of the United States, which, of course, does not have a partial pension program.

Determining Whether to Award Full versus Partial Disability Pensions

In countries with partial pensions, the disability determination decision is not a binary designation but rather suggests a continuum, covering a broad range of functional limitations. Conversely, countries without partial disability pensions award an applicant a full disability pension or no benefit. Irrespective of whether they offer a partial pension though, each country has a threshold/borderline that it develops for determining whether an individual is disabled enough to warrant receipt of a full disability pension.

What then constitutes a full disability? The question facing any country administering a disability pension plan is how to objectively measure disability. This determination involves some combination of criteria concerning: 1) the presence of a medically-determined condition (e.g., medical listings); and 2) some loss in earnings capacity resulting from a limitation in the kind or amount of work performed. For instance, in the United States an individual must have both a medically determinable physical or mental impairment expected to last one year (or resulting in death) and an inability to engage in substantial gainful activity (SGA). The latter is a monthly amount, 810 USD in 2004, tied to a national average amount of earnings.

This earnings threshold indicates that a person does not, in fact, have to be unable to work to be considered totally disabled for pension eligibility purposes. For comparison purposes, a person working 40 hours per week at the U.S. federal minimum wage of 5.15 USD per hour would earn 824 USD in a 20-work day month. Thus, a liberalization of the SGA standard allows for more persons to meet the definition of total disability.

Many countries do not require a 100% disability "rating" in order to be eligible for a full disability pension. Australia's aforementioned DSP incorporates a scale of functional capacity

involving a 40 or 50-point rating system for each of several different body systems. These tables assess whether the applicant meets an empirically agreed threshold which relates the functional capacity of body systems to work capacity. The tables have a maximum scale of 40 to 50 points, with a score of 20 necessary to qualify for benefits. Thus, the DSP does not require a "total" disability determination (i.e., the maximum impairment score). However, a score of 20 suggests a significant inability to maintain adequate levels of employment.

Australia also requires a second criterion of having a continuing inability to work 30 hours per week at full wages for the next two years. As the OECD (2003, page 101) points out, "Australia stands out as the only country with no benefits for partial disability and with a rather low entry level for full benefits, corresponding to about 25% work incapacity (though not specified as a percentage)." This is one explanation for Australia having a fairly high DI recipient rate (from Chart 2), considering that benefit levels are fairly low due to their being means-tested.

Criteria for a Full Disability Pension. Each country's disability pension system must have criteria for a threshold to be fully disabled and eligible for a full benefit. These vary greatly across the various countries that offer partial pensions. We summarize the eligibility requirements for a full versus partial pension in each of the five countries.

- *Germany* requires receipt of six months of sickness benefit, after which persons apply for an incapacity pension. An independent medical assessment provided by the social-medical service, which is part of the pension scheme's administration, uses data from medical records and, if necessary, a medical examination to determine the person's occupational capabilities. Given that rehabilitation is not feasible, the assessment then

addresses whether or not and how long a person can work on their current job. Workers who are unable to earn a regular income (less than 3 hours of daily work) owing to reductions in physical or mental capacity are eligible for a *full disability pension*.

- In *Japan*, to be considered fully disabled, a person must have one of 11 kinds of disability conditions classified as Grade 1, which indicates that the individual is totally incapacitated and requires constant attendant care. Such a classification qualifies the disability pension claimant for a benefit that is 100% of the Basic National Pension and 125% of the Employees' Pension. Under the Employees' Pension program, there is an additional list which stipulates 22 disability conditions to define if they are qualified for a one-time disability allowance. In both cases, mental disabilities and intellectual disabilities are evaluated separately by qualified medical doctors.

- *The Netherlands* disability pension application process usually begins after about nine months of work incapacity (and concomitant receipt of sickness benefit payments). The claim is adjudicated by a team consisting of a specialized medical examiner/physician and a vocational expert who are employed by the UWV (Social Insurance Institute). This pair jointly determines the degree and permanency of disability and the worker's rehabilitative potential through personal interviews. In the first stage of the process the insurance physician conduct a "capacity profile" measuring the claimant's ability to undertake 28 different types of tasks. This assessment is then followed by the labor market expert's determination of the claimant's residual earnings capacity using a Function Information System (FIS). The FIS is a constantly updated database containing

information on some 8,200 functions in the Dutch labor market and the (mental and physical) capacities they require. This system helps to identify the three most appropriate jobs that the person is qualified for with their residual functioning capacity. The difference between the person's pre-disability earnings and their current earnings capabilities is measured as the degree of earnings incapacity. If there is an earnings incapacity rating assessed by the medical advisor and labor market expert of greater than 80% the person is eligible for a full disability pension. This benefit is set at 70% of their average pre-disability earnings.

- *Norway* and *Sweden* appear to have quite similar criteria for assessing eligibility for a full disability pension. Specifically, a social insurance board reviews medical criteria and makes an assessment of 100% incapacity.

Criteria for a Partial Disability Pension.

- In *Germany*, workers whose impairment reduces their earnings capacity to between three and six hours per day when compared with other workers with similar training and experience are eligible for a *partial disability pension*. There are no general medical listings in the German determination process, especially for the partial-full distinction for the categories "between 3 and 6 hours" and "more than 6 hours daily." The German social insurance system is currently implementing a reform whereby only medical factors will be considered for a partial disability pension. The former system, which considered the availability of part-time work for partial pension availability, is being phased out.

- The *Japanese system* has two different partial pension benefit levels, depending on the severity (grade) ranking of the particular disabling condition. Those individuals judged to have a 2nd grade disability, through one of 17 conditions that severely limits the individual's ability to live independently, qualify for a 100% pension through the Employees' Pension and 80% of the Basic National Pension. Persons with a less severe 3rd grade impairment – one of 14 conditions found in the impairment ratings - qualify for 100% of the Employees' Pension only. As an example of these disability gradations, a person qualifies for a full pension with a 1st Grade disability of "loss of all fingers on both upper limbs". A 2nd Grade disability is "Loss of the thumbs and forefingers or middle fingers of both upper limbs." A 3rd Grade disability is a "functional loss of four fingers including a thumb and a forefinger in an upper limb." (Kohyama, 2004.)

- *The Netherlands*' disability pension program is remarkable for the range (and number) of gradations allowed for receipt of a partial disability pension. Recall from the previous section that the degree of disability is determined by the worker's residual earnings capacity (in performing any job in the Dutch economy) as a percentage of their pre-disability-onset earnings. The degree of disability is then used to establish the amount of the partial disability benefit level. Qualifying conditions for the WAO *partial* disability pension are a loss of earning capacity ranging from 15% to 80%, with benefit amounts depending on the degree of disability. There are six different partial disability categories: 15-25%, 25-35%, 35-45%, 45-55%, 55-65%, and 65-80%. The benefit payment is determined by taking the mid-point of the particular range in which the disability rating falls and multiplying this value by 70%. Thus, the lowest disability rating category of 15-

25% has a mid-point of 20%, which, when multiplied by 70%, yields a benefit of 14% of covered earnings.

- *Norway*'s partial pension process allows for determinations of disability ranging from 50-95% in five percent increments. Partial pension payments are then awarded according to the amount of disability rating.

- In *Sweden*, there are currently three classifications of partial disability in 25% increments (25, 50, and 75%). Partial pension payments are then pro-rated according to quartile impairment rating.

Utilization of Partial Disability Pensions

There are two ways to examine the usage of the partial disability pension option in the five countries in our sample that offer both full and partial pensions. One approach is to examine the distribution of partial pensions amongst all recipients of disability pensions at a certain point in time. This can be viewed as an examination of the "stock" of persons on hand at a given point in time, irrespective of when they started to receive the disability benefit. Persons on the rolls for one day (i.e., just awarded the last day of the year), as well as one, five, ten, and even 40 *years* are included in such an analysis.

The other approach is to examine only the "flow" of new awards onto the disability pension rolls during a given calendar year. It is important to recognize that the former approach also includes all such new awards. However, the latter approach provides a better description of

the impact of current eligibility criteria, in that it focuses on a recent discrete time period. That is, new awards in a year reflect only those that were given in light of the eligibility criteria in force during that time period.

Figure 3 provides the share of all pension beneficiaries in a given country that are receiving a partial pension as of the end of 2002. This comparison is consistent with the presentation in Figure 2, which examines the number of all disability insurance beneficiaries on hand at the end of 2002 per 1,000 working-age persons. Indeed, the denominator in the ratio used for Figure 3 is the numerator just noted for the rate plotted in Figure 2.

The first bar in Figure 3 indicates the extremely small share of partial disability pensions held by recipients of disability pensions in Germany in 2002. Only 6.4%, less than one in sixteen of the 1.8 million persons on a disability pension, received a partial pension in this year. This figure emphasizes the legacy of the German system's lack of success in keeping persons with disabilities employed on a part-time basis. In stark contrast, in Japan more than four out of five pensions paid out in 2002 (82.7%) were for 2nd or 3rd Grade partial pensions. This large share reflects the difficulty in securing a 1st Grade pension in the employer's pension program. As previously mentioned, individuals eligible for the full disability pension must be so severely disabled that they require attendant care.

The rate of partial disability pension benefits are more uniformly distributed in the remaining three Northern European countries included in the sample. The partial disability pension recipient rates at the end of 2002 were roughly one in five (20.9%) in Norway, one in four (24.0%) in Sweden, and one in three (31.7%) in the Netherlands.

As noted above, this reporting includes disability pensions awarded using ever-changing eligibility criteria over many years. This is particularly true for the four European countries,

which have undergone extensive legislative reforms in the past decade. It takes several years for the effects of legislative reforms to show up when examining the "stock" of all current DI recipients. For instance, contrast the 24% partial disability share reported in Sweden for 2002 with only 15% of Swedes on disability pensions designated as partially disabled in 1995 (Aarts, Burkhauser, & de Jong,1998).

Figure 4 provides the percentage of partial pensions as a share of all new disability pensions awarded in 2002 for the five countries in the study that offer partial pensions. In each of the four European countries, the partial pension share of all new disability insurance awards in 2002 is higher than the ratio they comprise of all beneficiaries on hand as presented in the previous chart. In other words, partial pensions are more likely to be awarded currently than they have in the past. The partial pension award rate in Germany was 19.5% in 2002. This is more than three times the rate for all pensioners on the DI rolls at the end of 2002. In the Netherlands, of the more than 88,000 beneficiaries moving onto the rolls during the year, the share that is receiving partial pensions (47%) is significantly higher than for the overall stock of beneficiaries on the rolls at the end of the period (the aforementioned 31.7%). In Norway some 32.9% of disability pension awards in 2002 were for partial disability benefits, versus only 20.9%. Similarly, the partial pension award rate in Sweden of 32.5% was also significantly higher than the 24% rate for all DI pensioners on the rolls at the end of 2002.

It must be noted that, once again, the partial pension award situation in Japan ran counter to the European experience. The share of partial pensions awarded in 2002 was under 70%, which was significantly lower than the overall partial pension recipient rate of 82.7% for all persons on the employer pension plan at the end of the year.

The extent of this usage of partial pensions has been fairly stable in the past few years in Norway and Sweden. Table 4.2 on page 67 of the OECD (2003) publication reports the proportion of new recipients granted a partial benefit in 1999 were 33% and 34%, respectively. The partial pension share in 1999 for the Netherlands was also 33%, which was significantly lower than the share awarded in 2002.

There are several explanations for this rise in the share of partial disability pensions. One explanation lies in the reforms associated with the determination of the inability to engage in one's *own occupation* in the same geographic area. This has led to legislative changes in Germany, Netherlands, and Norway where individuals now must accept work in *any occupation* available in the national economy. As an example, prior to recent reforms, Germany had a dual-disability pension system. The Occupational Disability program provided partial benefits, set at a level that was two-thirds of a full benefit, for those who are more than 50% disabled with regard to their usual occupation. In addition, until 2001, there were very specific rules as to what constituted a suitable job for a partial disability pensioner. Skilled workers could refuse any job that was not at least semi-skilled, and semi-skilled workers could reject unskilled jobs that were not prominent in pay and prestige (Bound & Burkhauser, 1999). Such distinctions between being able to engage in their usual occupation versus any available job have now been discarded.

Another explanation for the rise in the prevalence of partial pensions is the increasing share of disabilities attributable to mental illness and back injuries. These impairments are episodic and don't readily lend themselves to either disability ratings or quantifiable hours of work per day measures. Rather than granting full pensions, there may be a tendency to offer partial pensions.

Figure 3. Share of Disability Pension Beneficiaries Receiving Partial Pensions in 2002

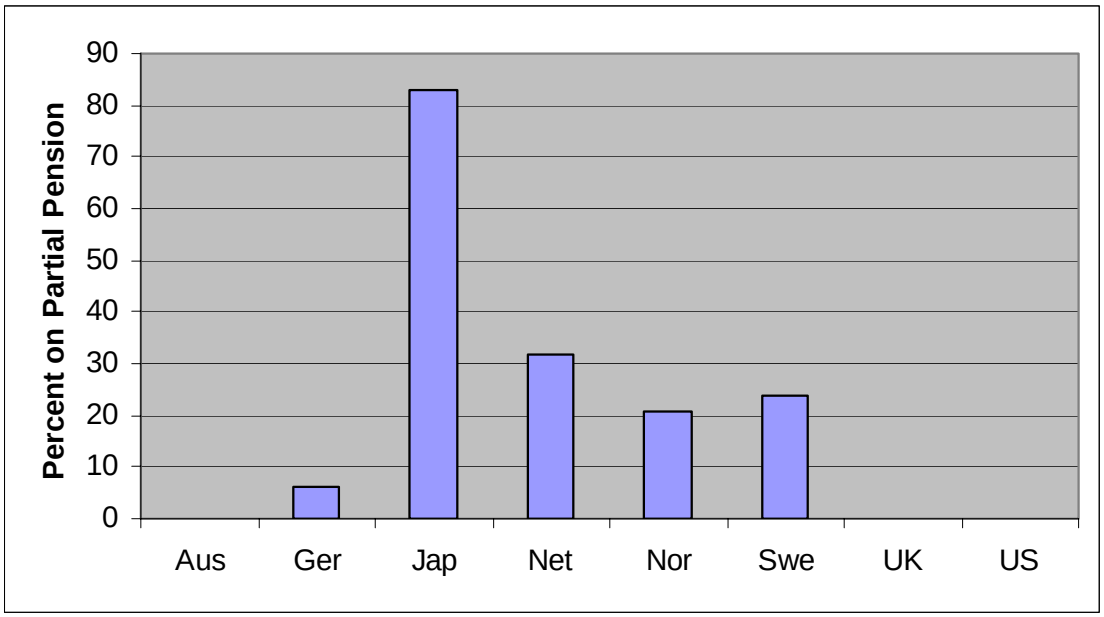
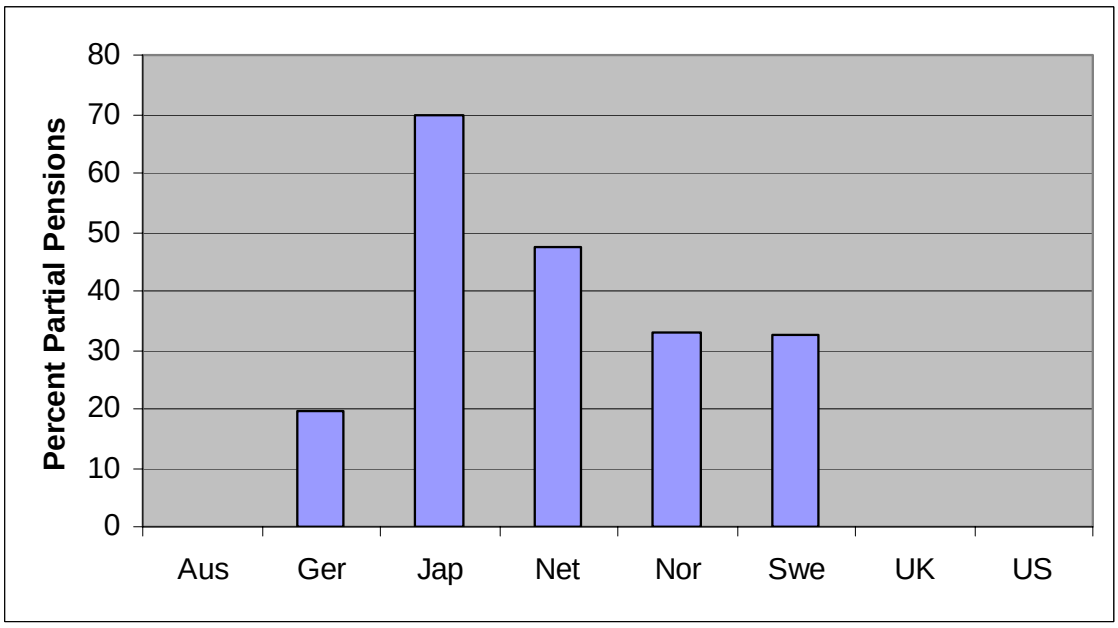


Figure 4. Share of New Disability Pension Awards in 2002 for Partial Pensions



Do Partial Pensions Foster Labor Force Participation?

Return-to-Work Regulations and Incentives while Receiving a Partial Disability Pension. One of the key issues in examining partial disability pension programs is the extent to which they encourage greater return-to-work for persons with disabilities. A problem such social insurance programs have to grapple with is the disincentives to work that come with receipt of disability pension payments. What are the earnings limits before the person's benefit is reduced? By how much should the benefit payment be reduced as people do resume work? At what point are benefits completely phased out?

Each country has its own set of regulations concerning the amount of work that can be undertaken while receiving partial disability benefit payments. A brief description of each country's work rules while receiving a disability pension is provided.

- Again, Australia's non-contributory means-tested disability pension is a form of a partial pension, albeit not disability-related. Their pension program has allowable earnings for persons with disabilities that depend on the individual's marital status and the number of dependents. In 2004, a single person without children can earn up to 120 AUD[15] on a biweekly basis without a reduction in their maximum disability pension benefit. Any earnings above this amount result in a 40% benefit reduction for this single beneficiary. The maximum income that can be earned before disability benefits are reduced entirely is roughly 1,300 AUD (biweekly).

- Prior to the reforms recently implemented in Germany, there was little incentive for partial pension recipients to return to work. In the case of a typical earner, almost the

[15] On June 30, 2004, 1.438 Australian Dollar (AUD) = 1 United States Dollar (USD).

entire earned income above the stipulated earnings threshold was deducted from the pension; the "marginal tax rate" on earnings above this stipulated minimum was extremely high. Moreover, partial pensions reverted to full pensions if the person was still unemployed after one year. Currently, people on full disability pension are allowed to earn up to one seventh of the "reference" income, an amount set at 345 EUR[16] in 2002. They may exceed this amount in two months within a 12 month period. Persons on partial pensions can earn an unspecified amount above this supplementary earnings amount.

- Eligibility for the Japanese disability pension system solely emphasizes a person's functional limitations, which may be independent of earnings capacity. That is, persons may indeed have a long-term impairment and resulting limitations in daily living and still be able to maintain employment. There are apparently no restrictions on earnings for recipients of an employees' pension.

- The Dutch disability pension system allows recipients to undertake paid work while still receiving benefits. Full benefit recipients may engage in paid work in two circumstances: 1) if the recipient is earning less than 15% of former wages; or 2) while the recipient is engaged in temporary employment while keeping the formal right of a full benefit. There are different rules for those on partial pension. If employed, partial benefits can be combined with earnings up to the threshold of the person's pre-disability wage.

[16] On June 30, 2004, 0.821 EUR (Euros) = 1 United States Dollar (USD)

- The Norwegian disability pension social insurance scheme has several incentives to encourage beneficiaries to remain active in the labor market subsequent to being granted a pension. A person receiving a full disability pension can earn up to one "base amount" annually (NOK 56,856 in 2003) [17], above which the individual's disability rating will be re-evaluated. Recipients of partial pensions can earn up to the amount of their rated earnings capacity. Thus, the sum of the disability benefit and income from employment cannot exceed pre-disability income. However, should the combined income from work and the partial pension payment exceed this pre-disability amount, the person's pension/benefit degree may be reduced down as low as a 20% work incapacity rating.

- The Swedish old-age and disability pension systems are structured to facilitate the combination of part-time participation in the labor market with part-time retirement. If, however, a person has been granted a full disability pension, they are not allowed to engage in significant work. Specifically, those who are assessed as fully incapacitated can do political and volunteer work and be employed up to the equivalent of 1/8 time. Those persons receiving a partial benefit can work up to the equivalent of their incapacity. This implies a person with an earning's incapacity of 25% could earn up to three-fourths of their pre-disability employment income without losing their partial pension eligibility.

Termination Due to Return-to-Work. Of course the ultimate goal of such work incentives is to enable a person to have sufficient earnings such that they are no longer entitled to disability pension benefits. The first point to be noted about return-to-work is that, unfortunately, there is a dearth of information about people exiting their country's disability insurance rolls due to

[17] On June 30, 2004, 0.145 USD= 1 NOK (Norwegian Kroner)

employment considerations. Return to gainful employment is only one of several ways in which a person can be removed from a country's disability pension rolls. Other possibilities are: 1) "aging up" to the retirement rolls when a person reaches the age for receipt of an old-age pension; 2) death; 3) medical improvement; and 4) re-testing for entitlements through mechanisms such as continuing disability reviews. Only five of the eight countries in our sample reported the overall annual termination rates from their disability benefit program attributable to any combination of these five causes. These termination rates range from 6.8 to 12.4%.

Of these five countries, only Great Britain reported the percent of such terminations due to employment (6.5%). The Netherlands reports that 40.1% of their terminations are due to medical improvement below the WAO program's 15% percent partial disability threshold. However, none of the surveys for all five countries with such programs were able to report the percent of partial disability beneficiaries terminated from their DI rolls.

OECD (2003) reports that once a person receives a disability pension there is rarely a return to the labor market. For the eight of 20 countries with available data the OECD (2003) study found "only around one percent of the disability benefit stock leaves the rolls each year due to recovery or work resumption". Moreover, "in countries where a large share of recipients is on partial benefits, the outflow is virtually zero" (OECD, 2003).

Part-Time Employment and Partial Disability Pensions. With the exception of the Netherlands, little information is available about the number of persons employed while receiving partial pensions. Few disability benefit systems track and report employment, particularly at the level of partial disability. For example, Sweden's response to our inquiry on employment and partial disability pensioners is "there is no information readily available." In Germany, the percentage

of persons who work while receiving partial benefits can only be roughly estimated by reporting the percentage of persons who get reduced or no partial benefits due to "other income." For 2002, this represents 23 % of those benefits awarded.

The German system, however, does allow inferences to be made about the number of persons on partial pensions who are *not* working. Prior to the recent reforms, persons on partial pensions reverted to full pensions after one year of being unemployed. For 2002, there were a total of 12,547 transitions from partial benefit to full benefit due to the inability to find work in the labor market. In the same year the pension insurance awarded 34,237 partial benefits. Thus, roughly three out every eight (37%) of the partial benefit recipients ended up on full benefits.

As noted, the Netherlands collects employment data for their partial pension recipients. Overall, more than a quarter (26.6%) of Dutch disability pension recipients were employed at some point in 2001. This includes more than half (51.4%) of the beneficiaries of partial pensions. (UWV, 2001). This figure is consistent with the OECD (2003) report which states that more than 60% of partial pension recipients are working. Some 16.8% of full benefit recipients are working.

These other (external) sources provide some additional information on employment for persons with partial disability pensions. In a recent report, de Jong (2004) maintains that partial benefits in the Netherlands are often used as a partial early retirement scheme for older employees. He also cites research that has shown that partial beneficiaries are significantly better off economically from their counterparts receiving full benefits. Besides being older, partial recipients are also more likely to be married men with higher education and concomitantly better employment situations that allow the job flexibility required of a partial pension. Further, the

OECD (2003) reports, “In Sweden, more than one in two recipients of disability-related benefits report being employed.”

Finally, the OECD (2003) reports that, “In Australia, which has no partial disability benefit option, only about one in nine benefit recipients work. The low figure for Australia is surprising given that the means test does allow for partial income from work.” OECD (2003) concludes, “Aside from Sweden, there is not a measurable correlation between the number of disabled people who have income from both work and benefits and a policy that provides for partial disability benefits paid to compensate for partially reduced work or earnings capacity.”

Findings and Conclusion

Five of the eight countries surveyed have a partial disability pension program as a part of their social insurance program. These programs differ widely in their eligibility criteria, disability rating, benefit payments, and utilization rates. There are several findings and observations gleaned from these country chapters that pertain to partial disability pensions.

Finding 1: Countries with partial pension programs tend to have higher overall DI recipient rates. While some persons would be on full benefits if there were no partial benefits, many partial benefit recipients would not be on the rolls at all. The programs in both Norway and the Netherlands, which address the loss of earnings capacity, have about ten percent of the working-age population on the disability insurance beneficiary rolls. Japan, however, is a glaring exception to this rule, having the lowest disability insurance recipient rates of the eight countries.

Finding 2: Countries with partial pension programs tend to have a higher degree of severity necessary for eligibility for the full disability pension benefit. The Netherlands, Sweden, and Norway all require greater than 80% disability ratings to be eligible for a full pension. In

contrast, Australia requires a much lower (roughly 25%) disability rating to qualify for a Disability Support Pension.

Finding 3: Countries with partial pension programs have undergone drastic reforms in the past decade regarding disability criteria. There is great difficulty in gauging "loss in earnings capacity" or an "inability to perform customary job duties," such as is required in the Netherlands and Germany. As a result, there is an evolution towards a standard of an inability to engage in "any occupation" versus "own occupation."

Finding 4: Almost all countries have low exit rates–less than one percent–from their permanent disability insurance rolls attributable to return-to-work. No country touts a method to remove disability insurance beneficiaries from the rolls. There appear to be very low "take-up" rates of work incentives, irrespective of the presence of a partial disability pension.

Finding 5: Partial pensions foster more part-time work. Rather than taking early retirement, older males in the Netherlands work part-time in the same occupation while on a partial pension. Thus, the program serves as a "bridge" to an early retirement pension. Also, OECD (2003) reports that more than half of the females in Sweden on partial pensions are working. In contrast, only one in nine people in Australia on the full disability pension plan is employed.

The paramount issue to be addressed is whether partial pensions keep people off the full disability pension rolls by fostering more work (e.g., part-time or "light-duty"). This depends on the policies and circumstances of the country being examined. For instance, in Germany, it is clear that the policy of converting partial to full pensions after one year provided a disincentive to return to work. Generally, persons with partial disability pensions are more likely to work than those with full pensions in countries having both types of pensions. In the Netherlands over half

of the partial pension recipients worked in 2001 versus only one-sixth of the full pensioners. Whether the former group would have worked as much had they been receiving a full pension is simply not known. Indeed, in the absence of a partial pension the person may not have been on the disability pension rolls at all.

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Chapter 4

Disability Benefit Systems in Australia

Alan Clayton & Todd Honeycutt

Summary: Australia is one of a small number of national social security systems whose programs are based on a social assistance or welfare model, rather than social insurance. Significant changes have taken place over the past few years in Australia: it has moved toward a disability policy in which the state and federal governments have clearly defined roles to reduce duplicative efforts and resources; administrative responsibilities for a variety of government agencies and programs have been consolidated into one agency (Centrelink); and, beginning in 1991 with the Disability Reform Package and continuing with other reforms, the government has developed strategies to promote employment among persons with disabilities. The first part of this chapter describes Australia's permanent disability benefit program, Disability Support Pension (DSP). DSP offers income security for persons with serious and permanent disabilities. Income and asset tests are used to determine economic eligibility, while the disabling condition is evaluated according to impairment tables. Unlike many other long-term programs, individuals can qualify immediately for DSP if their conditions are assessed as not likely to improve within two years. The second section focuses on Australia's temporary disability benefit programs. Sickness Allowance provides income support for individuals who are temporarily incapacitated for work or study and who do not have adequate levels of income. The Youth Allowance is a time-limited benefit targeted to students under the age of 24 and workers under the age of 21 who are unable to study or work due to an illness or medical condition. An unemployment program, Newstart Allowance, provides short-term benefits for individuals when they apply for DSP.

Australia is one of a small number of national social security systems whose programs are based on a social assistance or welfare model, rather than social insurance.[18] All of its major support systems, including those related to disability, are funded through general revenue and are based on income and asset tests. This means-tested approach to aged pensions began in 1901, and support for invalidity followed in 1908 (Jones, 1996). Australia's system of income support is designed to be a safety net for persons unable to support themselves, with income and asset tests designed to allow funds to be directed to those most in need. In a recent assessment of social security system design features (using International Labor Organization minimum

[18] Other countries which exclusively use a social assistance program for disability benefits are the Cook Islands, Denmark, Nauru, New Zealand, and South Africa (Dixon & Hyde, 2000).

standards as the benchmark)[19], Australia emerged with the highest ranking for both its overall social security system and its disability benefit programs (Dixon, 1999; Dixon & Hyde, 2000).

Significant changes have taken place over the past few years in Australia. It has moved toward a disability policy in which the state and federal governments have clearly defined roles to reduce duplicative efforts and resources (Hancock, 2001; McIntosh & Phillips, 2002). The federal government is solely responsible for income support and employment-related services, while states and territories are responsible for work and automobile-related accidents, support services, service delivery, community access, and accommodations. In a move to improve efficiency, administrative responsibilities for a variety of government agencies and programs have been consolidated into one agency, Centrelink. Both temporary and permanent disability programs, as well as unemployment services and other pensions, fall under Centrelink's umbrella. Beginning in 1991 with the Disability Reform Package and continuing with other reforms, the government has developed a strategy to promote employment among persons with disabilities (McIntosh & Phillips, 2002). This has included the creation of rehabilitation professionals specifically for this population, increased incentives for employers, and greater funding for employment services. Finally, Australia's implementation in 1992 of a mandatory privatized insurance program (Superannuation) for aged benefits marked a shift in Australia's exclusive use of the welfare model in the provision of financial support. While disability insurance may be a part of an employer's pension plan, it has not emerged as a significant player in benefits for persons with disabilities.

[19] This methodology has been summarily criticized by Voirin (2000).

Disability Support Pension

The Department of Family and Community Services (DFCS) oversees social security, housing, and family issues, in addition to the supports for persons with disabilities. The budget for DFCS in 2003 was 60 billion AUD[20], about a third of the federal budget and 8% of Australia's gross domestic product (DFCS, 2003). The Disability Support Pension (DSP) offered by DFCS assures income security benefits for persons with serious and permanent disabilities. In June 2003, 673,334 individuals received DSP, at a cost of 6.9 billion AUD, or 12% of DFCS budget (DFCS, 2003). The average duration of payment for DSP is 7.3 years.

In 1997, DFCS subcontracted with Centrelink, a government agency, to administer its disability program. The use of Centrelink created a one-stop point of contact for various government programs and benefits, including aged pension, sickness benefits, vocational rehabilitation, and employment programs.

Benefits. Benefits for Disability Support Pension are tied to the common pension rate, which governs the benefit amounts for all pensions (e.g., old age pension). The maximum rate as of May 2004 for persons over the age of 21 was 464.20 AUD every two weeks for a single pensioner and 387.60 AUD for a partnered pensioner. (For persons under the age of 21, the rate varies by age and independent living status.) These pensions are dependent on income and asset tests and are indexed twice a year (March and September) on the greater of the consumer price index or male total average weekly earnings index.

The income and asset tests that are used to assess eligibility for programs have developed into a complicated system of rules, inclusions, and exclusions (Daniels, 2004; Jones, 1996). For example, persons who are blind are exempt from both income and asset tests, while persons under the age of 21 have different tests than those who are 21 and older. In applying the means

[20] On June 30, 2004, 1.438 Australian Dollar (AUD) = 1 United States Dollar (USD).

tests for a beneficiary, both income and asset rules are calculated, but only the one that results in the lowest payment, or that eliminates payment, is applied. One of every six beneficiaries (16%) has reduced benefits due to these means tests (DFCS, 2003). What follows is a simplified description of the actual process.

The income test is a three-step process. First, the annual income received by an individual is assessed as the sum of what he or she brings through earned income, investments, rental income, and other sources. Second, the "ordinary income free area limit" is calculated. This is the amount of income a person can have before it begins to affect his or her level of benefits. This amount is dependent on marital status and the number of children in the household. This limit, as with the benefits themselves, is indexed yearly. The third step examines the effect of the relationship between the two numbers. If beneficiaries earn less than the ordinary income free area limit, then they are entitled to the maximum pension rate. If they earn more than this limit, then their benefit is reduced by 0.40 AUD for every dollar earned above the limit for single beneficiaries and 0.20 AUD for every dollar earned above the limit for partnered beneficiaries. The following table shows the maximum cash benefit an individual can receive, the minimum amount of earned income a person can have before it affects their DSP amount, and the maximum income that can be earned before disability benefits are reduced entirely.

Table 1: Biweekly Benefit and Earned Income Limits for DSP, by Type of Beneficiary (AUD)

Beneficiary	Maximum Cash Benefit	Minimum Earned Income	Maximum Earned Income
Single, No Children	464.20	120.00	1295.00
Single, With 1 Child	464.20	144.60	1319.60
Partnered, No Children	378.00	212.00	2164.50

Note: Rates as of March 20, 2004 (Centrelink, 2004). Earned income for couples represents combined income.

The asset test is calculated much like the income test. While the asset test excludes a beneficiary's primary residence, it includes a wide range of assets: real estate, bank deposits,

investments, insurance policies, loans to family members, vehicles, boats, and the value of personal items and collections. The total value of all assets is compared to an "asset value limit." This limit is the minimum dollar amount of assets that can be held before the benefit amount is reduced. As with the ordinary income free area limit, it is indexed yearly, but it is also dependent on receipt of rental assistance. In Table 2, we present the minimum asset amounts for individuals and couples. Asset amounts are higher for couples than for single beneficiaries and for non-homeowners than for homeowners. If held assets are less than the asset value limit, the beneficiary is entitled to the maximum pension amount. If held assets are higher, than the biweekly benefit amount is reduced by 3 AUD biweekly for every 1000 AUD of assets above the limit.

Table 2: Asset Limits for DSP, by Type of Beneficiary (AUD)

	Minimum Asset	Maximum Asset
Homeowners		
Single	149,500	306,250
Partnered	212,500	473,000
Non-Homeowners		
Single	257,500	414,250
Partnered	320,500	581,000

Note: Rates as of March 20, 2004 (Centrelink, 2004).

Australia offers several other benefits and supports for persons with disabilities. This includes rental assistance to DSP beneficiaries whose rent rates exceed a rent threshold, mobility allowances to help with transportation costs, pharmaceutical allowances to help with the cost of prescriptions, telephone services allowances, and remote area allowances. DSP beneficiaries receive a pensioner concession card that aids in obtaining and reducing the costs of items such as pharmaceuticals, hearing aids, and utilities. Additional supports (career allowances and career payments) are available for individuals who attend to persons with disabilities.

Qualifications. To qualify for DSP, an applicant must meet age, residency, disability, and employment criteria. Applicants must be between the ages of 16 and the aged pension age (from

60 to 65, depending on gender) and satisfy minimal residency criteria. There are two distinct ways that an applicant can satisfy the disability requirements for DSP. The first involves a diagnosis of permanent blindness. Persons who are permanently blind may be exempt from other criteria, such as employment, for receipt of DSP. The second way is to have a physical, psychological, or psychiatric impairment that causes a serious functional incapacity. Such an impairment must be permanent, that is, "fully diagnosed, treated, and stabilized (unlikely to show any significant functional improvement within 2 years, with or without reasonable treatment)" (DFCS, 2004). This definition of permanency has three components. First, a physician must diagnose the condition.[21] Second, the condition must be "fully treated." This requirement is evaluated through a review of medical reports and other supporting information for past, current, and future treatment and whether all appropriate medical treatments have been used. If not, or if future treatments are planned, then the condition is considered as either temporary or not fully treated. In either case, the individuals would not qualify for DSP. The "stabilization" aspect of the disability—the third component—involves an assessment as to whether maximum medical improvement has been obtained. Alternatively, if functional ability is not expected to improve within the next two years, it also meets this requirement.

Conditions are evaluated according to impairment tables, examples of which are given in Table 3 for spinal function and mental disorders. These tables assess the functional capacity of body systems in relation to work capacity and have a maximum scale of 40 to 50 points, with a score of 20 necessary to qualify for benefits. Though not specifically a partial disability program, the DSP does not require a "total" disability determination (i.e., the maximum impairment score); however, as can be seen in Table 3, a score of 20 indicates a significant inability to

[21] An exception to this rule is for persons with intellectual disabilities. Appropriate supporting documentation can be substituted for medical assessments.

maintain adequate levels of employment. Where there are multiple medical conditions that have an impact on one body system or structure, then a single score is assigned which reflects the combined functional impairment on that body system or structure. Where the multiple body systems are affected by one or more conditions, ratings may be assigned on all relevant tables, and the total impairment rating should reflect the overall level of the applicant's impairment.

Table 3: Impairment Table Criteria for Spinal Function and Psychiatric Disorders

Impairment Rating	Condition Spinal Function: Cervical Spine	Spinal Function: Thoraco-lumbar-sacral Spine	Psychiatric Disorders
Nil	Normal or nearly normal range of movement.	Normal or nearly normal range of movement.	Mild but regular symptoms which tend to cause subjective distress. On most occasions able to distract themselves from this distress. Minimal interference with function in everyday situations. Exacerbation of symptoms may cause occasional days off work. (e.g. There may be some loss of interest in activities previously enjoyed. There may be occasional friction with family, colleagues or friends) Medical therapy or some supportive treatment from treating doctor may be required.
Five	Loss of quarter of normal range of movement.	Loss of one-quarter of normal range of movement.	N/A
Ten	Loss of half of normal range of movement and frequent/constant neck pain or loss of three quarters of normal range of movement with infrequent neck pain.	Loss of one-quarter of normal range of movement as well as back pain or referred pain: with many physical activities and with standing for about 30 minutes and with sitting or driving for about 60 minutes. or Loss of half of normal range of movement.	Moderate and regular symptoms and generally functioning with some difficulty. (e.g. noticeable reduction in social contacts or recreational activities, or the beginnings of some interference with interpersonal or workplace relationships). May have received psychiatric treatment, which has stabilised the condition. Minor effects on work attendance and/or ability to work but the impairment would not prevent full-time work. (e.g. short periods of absence from work)
Twenty	Loss of three-quarters of normal range of movement and constant neck pain.	Loss of half of normal range of movement as well as back pain or referred pain: with most physical activities and with standing for about 15 minutes and with sitting or driving for about 30 minutes. or Loss of three-quarters of normal range of movement.	Psychiatric illness or disorder with either serious symptomatology OR impairment in functioning that requires treatment by a psychiatrist (e.g. frequent suicidal ideation, severe obsessional rituals, frequent severe anxiety attacks, serious anti-social behaviour, diagnosed psychotic illness with continuing symptoms). There is significant interference with interpersonal or workplace relationships with serious disruption of work attendance or ability to work.
Thirty	Loss of almost all movement, or complete ankylosis in position of function.	N/A	Serious psychiatric illness with major impairments in several areas, such as work, interpersonal relations, judgement, thinking, or mood (e.g. depressed person avoids friends, neglects family, unable to do housework), OR some impairment in reality testing or communication (e.g. speech is at times obscure, illogical or irrelevant).
Forty	Ankylosis in an unfavourable position, or unstable joint.	Ankylosis in an unfavourable position, or unstable joint.	Major chronic psychiatric illness which results in an inability to function in almost all areas, OR behaviour is considerably influenced by either delusions or hallucinations, OR serious impairment in communication (e.g. sometimes incoherent or unresponsive) or judgement (e.g. acts grossly inappropriately).
Conditions commonly assessed using this table	Neck and low back pain attributed to various musculoskeletal/orthopaedic causes.	Neck and low back pain attributed to various musculoskeletal/orthopaedic causes.	Chronic depressive/anxiety disorders, schizophrenia, bipolar affective disorder, eating disorders, somatoform disorders, pathological personality disorders, post traumatic stress disorder (PTSD). Attention deficit hyperactivity disorder (ADD/ADHD) manifesting with predominantly behavioural problems. Behavioural problems related to acquired brain injury/frontal lobe syndrome.

Source: Australia Social Security Act 1991, Chapter 6, Guide to Table 5 & Chapter 7, Guide to Table 6 (http://www.facs.gov.au/ssleg/ssact/chapter6.htm; http://www.facs.gov.au/ssleg/ssact/chapter7.htm).

Employment is the final criteria for assessing eligibility. An individual must have a continuing inability to work or be participating in the equivalent of sheltered employment. An inability to work does not mean that an individual can do no work. Instead, persons can work up

to 30 hours a week and still qualify for DSP, if their medical conditions prevent them from working 30 hours or more a week. Alternatively, persons can be rejected for DSP because they have the potential to work within two years with the appropriate vocational training or education[22]. Finally, the federal government provides sheltered employment ("supported wage system") for some persons with disability, which pays a portion of a full wage. Individuals who participate in this program are exempt from the work requirement. The proportion of persons who receive the DSP and have some earnings from work has been rising over the past decade. In 1994 around 6 percent of DSP recipients received some earnings from work. This percentage had risen to 8.4 percent of recipients in 2000, 9.1 percent in 2001 and 9.7 percent in 2002, and this percentage dropped back to 9.4 percent in 2003. Of those with earnings in 2003, a majority (53 percent) earned less than 100 AUD a week, while around one-fifth (21 percent) had earnings in excess of 300 AUD a week.

Claim, decision, appeal, & review. Before making an official claim, individuals can file an "Intent to Claim." This intent serves as a marker to begin receiving benefits, should the claim be accepted. If the formal application is not made within 14 days, however, the advantage is lost. A formal claim must be accompanied by the following documents: proof of identity, proof of age, income and asset information, proof of residence, and a medical report from a treating physician. The physician report will be the only medical evidence required to process the claim, unless there is doubt as to its accuracy. The report is to include information regarding the diagnosis; clinical features and current symptoms; date of onset; past, current, and future treatment; ability to function; an assessment as to whether the condition is temporary; and an assessment on the prognosis.

[22] Persons who could work with appropriate vocational training may qualify for temporary disability benefits in the form of Sickness Allowance while they receive training.

Centrelink informs the applicant as to the status of their application after the decision by a Centrelink disability customer service officer.[23] Individuals who wish to appeal an application decision (or, if they are a DSP beneficiary, are unsatisfied with a decision regarding entitlements) have available a series of five appellate steps, beginning with an informal review by the reviewing official at Centrelink and ending with an appeal to the Federal Court (but only on questions of law resulting from an earlier decision).

DSP beneficiaries are generally reviewed on a five-year cycle. Certain individuals, due to the severity of the impairment, are exempt from review. This category includes beneficiaries with terminal illnesses, severe and/or degenerative medical conditions, or who are confined to an assisted living facility. Individuals may be reviewed on a two-year cycle if they have been identified as able to benefit from programs of assistance or if their medical condition is likely to improve. Also, a review can occur outside the timed cycle if a beneficiary is able to work 30 or more hours per week, has completed an assistance rehabilitation program (generally at two years after), begins to earn more than 250 AUD per week, or will be absent from Australia for more than 12 months and seeks portability of pension.

Reintegration. DSP beneficiaries can access the services of Centrelink Disability Officers. These individuals have training in technical and professional aspects of providing support and assistance to persons with disabilities. Their roles include providing counseling, employment assistance, referral to employment agencies, and obtaining appropriate vocational rehabilitation services. Disability Officers can perform employment assessments to establish the level of need and for a referral to either Job Network or Disability Employment Service (DES). Job Network is a national network of organizations that are contracted to provide employment services, largely to persons already capable of open employment. DES provides open

[23] Information about the average length of time for processing is not available.

employment, supported employment, and vocational rehabilitation services, the latter through CRS Australia, the government funded vocational rehabilitation program. These services include training, job maintenance, job search, and injury management. Programs aimed at employers to promote employment for DSP beneficiaries include an apprenticeship wage support program and reimbursements for workplace modifications.

Temporary Disability Benefits

We can differentiate between two types of temporary disability programs in Australia. The first program, sick leave, is a non-uniform program that is regulated by an assortment of federal, state, and industry regulations. At a minimum, employers must provide for one day of sick pay for every six weeks of employment for full-time workers with less than one year of employment, and eight days per year thereafter. Part-time employees accrue entitlements on a pro-rata basis, and casual workers are generally excluded from such coverage. Issues related to sick leave are not addressed in this chapter.

Three different programs comprise the second type of temporary disability benefits, each targeting a different population. These short-term disability programs are administered by Centrelink under the supervision of the Department of Family and Community Services.

- Sickness Allowance (SA) is the major temporary disability benefit. SA provides income support for people who are temporarily incapacitated for work or study and do not have adequate levels of income. Its 2002-2003 budget was AU85.5 million AUD, with 8,927 beneficiaries as of June 2003 (DFCS, 2003).
- The Youth Allowance (YA) is an income support program for persons aged 16 to 21 and full-time students aged 21 to 24. It ensures that eligible young people

receive adequate support while looking or preparing for paid employment or while studying. These activities include education, training, or other activities to promote entry into employment. YA is available to youth who are temporarily unable to work due to an illness or injury, or who have applied for Disability Support Pension (DSP), the long-term disability benefit program, and are waiting for a decision.

- Newstart Allowance (NSA) is an unemployment benefit that provides short-term payments for persons who have applied for DSP. This payment of NSA pending DSP approval is referred to as "NSA provisional." If the claim is rejected because the applicant does not meet the disability or employment criteria, then the person remains on NSA but must satisfy an activity test (described below) in looking for employment. If the DSP claim is rejected because the condition is temporary, and the person cannot work eight hours or more per week, then the person may be granted "NSA incapacitated."

Benefits. The maximum benefit for SA and NSA is 385 AUD every two weeks for single individuals with no children, 416.40 AUD for single individuals with children, 422.20 AUD for individuals aged 60 and over, and 347.30 AUD for partnered individuals. All temporary benefits are means-tested and adjusted based on income and asset limits. Beneficiaries can earn up to 62 AUD biweekly before their benefit begins to be reduced. With income between 62 AUD and 142 AUD, 0.50 AUD is deducted from the benefit amount for each dollar earned, and for income above 142 AUD, 0.70 AUD is deducted for each dollar earned. Partial benefits would be paid out up to an earned income of 634.86 AUD for a single beneficiary with no children (see Table 4). Assets are evaluated in the same way as described in the DSP section above.

Table 4: Biweekly Benefit and Earned Income Limits for Sickness and Newstart Allowance, by Type of Beneficiary (AUD)

Beneficiary	Maximum Cash Benefit	Minimum Earned Income	Maximum Earned Income
Single, No Children	389.00	62.00	640.86
Single, With Children	421.00	62.00	686.29
Single, Over 60 Years	426.80	62.00	682.10
Partnered	351.10	62.00	586.43

Note: Rates as of March 20, 2004 (Centrelink, 2004). Earned income for married individuals represents combined income.

The maximum cash benefit for YA varies as to age, partnership status, and presence of dependent children. In addition to individual income and asset tests, parental income and asset tests also apply for individuals living at home.

All cash benefits dispersed through SA, YA, and NSA are subject to a liquid assets waiting period. Liquid assets are regarded as readily available funds that the applicant could access within 28 days of the date upon which they last worked. This waiting period for benefits can be from 1 to 13 weeks, depending on the amount of assets.

Other benefits available to temporary disability beneficiaries are the same as those for permanent disability benefits: rent assistance, pharmaceutical allowances, allowances for living in remote areas, mobility allowances, and pension concession card.

Qualifications. Claimants must meet several conditions to qualify for SA. First, a person must be between the ages of 21 and the aged pension age. Second, a person must be temporarily incapacitated for work or study because of a medical condition. A person has an incapacity if they are unable to work eight hours or more in a week or if they are unable to continue the course of study they were doing before they became incapacitated. A condition is considered temporary if it is likely that the individual will return to work or study within two years. If the condition is not temporary, then the claimant should apply for long-term benefits (DSP). Third, the individual

must have a job to return to when the temporary incapacity ends. Persons not meeting this requirement, such as those on fixed-term employment contracts, transfer to NSA. Finally, to claim SA, persons must be Australian residents (meaning that they are either citizens or hold permanent or special category visas) and are present in Australia when the claim is lodged.

Because NSA is an unemployment benefit, the qualifications are slightly different. The individual must be 1) unemployed; 2) be between 21 years of age and the aged pension age; 3) suffer from a medical condition that significantly affects the ability to work or study; 4) either have been an Australian resident at the time of impairment occurrence, have 10 years qualifying Australian residence, or became an Australian resident while the dependent child of an Australian resident; and 5) have submitted a claim for DSP. If the DSP claim is denied, then individuals can obtain NSA (Incapacitated) and the activity test normally needed to obtain NSA benefits is altered. Normally, the activity test is a part of the mutual obligation between the claimant and the federal government. It involves the claimant actively looking for work, agreeing to attend trainings, accepting any suitable job, and informing the government about earnings, in exchange for financial and other supports. For persons with a temporary incapacity, the activity condition is waived for the lesser of 13 weeks or the duration of the illness. Persons may have to submit to a comprehensive medical assessment, and extensions to the duration may be granted dependent on the condition.

For the Youth Allowance, in addition to being an Australian resident, a person must be between the ages of 16 and either 21 for unemployed young people or 25 for full-time students. As with NSA, an activity test regarding work or school activities is required, though it is waived for persons with a short-term illness or who have submitted a claim for DSP.

Claim, decision, appeal, & review. An applicant makes a claim for NSA, SA, or YA, in the same manner as for DSP. An Intent to Claim form can be filed by telephone, Internet, or in person at a Centrelink Customer Service Center to lodge a claim, holding in place the application for 14 days while the actual claim and documentation is submitted. There is generally a one-week waiting period, though this requirement may be waived in certain instances if the claimant is in a vocational rehabilitation program, in severe financial hardship, or is within 13 weeks of last receiving a social security benefit.

For Sickness Allowance, the disability benefit claim must be in writing on an approved form. If the actual claimant cannot fill out the form, it may be completed on their behalf by a responsible person. The applicant must provide proof of his or her identify, proof of age, proof of income and assets, and proof of residence, all as detailed in the DSP section above. In addition, a medical report from the applicant's treating doctor is required. This report must include the diagnosis, the prognosis, whether the applicant is incapacitated for work, and the period for which the applicant is incapacitated. If a benefit decision cannot be made based on the submitted medical report, the applicant will be referred to a Centrelink appointed medical assessment service provider. Once claimants are notified of the disability decision, if they are not satisfied with the result, they may appeal the decision in a series of steps similar to the DSP appeal process reviewed above.

SA beneficiaries are subject to minimal reviews at 12, 40, 92, and 120 weeks, and every 16 weeks thereafter. This review, conducted through the mail, includes a physician's report as to the status and progress of the illness in order to determine if the beneficiary is still incapacitated. For the mail review, a form is sent to the beneficiary, which must be returned within 21 days.

Failure to complete the form can result in a 28-day suspension, followed by the termination of the benefit. If benefits are terminated, then a new claim can be filed to reinstate the benefit.

In addition to regular mail reviews, SA beneficiaries have two other types of reviews. Field reviews take place at 24, 64, and 78 weeks, and consist of a home visit to document changes in the beneficiary's status and assessment of when the individual can return to work. If a person is engaged in rehabilitation, a rehabilitation case review takes place.

SA benefits terminate when there is medical improvement such that the beneficiary can work more than eight hours in a week; when the maximum allowance period ends; if there are any changes in income or assets that affect the means tests; or if the beneficiary fails to comply with the conditions of benefits. If at any point it appears likely that the SA beneficiary will not be able to return to work for more than two years, the permanent disability pension (DSP) will be considered. Likewise, if the beneficiary becomes unemployed (i.e., has no job to return to), then the SA beneficiary will be transferred to NSA. The mean duration of time on SA in 2000 was 34.2 weeks, with a median of 17.8 weeks. Of those on SA on June 30, 2000, 80% had been on the rolls for one year or less; 14%, from one to two years; 4%, two to three years; and 3%, more than three years.

For YA and NSA recipients, a mail review is necessary every 10 weeks to evaluate changes and to satisfy the activity/incapacity requirements, and a profiling review occurs at 16 or 40 weeks in which a Centrelink employee meets with the beneficiary to determine work capacity and explore vocational options. Benefits cease when the conditions for the programs are no longer met; when the recipient fails to comply with conditions related to the program; when employment is obtained; or, for YA recipients, when they turn 21 (for employees) or 25 (for students) years of age.

Reintegration. Persons on temporary disability benefits have access to the same reintegration services as persons on permanent disability benefits. After an assessment by a Centrelink Disability Officer, who can also provide general guidance and support, individuals can seek assistance through Job Network, Disability Employment Services (DES), or vocational rehabilitation. Job Network is a national network of organizations contracted by the federal government to assist job seekers in finding and keeping a job. While Job Network is available for anyone, DES is designed specifically to assist persons with disabilities. DES offers three general types of services: open employment, supported employment, and vocational rehabilitation. In open employment, individuals may receive training, job search assistance, and employment maintenance activities. With supported employment, individuals can access business services where the workforce primarily consists of persons with disabilities. Vocational rehabilitation in Australia is in a transition phase, as the public program is being managed now by CRS Australia and is expected to run more like a private business. Other reintegration projects for persons with disabilities include a wage support program for apprenticeships and employer reimbursement for workplace modifications.

Conclusion

Australia's means-tested disability programs have several unique features: the provision of a minimal level of support for individuals with limited means; impairment tables for assessing disabling conditions; the ability of long-term beneficiaries to work an upper limit of 30 hours per week as benefits are decreased by 0.40 AUD for every 1 AUD earned above a threshold amount; and the incorporation of a time-limited program for young adults. In general, these programs are relatively low cost and have few beneficiaries, compared to programs in other countries (see Chapters 1 & 2). In addition, Australia has taken a novel approach to employment in using

Disability Officers specifically trained in disability and employment issues. Disability Officers are available at offices that are conduits for all benefit programs, and have specific skills and knowledge in counseling, vocational options, and employment programs. The sickness program in particular could be of much interest to countries interested in creating a short-term program, as it provides a safety net for individuals with low resources or in jobs that do not offer sickness benefits.

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Chapter 5

A New Focus on Temporary Disability Benefits in Germany

Sophie Mitra, Richard Hauser, & Hartmut Haines

Summary: Unlike most industrialized countries, Germany has not had an increase in the sizes or the costs of its disability benefit rolls over the last two decades. For Germany, the challenge for policy makers has been to deal with the decline in the employment of males with disabilities as well as the implications of an aging population. In this context, in 2001, Germany started major reforms of its social protection system, including its disability benefit system. This chapter presents the German disability benefit system and its recent reform efforts. Germany has a comprehensive yet fragmented system of social protection. There are a variety of funds and agencies that hold responsibility for disability benefits. The first section of the chapter gives an overview of the German disability benefit system. It covers the short-term sickness program, means-tested social assistance programs and contributory pensions. The second section of the chapter covers in detail the contributory full and partial disability pension program, and analyzes recent reforms. Disability pensions were formerly granted on a permanent basis in most cases. Since 2001, disability pensions normally must be temporary if they are granted for the first time. Both partial and full pensions are initially restricted to a period of 3 years. Furthermore, the inability of the partial pension program at keeping persons with disabilities in the labor force on a part time basis is analyzed, as well as recent changes in the link between the partial pension program and the labor market.

Unlike most industrialized countries recently, Germany has not had an increase in the share of GDP spent on disability benefits programs, nor in its benefit recipiency. The share of Germany's GDP dedicated to disability programs remained stable in the 1990s (OECD, 2003), and the country's benefit recipiency rates overall grew moderately over the last two decades. Nonetheless, Germany's disability system is not without problems. The employment of men with work limitations has fallen in Germany, a fall that occurred mainly in the late 1980s (Burkhauser & Schroder, 2004). The combination of an aging population and a strong reliance on early retirement programs, however, threatens the sustainability of the German pension system. German policy makers started to reform the country's social safety net provisions in 2001 with the removal of several early retirement schemes and changes to the disability pension system.

Disability pensions are now more often granted on a temporary rather than on a permanent basis, and the transfer of partial pensions into full pensions has become less automatic.

This chapter presents the German disability system with a particular focus on its temporary and partial programs. We first present an overview of the German disability benefit system. We then review in detail the public disability pension program with its full and partial components, and the recent changes to the program.

Overview of Germany's Disability Benefit System

Germany has a comprehensive yet very fragmented system of social protection. This is due to Germany's history as the pioneering state in social legislation, and to the importance of the stakeholders in the administration of the various programs. There is no single fund that holds responsibility for all benefits and assistance that might apply to persons who have been hit by so-called social risks. Instead, the various kinds of support available are linked to a large number of separate funds and agencies at the community, state, and federal levels.

The type of assistance that is provided to persons with disabilities depends on the cause of the disability and on the insured's status within the labor market. Several factors weigh in the type of assistance available, from whether individuals are employed, and if so for how many hours they work, to whether or not they have contributed to the various social insurance schemes.

Figure 1 shows that there are several entry routes into the German system of social protection for the disabled. Starting with social assistance programs, Germany's Social Assistance (*Sozialhilfe*) has two branches: Assistance for Cost of Living (*Hilfe zum Lebensunterhalt*), and Assistance in Special Circumstances (*Hilfe in besonderen Lebenslagen*)),

which among other things, include monetary benefits and benefits in kind in case of disablement (*Eingliederungshilfe*). Social assistance is strictly means-tested on household income and wealth. Children (without age limit) and parents of the recipient are obliged to repay the costs of social assistance if their incomes are high enough. Each legal resident of Germany is entitled to these benefits. Social assistance operates at the same level in all States of Germany defined by Federal Law but is tax financed by the communities. Its benefits are tax-free. A new means-tested Basic Income Program (*Bedarfsorientierte Grundsicherung*) was introduced in 2003 to

Figure 1: Flows of monetary and in-kind benefits for persons with disabilities in Germany

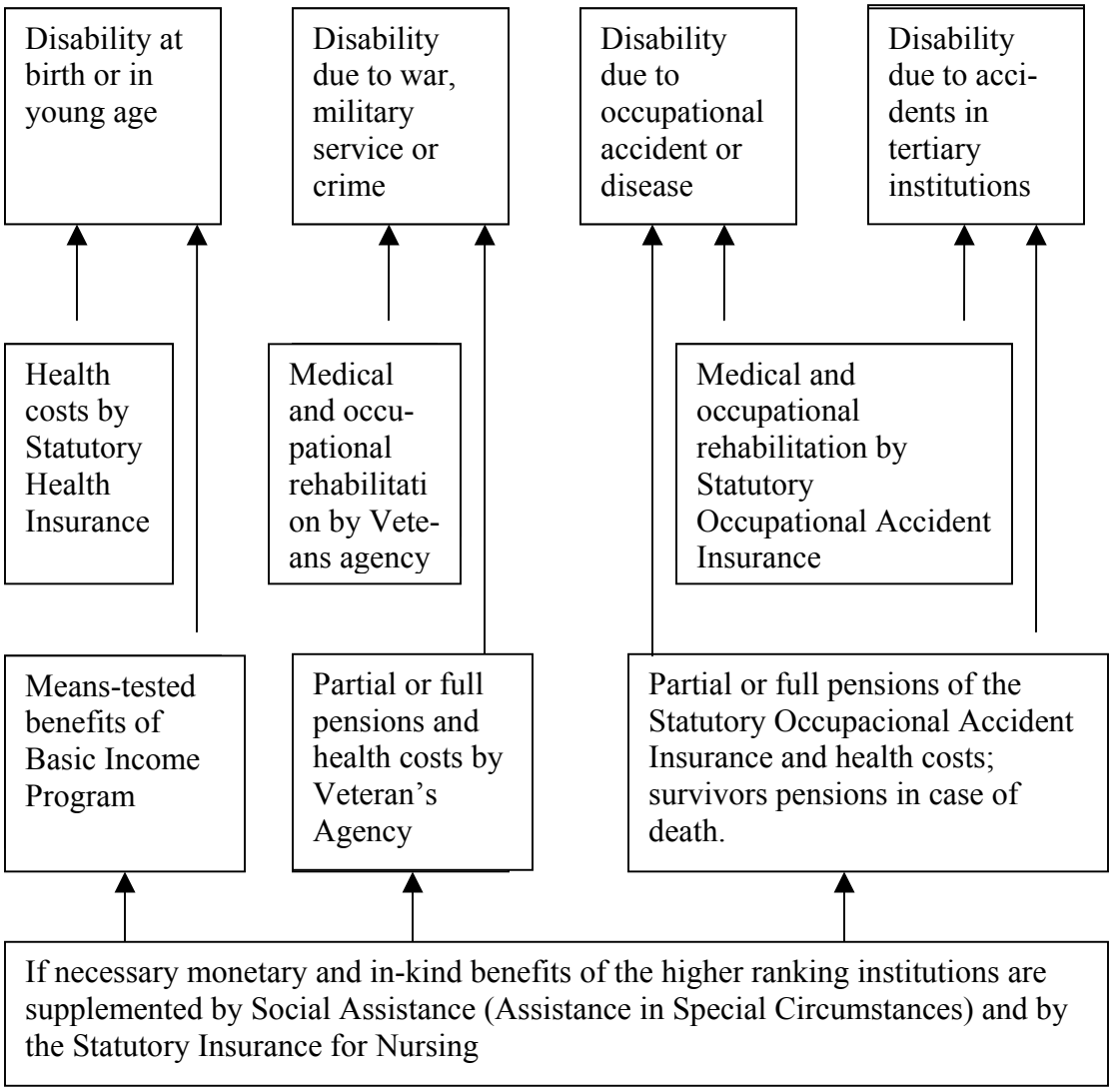
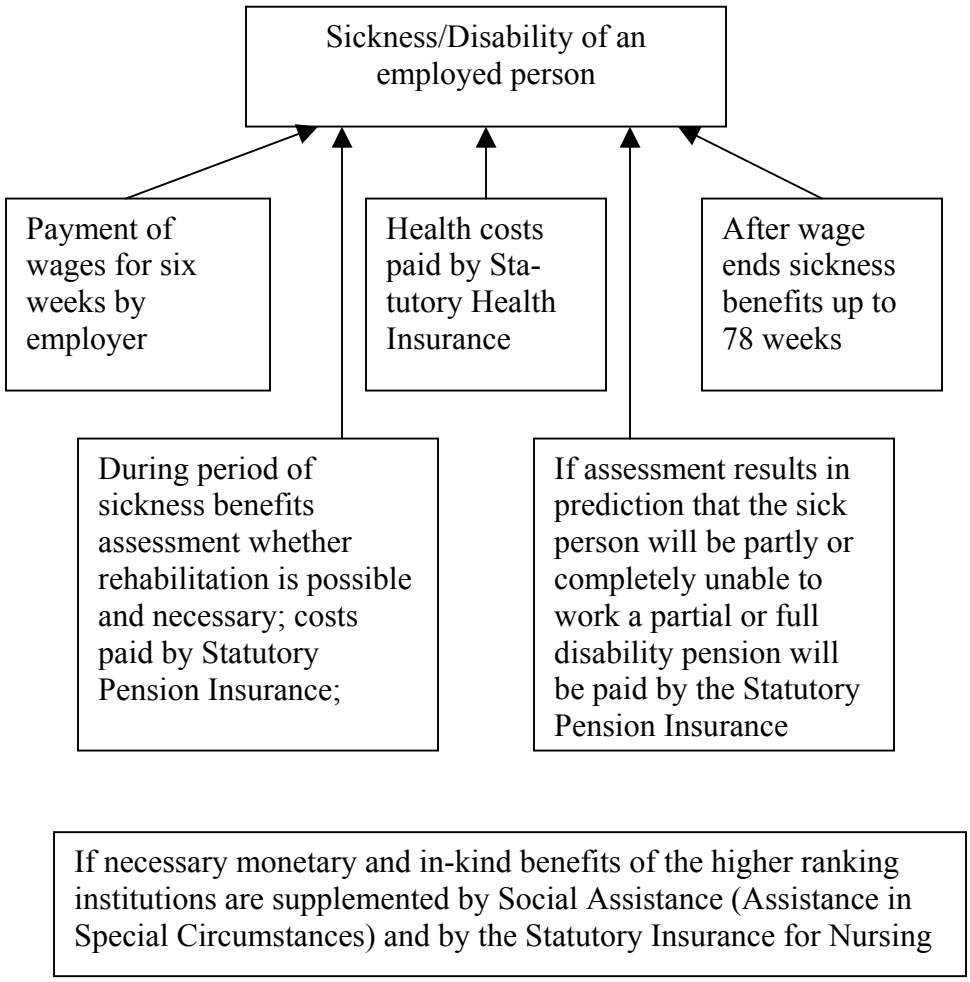


Figure 1 (continued): Flows of monetary and in-kind benefits for persons with disabilities in Germany



provide monetary benefits for persons with disabilities and pensioners at the same level as social assistance, but without the obligation of parents or children of the recipient to repay the costs. This new program is especially important for persons who cannot claim disability pensions because they were never able to work and therefore, never paid contributions to the Statutory Pension Insurance. This program is also tax-financed, mainly by the federal budget and community budgets. Benefits are tax-free.

If disability is due to war, military service or crime, tax-financed pensions are granted by a Veteran's Agency (*Versorgungsamt*). This agency also provides benefits in kind for persons with disabilities, and it can supplement monetary benefits from other programs that are too low to guarantee a minimum subsistence level.

Two entry routes into the German disability benefit system are especially connected with the labor market. First, if the person's incapacity is caused by either a work accident or an occupational disease, the Statutory Occupational Accident Insurance takes over. Alternatively, if the entry is caused by a long-lasting sickness, the MDK (*Medizinischer Dienst der Krankenversicherung)* assesses if the person can receive rehabilitation benefits or if the person herself applies for rehabilitation from pension insurance. Social protection is strongest in case of the disability of a dependently employed person resulting from occupational accidents or diseases. A Statutory Occupational Accident Insurance (*Gesetzliche Unfallversicherung*) is in charge of these cases. Contributions to this branch of the social security system are fully paid by the employers[24]. Injured persons are entitled to health care, rehabilitation and occupational accident pensions according to the degree of injury. These pensions are oriented at previous earnings and are more generous than the disability pensions of the Statutory Pension Insurance. All benefits are granted even if the injured person continues to work full-time, since they are considered as compensation. If an occupational accident pension is granted, the disability pension of the Statutory Pension Insurance is suspended. Pensions are partially taxed if household income is above the minimum level of subsistence.

In case of a disability resulting from a chronic illness or from an accident in the private sphere, persons who have paid mandatory contributions to the Statutory Pension Insurance for

more than five years can claim a disability pension. The amount of this pension depends on previous earnings (relative to average earnings) and on a national standard period of employment up to age sixty. If there remains some capacity to work, a partial pension is granted. A part of this pension is taxed if household income is above the minimum of subsistence as defined by the tax law. For a family of four, this minimum amounts to approximately 25,000 EUR[25] per year.

If the person is eligible for rehabilitation benefits, he or she may receive medical or occupational rehabilitation services[26] or both. Medical rehabilitation for employed persons is provided by the Statutory Pension Insurance for a period of up to three weeks but can be extended, if necessary. Medical rehabilitation includes, for instance: medical treatment, medicine, dressing, physiotherapy, therapeutic exercises, psychotherapy, aids, and work therapy. The Statutory Pension Insurance has the ability to carry out in-patient medical rehabilitation in their own clinics or in private clinics, but the focus has recently been placed on providing outpatient rehabilitation benefits (Social Code, Book IX, Germany 2003). Measures for rehabilitation are granted by the Statutory Pension Insurance, and coordination by other institutions[27] is still a problem despite the law of 1974 (*Rehabilitationsangleichungsgesetz*) and recent integration of the vocational measures into the Social Code, Book IX (*Sozialgesetzbuch*). These measures consist of monetary benefits as a substitute for foregone earnings, medical treatment and physical training, and work related retraining.

The initial assessment by the MDK might be that no suitable rehabilitation is available, in which case the person is asked to apply to the Statutory Pension Insurance for an incapacity

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[25] On June 30, 2004, 0.821 EUR (Euros) = 1 United States Dollar (USD)
[26] For details on Germany's rehabilitation benefits, see Dean (1990).
[27] Rehabilitation measures can be carried out by the following institutions: Statutory Health Insurance, Federal Labor Office (now: *Bundesagentur fuer Arbeit*), Statutory Occupational Accident Insurance (*Gesetzliche Unfallversicherung*), Statutory Pension Insurance (*Gesetzliche Rentenversicherung*), Statutory Pension Insurance for Farmers (*Alterssicherung fuer Landwirte*), Veterans Agency (*Kriegsopferversorgung und Kriegsopferfuersorge*), Social Assistance (*Sozialhilfe*), Public Youth Assistance (*oeffentliche Jugendhilfe*).

pension. Workers who are unable to earn a regular income (i.e. they can only perform less than 3 hours of daily work) owing to reductions in physical or mental capacity are eligible for a full disability pension. Workers whose impairment reduces their earnings capacity to between three and six hours per day when compared with other workers with similar training and experience are eligible for a partial disability pension.

It should be noted that the Statutory Pension Insurance also reviews the possibility of rehabilitation before assessing the person's eligibility for a disability pension. If the insured person's capacity cannot be improved by means of rehabilitation, the application for rehabilitation then retroactively becomes an application for a pension. The reason is that both institutions, the Statutory Health Insurance and the Statutory Pension Insurance, have fundamentally different assessments. The Statutory Health Insurance focuses especially on the assessment of the incapacity to work in relation to the person's last job, while the Statutory Pension Insurance assesses the person's incapacity to earn a living in the general labor market.

Occupational rehabilitation is provided under the supervision of the Statutory Pension Insurance if the occupational rehabilitation follows medical rehabilitation, or if at the time of application the person has contributed for at least 15 years to the Statutory Pension Insurance. All other cases are forwarded by the Statutory Health Insurance Funds to the Federal Employment Service (*Bundesagentur fuer Arbeit*), which is then responsible. Since 2001, when the Statutory Pension Insurance became responsible for occupational rehabilitation in more cases than before, there have been no requirements to use the Federal Employment Service to provide employment services; Statutory Pension Insurance can use any service provider.

Rehabilitation under the guidance of the Federal Employment Service (not shown in Figure 1) is also possible for persons whose unemployment is due to a reduced capacity that lasts

at least six month, and who, because of this, are unable to work at least 15 hours per week in an occupation that suits their abilities. An administrative assessor decides, based on medical and other information, whether a person can be re-integrated into the labor market through rehabilitation. Occupational rehabilitation benefits typically last for up to two years and include cash benefits for initial training or retraining and other supports (e.g., expenses for study aids, working clothes and working equipment, domestic help). Cash benefits are made if work income has decreased. These payments represent 60% of the person's most recent gross earnings for persons with children, and 54% for persons without children (Viebrok, 2003).

Rehabilitation can help to reduce the impact of impairments on the ability to work, prevent workers from a premature exit from the labor force, or reintegrate them into the working life. The MDK and the medical service of the Statutory Pension Insurance (*Sozialmedizinischer Dienst*) investigate whether the person is able to remain in his or her previous job (or a job in the same workplace) by means of adaptation or rehabilitation, or whether a new job might be suitable with appropriate rehabilitation. The principle of "rehabilitation before pension," with which Germany has a long history, is mainly implemented in this manner.

It is important to note however, that while Germany is well known for its principle of "rehabilitation before pension," some research has shown that this principle is not always strictly implemented. As Sims (1999) summarizes, "a lot of persons receive pensions well before, or instead of, rehabilitation. The main reason for this problem seems to be inadequate availability of services available due to 'fragmentation of authority across competing agencies'."

Over the last few years, Germany has undertaken considerable reforms of its social protection system in general, and of the disability pension system in particular. Most of the early retirement programs have been abolished and unemployment benefits have been cut, which is

likely to increase the pressure on the disability pension program (OECD, 2003). In addition, in 2001 it became mandatory to grant invalidity pensions on a temporary basis, and the own-occupation determination process was replaced with a new test that has an explicit distinction of full and partial benefits in terms of the number of hours a person can work. Finally, the monopoly of the Federal Employment Service was abolished in 1998, and a new equal opportunity law was passed in 2002 for persons with disabilities. In the rest of this chapter, we focus on Germany's sickness benefits, on the disability pension program operated by the Statutory Pension Insurance with its full and partial components, and on the recent changes to this program.

Sickness Benefits

First, we sketch the protection against the social risk of temporary illness. For about 90 percent of the German population, the costs of health care are covered by Statutory Health Insurance (*Gesetzliche Krankenversicherung*). This coverage consists of about three hundred funds that are closely regulated by law and mostly governed by representatives of the employers and the insured. Membership is mandatory for all dependently employed persons except civil servants (*Beamte*) who earn less than a specified amount per month (3825 EUR in West Germany in 2003). Family members are covered free of charge if they have no earnings themselves. Mandatory contributions are about 14 percent of gross wages, half of it paid by the employee and half paid by the employer. For unemployed persons, the Statutory Unemployed Insurance (*Bundesagentur fuer Arbeit*) pays the contributions. Social assistance recipients are covered by Local Authorities, who operate Social Assistance (*Sozialhilfe*) under Federal Law. Most of the self-employed have taken out private health insurance so that the health costs of only about 0.2% of the population living in Germany are not covered.

Employees who are sick and therefore unable to work are entitled to a continuation of wage payments for six weeks by their employers, followed by up to 78 weeks of sickness benefits funded by the Statutory Health Insurance. There are no employment duration requirements to be eligible for the short-term sickness benefits. The inability to work must be attested to by a doctor for a certain period. The doctor certifies to the employer that the person is unable to perform his or her job and does not need to inform the employer about the type of illness or impairment the person has. After wage payments have ceased, the short term sickness benefits amount to 70% of the person's gross earnings but not more than 90% of her previous after tax earnings. Benefits are tax-free.

Short-term sickness benefits can last a maximum of 78 weeks. When the illness has lasted a long period, the person is checked more thoroughly. The assessor from the Statutory Health Insurance selects the cases that need to undergo a medical examination. This list of selected cases is then discussed with members of the independent Medical Service of the Statutory Health Insurance (*MDK*). If they agree, the person is invited to a medical examination and is checked for chances of rehabilitation. If the medical service predicts a long lasting or permanent inability to work, the examiner requests that the subject apply for rehabilitation or a temporary or permanent disability pension from the Statutory Pension Insurance.

Disability Pensions (Full and Partial) of the Statutory Pension Insurance

Germany has a dual disability pension system with full and partial pensions. An insured person's capacity is partially reduced if illness or disability limits that individual's ability to work to at least 3 but no more than 6 hours per day on a permanent basis under the conditions of the general labor market. An insured person has a fully reduced capacity if illness or disability

limits that individual's ability to work to less than 3 hours per day under the general conditions of the labor market.

In practice, disability pensions used to be permanent. They were temporary if, after assessment, the medical service of the pension insurance expected that the person would be able to work again following the period of a temporary pension (e.g. two years). Since 2001, disability pensions normally must be temporary if they are granted for the first time. Both partial and full pensions are initially restricted to a period of 3 years, but this time restriction does not apply to persons whose conditions are not expected to change. In addition, if beneficiaries reach the age of 60 after two years of having claimed a disability pension, a permanent pension is granted.

Eligibility and determination. If the applicant has been assessed by the Medical Service of the Statutory Health Insurance as incapable of holding employment, and if this situation cannot be improved by means of rehabilitation, the applicant's case will be forwarded to the Statutory Pension Insurance. In order to be eligible for an invalidity pension, a person needs to have made contributions for at least three of the preceding five years, and to have been insured for a five-year period.

To apply for a disability pension, the insured person submits an application form and the medical record to the Statutory Pension Insurance.[28]. The application form asks for details about the person's previous work and working environment and about her illness or disability. An administrative assessor will determine whether the information is sufficient to make a decision. If it is not sufficient, additional medical information is required from the applicant's medical practitioner. If the additional medical information is still insufficient for a decision, the administrative assessor will make use of the Statutory Pension Insurance's medical service,

[28] The application and award process is described in detail in Boeltzig and Clasen (2002).

which will decide whether a medical examination of the applicant is necessary. In case of a medical examination, the whole body and not only the affected body parts are examined in order to assess the applicant's overall capacity. A special assessment form that consists of a systematic listing of all the body parts is provided, and the medical practitioner fills in the results of the examination, as well as other tests, such as visual and hearing tests. In case of multiple disabilities, medical practitioners collaborate with other medical experts. In some cases, the applicant may stay at a hospital over a short period for an assessment. In any case, it should be noted that it is not the medical practitioner but the administrative assessor who makes a decision on the invalidity pension award. The medical practitioner only provides medical feedback and evidence.

There is no general medical listing of disabling conditions in the German determination process; specifically, the process does not provide a distinction between the categories of ability to work "between 3 and 6 hours" and "more than 6 hours daily." The decision always results from a special individualized assessment by a doctor with experience in social medicine. However, for some diseases and their manifestations, there exist hints or recommendations in a book on medical examinations for the pension insurance published by the Federation of the German Pension Insurance Funds (*Verband Deutscher Rentenversicherungstraeger*). The decision is based on medical factors only, except in the case of partial pensions, where labor-market related information is also used (that is, information on the availability of part-time jobs in the labor market). This so-called concrete view (*konkrete Betrachtungsweise*), which takes the availability of part-time jobs into consideration, will be abolished step by step. Then the so-called abstract view (*abstrakte Betrachtungsweise*), which is based solely on medical factors, will be decisive.

Benefits. The level of a full disability pension depends in principle on two factors. First is the total number of years the insured person has contributed to the Statutory Pension Insurance. If a person has not yet reached the age of 60, the number of years is increased by the difference between the actual age and the age of 60. Second is the sum of "Earnings Points" (*Entgeltpunkte*) a person reached before the occurrence of the incapacity. An earnings point is calculated by dividing the person's actual gross earnings in a year by the same year's average earnings of all insured persons. This means that a person who earns an average income in a given year is allocated one earnings point for that year. Multiplying the number of years by the sum of earnings points results in the so-called individual factor. This factor is then multiplied by a general factor (*aktueller Rentenwert*), which represents the general level of pensions. In 2003, the general factor amounted to 26.13 EUR per month in West Germany. For East Germany the general factor is still 12% lower. The general factor is indexed to the development of nominal gross wages but with certain deductions. One has to bear in mind, however, that this description is a strongly simplified version of the rather complicated true pension formula. A partial pension is half the rate of a full pension.

As of December 31, 2002, the average monthly amount of a full disability pension was 653 EUR for women and 836 EUR for men. The average amount of a partial pension was 428 EUR and 616 EUR respectively. These amounts are net of the contribution of the pensioner and of the Statutory Pension Insurance to the Statutory Health Insurance for pensioners. In 1993, the average replacement rate for a full disability pensioner was 46% in Germany, compared to 30% in the US (Aarts, Burkhauser & De Jong, 1998). More recent figures are not published.

Return to work. Persons who receive either a full or partial disability pension are allowed to work. The limit for supplementary earnings without a reduction of the pension is 340 EUR for

full disability pensioners. Full pensioners can have supplementary earnings beyond this limit during two months per year. As explained in Boeltzig and Clasen (2002), depending on the additional income (which also includes benefits such as sickness benefits, unemployment benefit etc.), a full pension can be paid in portions (e.g. ½; ¼; ¾). A partial pension can also be paid as half pension. The following figures refer to West Germany as of 2003. The limits for additional income of a disability pensioner with previously low earnings are approximately: 611.44 EUR for a ¾ pension, 811.34 EUR for ½ pension, and 1011.23 EUR for ¼ pension. These limits are higher if the pensioner previously earned an income at average level or above average. The corresponding limit for a partial disability pension is at least 811 EUR; which corresponds to the limit for half of a full pension for higher incomes. Income beyond the highest limit can lead to the discontinuation of the pension.

Return to work is a strong institutional feature in Germany, supported by the various social protection institutions that invest in rehabilitation as a first resort before payment of pension. As we noted earlier, the Statutory Health Insurance may determine that a person would not benefit from rehabilitation, instruct that person to apply for a pension, and forward the case to the Statutory Pension Insurance. The latter start reviewing the application by subjecting the person to their own rehabilitation test. The Statutory Health Insurance assesses the incapacity to work in relation to the person's last job, while the Statutory Pension Insurance assesses the person's incapacity to earn a living in the general labor market.

Rehabilitation interventions by these institutions focus on retraining and new employment opportunities if there is no possibility to accommodate the disabled person with their previous employer. Various support services and subsidies for (re)entry to work may be used for retention. If the Statutory Pension Insurance determines that a person is suitable for

rehabilitation, they provide a transition allowance. While receiving this allowance, the person can receive other benefits and pensions paid due to an accident.

Persons in receipt of full or partial disability pension can register as unemployed with the Federal Employment Service (FES) to undertake occupational rehabilitation. These benefits are subsidiary to the benefits of the Statutory Pension Insurance. It is guaranteed that only one institution is responsible, and that a person only needs to apply to one institution that then forwards the application to the institution finally in charge.

Of particular interest in Germany is the evolving relation between the partial disability pension program and the labor market. From 1976 until 2001, partial disability beneficiaries who were still unemployed within one year were awarded a full disability pension. Partial pensioners were automatically transferred to the full pension program without going through another determination process. The partial pension program then worked as a temporary program where recipients tested their ability to find part-time jobs in the labor market for one year. Partial pensioners thus faced little incentive to return to work in this context. In addition, until 2001, there were very specific rules as to what constituted a suitable job for a partial disability pensioner. Skilled workers could refuse any job that was not at least semi-skilled, and semi-skilled workers could reject unskilled jobs that were not prominent in pay and prestige. These regulations, together with a slack labor market, have reduced the percentage of partial disability pensioners from 30% in 1970 to 5% in the early 1990s (Bound & Burkhauser, 1999). In 2002, Germany had 1.8 million persons receiving disability pensions of the Statutory Pension Insurance, and only 6.4% of disability pensioners had partial benefits. It is clear that over the last three decades, the German partial pension program has not been successful at keeping persons with disabilities in the labor market on a part time basis. This record may be explained by the

slack labor market, the restrictive rules on what constitutes a suitable job, and by the way the program was structured. An integrated partial and full pension program that provided seamless transitions from the former to the latter clearly did not give partial pensioners much incentive to go back to work. Under these conditions, from 1976 until 2001, most partial pensioners became full pensioners and never used their partial earnings capacity.

In 2001, fundamental changes were made to the way the partial pension program interacts with the labor market. For persons born after December 1960, all available jobs are considered as being suitable for partial pensioners, regardless of their skill levels. New reform laws (*Hartz-Gesetze*), not all of which have yet been passed by Parliament, will strengthen the Federal Employment Service (*Bundesagentur für Arbeit*) and will introduce a monitoring system for the long-term unemployed. Whether this will work well at providing part-time jobs for partial pensioners is still an open question.

In addition, as explained in Boeltzig and Clasen (2002), the transfer from a partial to a full pension is now possible only if there is a limited availability of part-time employment or "a closed part-time labor market," a situation that is officially determined by the federal government. This transfer from a partial to a full disability pension takes place after one year if a part-time job cannot be provided.

While the removal of some of the restrictive suitable job rules of the partial program may improve its efficiency, its future success requires that the part-time labor market must pick up in Germany. The fact that the Statutory Pension Insurance will continue to grant full pensions due to reduced (or no) part-time employment opportunities as long as the labor market remains slack is an explicit recognition by the German government that partial pensioners cannot be expected to find part-time jobs if part-time employment prospects do not improve.

Conclusion

The German disability benefit system is complex with a variety of programs and institutions involved. Recently, within this system, the disability pension programs have been subject to fundamental changes. Beside the removal of suitable job rules in the partial pension program, another important change was made in 2001 to the partial and the full disability program when disability pensions became temporary more often. Obviously, pensioners now have an incentive to return to work by the time their entitlement period ends. Temporary pensions, however, can be prolonged twice, and after nine years they have to be changed to a permanent disability pension or (if pensionable age is reached) to an old age pension. It is too early to evaluate the impact of this reform. The first cohort of pensioners who were granted benefits on a temporary basis is only now coming to the end of the first three-year entitlement period. Providing temporary versus permanent disability pensions is expected to improve the return to work record of pensioners. However, the success of this reform, just like that of the partial program, will greatly depend on the future strength of the German labor market.

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Chapter 6

Recent Innovations in Great Britain's Disability Benefit System

Sophie Mitra, Anne Corden, & Patricia Thornton

Summary: This chapter describes the disability benefit system in Great Britain with a focus on temporary disability benefits, the working tax credit, and return to work incentives. The first section gives an overview of Great Britain's complex disability benefit system. Great Britain has an employer funded and administered temporary benefit program, the Statutory Sick Pay program. Employers pay up to 28 weeks to employees who are unable to do their regular jobs due to illness or non-work related injury. An employee who has exhausted Statutory Sick Pay and does not return to work, or a person who was not entitled to Statutory Sick Pay, may apply to the government contributory permanent disability program, Incapacity Benefit. In addition, there are several noncontributory means-tested benefits that are available on the basis of having a low income and which have disability elements, e.g. Income Support and Job Seekers' Allowance. Within the means-tested benefit programs, there are premiums linked to having a disability and varying with the severity of disability. Great Britain also has a benefit designed to help meet the extra costs of living with a disability, the Disability Living Allowance. This allowance is non-contributory, non-means-tested, and available to persons who work and do not work. Finally, Great Britain has a rapidly evolving system of tax credits. The Working Tax Credit is available to persons in low-income categories and it has elements for disability and severe disability. Persons with disabilities who work part time or full time at low wages are the targets of this program. The second section of the chapter describes in detail the employer funded temporary disability program, Statutory Sick Pay, including eligibility, administration and return to work aspects of the program. Of interest are the ongoing pilots in which the government provides return to work services to SSP recipients to attempt to prevent them from moving onto the Incapacity Benefit rolls. The third section covers the Incapacity Benefit program, including eligibility, benefits, and return to work. In particular, it reviews recent changes to work incentives in the program. The last section of the chapter reviews the working tax credit program and how it applies to persons with disabilities. Based on preliminary evaluation efforts, the advantages and disadvantages of a tax credit program with a disability component are discussed.

The disability benefit system in Great Britain has many of the same problems that have plagued the disability schemes of other industrialized countries—namely a strong growth in the number of disability beneficiaries and a growing burden on public finance. In the 1990s, disability benefit recipiency increased by 54% in Great Britain, and disability benefit expenditures' share of the GDP increased from 0.88% in 1990 to 1.27% in 1999 (OECD, 2003); however, this certainly does not imply that policy has not changed since the early 1990s. Great Britain stands out from other countries in this study because of the considerable reforms it has

made in recent years. These reforms include efforts to make work pay for persons with disabilities[29] and a new focus on return to work services, individual needs, and personalized services. The reforms have been designed to reduce the number of persons joining the rolls and to remove the barriers that discourage persons receiving disability benefits from trying to work. Great Britain has an employer-funded temporary disability program, the Statutory Sick Pay program, and like the United States, it has a permanent and total public disability benefit program.

This chapter is organized as follows. We first give an overview of Great Britain's disability benefit system. We present the employer-funded temporary disability program. We then review two particular programs of Great Britain's disability system: the incapacity benefit and the working tax credit, respectively.

Overview of the Disability System

Great Britain's disability system offers to persons with disabilities a variety of programs, which provide an array of benefits that are geared to a variety of needs and situations. We present briefly in Table 1 the main types of disability benefits.

[29] We realize that academic and political discourse in Great Britain favors the term 'disabled people'. However, we use the term 'persons with disabilities' to be consistent with the rest of the report and the language commonly used in the United States.

Table 1: Overview of Great Britain's Disability Benefit System

Benefit	Contributory	Means-tested	Taxable
Statutory Sick Pay	no	no	yes
Incapacity Benefit (IB)	yes	no[1]	yes[2]
Income Support	no	yes	no
Income-based Jobseeker's Allowance	no	yes	yes
Housing Benefit	no	yes	no
Disability Living Allowance	no	no	no
Industrial Injuries	no	no	no
Working Tax Credit (disability component)	no	yes	no

Notes:
1. Assessment for IB is not means-tested; however, it is reduced as a result of other sources of income.
2. The lower rate of incapacity benefit is free of tax.

The Statutory Sick Pay program is an employer funded and administered program in which employers pay up to 28 weeks to employees who are "incapable of work." The regulations covering this program state that the employee must be incapable of doing her work because of a specific disease or bodily or mental disability. After seven days of being incapable of work, the employer expects a medical certificate from a doctor.

The main contributory earnings replacement benefit is the incapacity benefit. It is targeted at persons whose ability to perform physical and mental activities is substantially reduced to a point where they should not be required to seek work as a condition for benefit. Individuals can claim incapacity benefits after they have exhausted their 28 weeks of statutory sick pay. In addition, there are several non-contributory, means-tested earnings replacement benefits with disability elements that are available on the grounds of low income. Income support is the main social assistance benefit and is not available to people who do full-time work (at least 16 hours weekly). In addition, the income-based jobseeker's allowance is available to unemployed people and people working less than 16 hours weekly who are looking for work. Housing benefit is available to people with low income who pay rent. In these means-tested benefits, entitlement is calculated on the basis of a system of personal allowances and premiums,

reflecting the claimant's personal characteristics. Within this system, there are premiums linked to having a disability and varying with the severity of the disability.

Great Britain also has a benefit designed to help meet the extra costs incurred by persons with disabilities. Extra cost benefits are non-contributory and non-means-tested and available both to people who do and who do not have paid work. Entitlement relies substantially on self-assessment and varies according to needs with care and mobility. Recipients are free to spend the benefit according to their own needs and priorities. The main extra cost benefit is called the Disability Living Allowance (DLA) and is paid to people with a severely disability that results in either personal care needs or mobility assistance needs, or both. DLA has two components reflecting the benefits that it replaced: a care component and a mobility component. Each is available at different weekly rates depending on the severity of the disability. Great Britain also has a system of non-contributory industrial injury benefits, which are paid to persons who are disabled as a result of an accident at work or a disease caused by their job. Only around 280,000 persons receive this benefit. The amount paid depends on the percentage of disability assessed and is not affected by whether the person has returned to work or not (Pilling, 2002).

Finally, Great Britain has a rapidly evolving system of tax credits, which are available to tax payers and non taxpayers in low to middle income categories. Of importance here is the working tax credit, which is designed to boost the incomes of lower paid workers. Entitlement is based on family circumstances and income, and includes elements for disability and severe disability. Overall, Great Britain's disability benefit and tax credit system is complex, and persons who have disabilities may use different parts of the system according to personal and household circumstances, their impairment, their capacity for work, and their level of income.

The variety of available programs was enhanced as part of the recent reforms of the disability system, which included the establishment of new benefit and tax credit schemes. In 1999, the government placed its proposals for reforms of the disability benefit system in the context of the philosophy of "welfare to work," guided by the principle of "work for those who can and security for those who cannot" (DSS, 1998). In addition, as part of the recent reforms, a new focus was placed on vocational rehabilitation and personalized services. Traditionally, vocational rehabilitation played a marginal role in Great Britain's disability system. In 2001, different organizations were contracted by the government to provide job broker services to persons with disabilities. The Job Broker, a public, private or voluntary sector organization, provides job search services and tries to improve employability. In the same year, in order to improve efficiency and services, the benefit agency and the employment services agency were merged into a single working-age agency (Jobcentre Plus) as part of the new Department of Work and Pensions.

Statutory Sick Pay

In Great Britain, the program that fills the role of "temporary disability benefit" is its Statutory Sick Pay (SSP). It was established as part of the government's efforts to shift some of the costs of the disability system to employers with eight weeks of statutory sick pay in 1983 and 28 weeks of sick pay fully borne by the employers since 1995. It is not available to those persons who are not employees, a category that includes persons who are unemployed, self-employed, or under age 16 or over age 65. In addition, it is not available for persons who have already had 28 weeks of SSP and fall sick again within eight weeks of the end of a period of SSP, nor when the

average weekly pay was less than a minimum earnings limit (currently 77 GBP per week[30]). Some people have a contract of employment that includes entitlement to occupational sick pay from the employer, but SSP is a legal minimum and an employer is not allowed to pay less. The weekly flat rate for SSP between April 6, 2003 and April 5, 2004 was 64.35 GBP (Inland Revenue, 2004). SSP is administered and paid by the employer. SSP is payable if the person's incapacity lasts for more than four days. For the first seven days of sickness, self-certification of incapacity for work is acceptable. After seven days, an employer normally expects medical certification from a general practitioner or a practitioner such as an osteopath. It is up to the employer to decide whether or not the person is incapable of work. If there is disagreement between an employee and employer about entitlement or payment, a worker applies to the Inland Revenue for a decision. The Inland Revenue may require the person to undergo a medical exam with a doctor acting on behalf of the Inland Revenue. The Board of Inland Revenue decides questions on entitlement to SSP. In practice, such decisions are given judicially by authorized officers acting on behalf of the Board of Inland Revenue.

People whose condition improves may return to the same job within or after 28 weeks, and the employer then stops paying SSP. People who are still incapable of work after they have received the maximum may go on to qualify for incapacity benefit or income support, or both.

There are no rules about restrictions on work earnings while a person receives SSP. It is possible for a person to be unable to work on one job, but at the same time to be able to work on a different job if the jobs involve different tasks. Until recently, there has been no government provision of return to work services for SSP recipients, although some employers have developed services within their own occupational health schemes. As part of efforts to provide personalized return to work services in the early stages of disability and illness, the Department

[30] On June 30, 2004, 0.552 GBP= 1 United States Dollar (USD)

for Work and Pensions and the Department of Health started to run trial Job Retention and Rehabilitation Pilots in six geographical areas. The pilots target SSP recipients before they apply for incapacity benefits and were motivated by evidence that every week, 3,000 persons moved from SSP to incapacity benefits after 28 weeks (Zeitzer, 2002). Employees and self-employed people off sick for between six weeks and six months may volunteer to take part. If they pass the screening test for eligibility, they are randomized to a health intervention, workplace intervention, combined intervention, or control group. External organizations provide the services. Results from this experiment are not available yet. While it is too early to consider the effectiveness of this program, it is important to note that it is consistent with other countries' initiatives in terms of early intervention return to work programs. Here, the British government has designed health and return to work interventions at the earliest stage of disability (i.e. less than six months after the onset of a disability and while persons are still employed). It is thus starting to use its temporary employer funded program as a platform to jump-start return to work public programs.

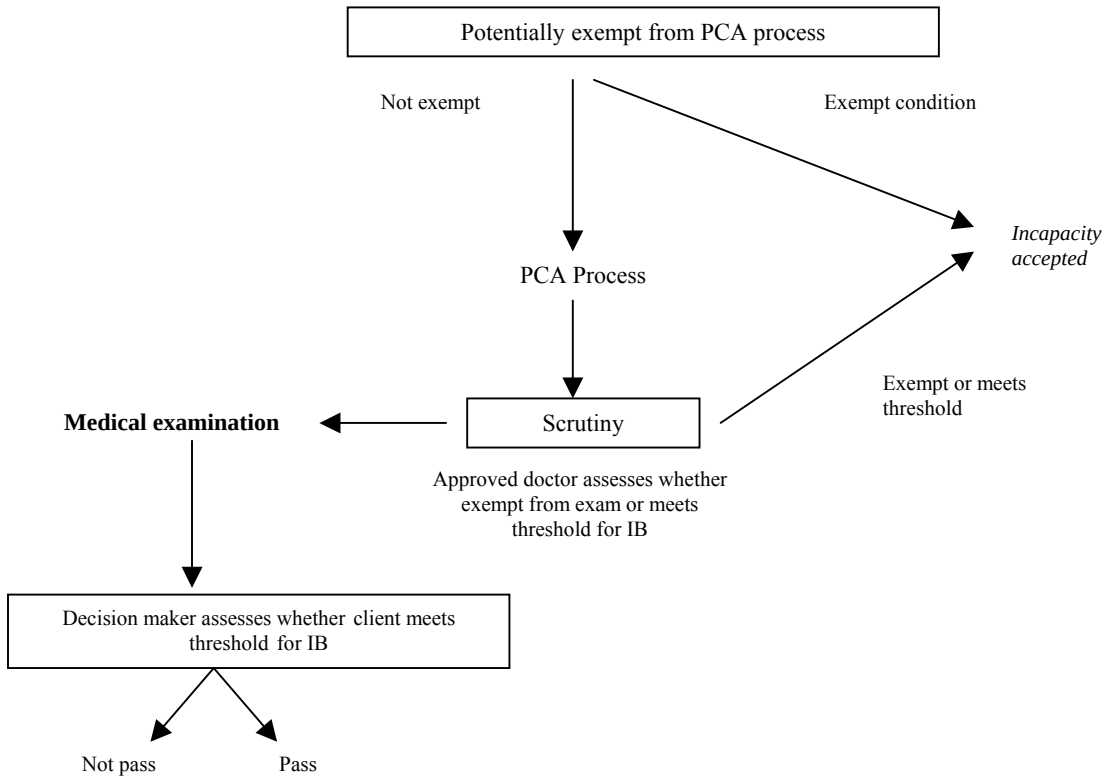
Incapacity Benefit

An employee who has exhausted SSP for 28 weeks and does not return to work, or a person who was not entitled to SSP, may apply for Incapacity Benefit (IB).

Disability determination. IB eligibility depends on a test of incapacity. There are two tests. First, there is the own occupation test for the first 28 weeks of incapacity. The own occupation test determines whether disability prevents a person from doing the type of job the person was doing before being incapacitated. After 28 weeks, the person has to undergo the personal capability assessment (PCA), which is the medical test used to decide entitlement to IB. The PCA replaced the "all work test" in 2000. The PCA test looks beyond the ability to perform

the normal occupation to provide an indication of the extent to which a person's condition affects their ability to do a range of everyday work-related activities. The PCA determination process is represented in Figure 1. The first stage of the decision-making process is to establish whether the claimant is exempt from the PCA process. This stage is necessary in about a third of cases where there is some evidence to suggest that the claimant might fit into an exempt category. In many cases the decision maker will seek medical advice on this matter from an approved doctor. The approved doctor will seek factual information from the certifying medical practitioner (usually the claimant's own general practitioner) on a standard form. Those with very severe medical problems are awarded IB without having to go through the PCA process. In certain cases, Jobcentre Plus processing staff can make a decision whether to exempt the claimant from the process. These include claimants with terminal illnesses; those in receipt of the highest-rate disability living allowance care component; and those with severe conditions such as paraplegia, dementia, and registered blindness. In other cases, such as mental illness, progressive impairment of cardio-respiratory function or severe paralysis, the decision to exempt the claimant from the PCA process may be undertaken following advice from an approved doctor.

Figure 1: The Incapacity Benefit Decision Making Process



Source: Sainsbury et al (2001)

For applicants who are not exempt, the PCA test is a point scheme. Claimants are asked to complete a detailed questionnaire about the impact of their condition on a range of work-related activities as defined in the PCA. The PCA test covers physical functions such as walking, bending and kneeling; sensory functions such as ability to hear, speak and see; and mental functions. These functions are listed in Table 2. For each of these functions, the applicant is asked to select from a set of ranked statements the one that best explains their levels of functional limitations. Approved doctors working for Medical Services on behalf of DWP assess the extent to which a person's health condition impairs their ability to perform any of these

activities by allocating a number of points for each of these statements. To reach the benefit threshold, a person needs at least 15 points from the list of physical activities, 10 points from the list of mental activities, or 15 points if combining scores from both lists. Approved doctors then provide advice to a benefit decision maker. A person satisfies the PCA if their ability to perform any individual activity is seriously curtailed (for example, they cannot walk more than 50 meters without stopping, or they cannot turn the pages of a book). Alternatively, the PCA can be satisfied if there is a lesser degree of limitation across several areas of function. The PCA test is medical in nature. It takes into account medical factors only, not vocational factors such as age, skills and experience. Finally, it is important to note that the PCA is not a test that distinguishes between those who can and cannot work. Rather, it draws a line between people who should not be expected to seek work in return for benefit (those satisfying the PCA who stay on IB) and those who can be expected to do so by attempting to return to work or claim job seekers allowance.

Benefit. IB is paid at three rates (Table 3), which increase with the duration of receipt of the benefit. However, persons who are terminally ill can receive the higher IB rate immediately (that is, the long-term rate of IB after 28 weeks of eligibility instead of one year). In 2002-2003, 1.5 million people received benefits, and expenditures on IB were estimated at 6.8 billion GBP, compared to 7.6 billion GBP in 1995-1996.

Table 2: The Personal Capability Assessment test in Great Britain

Physical and Sensory Functional Areas	**Mental Functional Areas**
Walking on level ground	Completion of tasks
Walking up and down stairs	Daily living
Sitting in an upright chair with no arms	Coping with pressure
Standing	Interaction with others
Rising from chair	
Reaching	
Speech	
Hearing	
Continence	
Vision	
Consciousness	
Bending and kneeling	
Manual dexterity	
Lifting and carrying	

Table 3: Rates of Incapacity Benefits, GDP per week, January 2004

	Claimant under pensionable age	Claimant over pensionable age
Long term IB		
Standard	72.15	n/a
Increase for dependants:		
adult dependant	43.15	
child dependant:		
eldest eligible child	9.55	
each other child	11.35	
Short term IB (higher rate)		
Standard	64.35	72.15
Increase for dependants:		
adult dependant	33.65	41.50
child dependant:		
eldest eligible child	9.55	9.55
each other child	11.35	11.35
Short term IB (lower rate)		
Standard	54.40	69.20
Increase for dependants:		
adult dependant	33.65	41.50
child dependant:		
eldest child	n/a	9.55
each other child	n/a	11.35

Return to work. Historically, there has been a sharp divide within the Great Britain earnings replacement benefit schemes between those people who are expected to do paid work and those who are not. Persons with disabilities were one group much affected by this approach; people were expected either to be fit and well and thus able to work, or to look for work, or to be so ill or disabled that they could not be expected to do any paid work. Such a distinction in the benefits system evolved when the main family breadwinners were men and much of men's work involved physical tasks and long hours. The distinction has traditionally been heavily "policed," with strict penalties for anybody found "working and claiming." By the 1990s, the whole context of

disability and employment had changed. One of the key policy objectives of the current government is to help all those people who want to do paid work to achieve this; and included here now are people claiming incapacity benefits and those at risk of having to leave work and move onto incapacity benefits. However, the historical structural interface between earnings and benefits referred to above created a number of obstacles or disincentives. Government departments and agencies have been working together to remove some of these obstacles and to introduce new incentives that, it is hoped, will influence attitudes and behavior and help to smooth the path from incapacity benefits to paid work. We review below some of the recent return to work initiatives. The permitted work rules are designed to contribute to the wider package of incentives, while at the same time protecting the interests of those IB recipients who are not currently thinking of moving off IB into work, some of whom are very ill or severely impaired. Some of these work rules were changed as part of recent reforms in order to increase work incentives. It is now no longer necessary to have a doctor's permission prior to work. There are several permitted work rules. First of all, there is now *no limit* on the amount of *voluntary work* that may be done, as recognition that voluntary work is a form of vocational rehabilitation and may result in paid work. Other *permitted work* (which must in all cases be notified to DWP) is work done:

- as part of a *treatment program* done under medical supervision while in hospital or attending hospital as an out-patient. Earnings must not exceed 67.50 GBP per week (the equivalent of less than 16 hours work at minimum wage rates) and do not affect IB entitlement, *or*
- for an unlimited period, as long as earnings do not exceed 20 GBP per week. This is called *permitted work lower limit,* and earnings do not affect IB entitlement. In practice,

there is an expectation by the DWP that at minimum wage rates, this will be less than five hours work per week, *or*

- for an unlimited period, as long as earnings do not exceed 67.50 GBP per week and people are in "supported work." This is called *supported permitted work,* and earnings do not affect IB entitlement. Supported work means work supervised by someone employed by a public or local authority or voluntary organization whose job it is to find work for disabled people. This could include work in a sheltered workshop, or with help from local authority social services, or supported work in open employment. The "support" must be ongoing and regular, *or*
- for up to 26 weeks, as long as the work is done on average for less than 16 hours per week and earnings do not exceed 67.50 GBP per week. This is called *permitted work higher limit,* and earnings do not affect IB entitlement. A 26-week extension to this work may be given if there is evidence that such extension will improve capacity to undertake full-time paid work. In practice, DWP expects such evidence to come from a professional adviser within the various services available in government programs that help disabled people who want to try work.

In addition to permitted work rules, there are innovations as part of on-going pilots regarding work focused interviews and service programs to Incapacity Benefit recipients to encourage return to work. On-going Incapacity Benefits pilots make it mandatory for new claimants of incapacity-related benefits to attend a series of six work-focused interviews with a personal adviser on a monthly basis. In these pilots, referral to the New Deal for Disabled People (NDDP) will be promoted. The NDDP personal adviser service was piloted in 12 areas from September 2001. When renamed as the Job Broker Services, it extended nationally, but retains a

pilot status. The NDDP is the first ever service dedicated to helping people on incapacity-related benefits to return to work. It is a voluntary program delivered by voluntary, private and public sector organizations under contract to Jobcentre Plus, a section of the Department of Work and Pensions.

Finally, return to work efforts of IB recipients are also indirectly encouraged through the Working Tax Credit program, which supports them once they work more than 16 hours and exit the rolls. Further details on this tax credit program are given below.

Working Tax Credit

A tax credit program for persons with disabilities was first set up in 1999 under the Disabled Person's Tax Credit (DPTC) program, which replaced the Disability Working Allowance (DWA). In the DWA, benefit effectively "topped up" low earnings for disabled workers. The design of DPTC built on that of the DWA, a benefit administered by the Department of Social Security. However, tax credits were administered by the Inland Revenue and paid via wages through the employers' payroll. In addition, the DPTC provided for a higher earnings disregard and a lower tax rate on earnings beyond the earnings disregard, which thus reduced the extent to which additional work earnings are clawed back by the benefit system. This first generation of tax credits for persons with disabilities was short lived and was subsumed in April 2003 by a new integrated tax credit system, the Working Tax Credit (WTC). WTC is paid to a range of lower-income workers. It covers both employees and self-employed persons, including persons with disabilities (disability element), and is administered by the taxation authority (the Inland Revenue). WTC is paid to lower-paid workers, depending on personal circumstances. People qualify if they or their domestic partner are in full-time paid work, the

household income is sufficiently low, they are present and ordinarily resident in Great Britain, and they are not subject to immigration control. In addition, people must actually be working 16 hours or more or have accepted an offer of work expected to start within seven days.

The amount of entitlement depends on family circumstances and other income, but there are no limits on savings or capital. The structure of WTC and the eligibility criteria are complex. We focus below on eligibility criteria for the disability element of the WTC. A person qualifies for a disability element of the WTC if they work for at least 16 hours per week, *and* have a disability that puts them at a disadvantage in getting a job, *and* receive or have been receiving a qualifying benefit. A qualifying benefit includes DLA (or Attendance allowance, industrial injuries disablement benefit with constant attendance allowance, War Disablement Pension with constant attendance allowance of mobility, or a vehicle provided under the invalid benefit scheme). Other qualifying benefits include Incapacity Benefit; Severe Disablement Allowance, or Income Support with a disability premium, or disability premiums in the income-based unemployment benefit; Council Tax Benefit; or Housing Benefit. The fast track application for the tax credit also includes statutory sick pay, short term lower rate incapacity benefit, and income support as qualifying benefits. There is no asset test.

Applications are made on a standard form on which the applicant needs to declare that he or she has a physical or mental disability that puts them at a disadvantage in getting a job (the guidance refers them to a list of prescribed conditions). The form is then posted to a central Tax Credit office. Initial decisions are made by civil servants in the Inland Revenue. The decision-maker is asked to accept the applicant's self declaration unless there is contradictory evidence on the form. The initial award is for 12 months. For repeat applications, the person must satisfy a "disability test." This is satisfied by the receipt of benefits such as the Severe Disability

Allowance (SDA) in the six months preceding the initial claim, or the receipt of DLA care component at higher or middle rate, or the mobility component at higher rate. If the person did not receive these benefits, the person needs to have one of 21 "prescribed conditions." These prescribed conditions are physical, mental, and social functional limitations, and they also include the inability to work an eight hour working day or a five day working week, due to a medical condition or pain (Pilling, 2003). The Tax Credit office will then write to the person's doctor to confirm that the person has these conditions and will continue to have the condition(s) for at least six months or for the remainder of his or her life.

The amount of entitlement depends on family circumstances and other income, but there are no limits on savings or capital. The level of award is based on entitlement for a whole tax year, and the way this is calculated depends on the time in the tax year at which the claim is made, and whether circumstances change during the year. The first step in the calculation is thus determination of the "relevant period" for the claim. The second step is to work out the maximum amount of WTC available in each of eight "elements" which might apply to the claimant unit:

	Annual rate
basic element	1,525 GBP
lone parent element	1,500 GBP
couple element	1,500 GBP
30 hours' work element	620 GBP
disability element	2,040 GBP
severe disability element	865 GBP
age 50+ element	two rates, depending on hours worked
child care element	70% of eligible costs, up to maximum

The third step in the calculation is to work out the "relevant income" of the claimant (and their partner). This includes actual income from employment, self-employment, pension and

investment income, and social security benefits (disregarding, among others, DLA, IS, income based JSA, HB and short-term lower rate IB). The fourth step is to compare the income just calculated with the "threshold," a set amount, of 5,060 GBP for 2003/2004. The final step in the calculation is to apply the taper:

- if actual income is less than the threshold, entitlement is the maximum amount derived in step 2.
- if relevant income is greater than the threshold, reduce the maximum entitlement (step 2) by 37% of the excess. A set of rules governs the order in which the different elements of the maximum tax credit are tapered away.

WTC has not yet been evaluated, as it was only introduced in April 2003. The previous Disabled Persons' Tax Credit (DPTC) was evaluated (Atkinson, Meager, & Dewson, 2003 and Corden & Sainsbury 2003). Based on a representative sample of DPTC recipients, Atkinson, Meager, & Dewson (2003) found that 19% of recipients claimed that DPTC was the decisive factor in the decision whether to work or not. This tendency was more common among women, older people, the self-employed, and particularly single parents. On the basis of self-reports, a large majority of DPTC recipients had received means-tested benefits, including 19% who had received Income Support with a disability premium. However, 17% of DPTC recipients were Incapacity recipients in the previous two years, which indicates that the program plays an important role in assisting Incapacity Benefits recipients who leave the rolls to return to work. Persons with disabilities who work part time or full time at low wages are the target group of a tax credit program such as Great Britain's WTC with a disability component. It recognizes that some persons may have a partial permanent disability (in that they are able to work on a part-time basis) and that others have the capacity to work full-time but at low wages, despite having

an impairment. This latter group would have a high benefit replacement rate should they join the disability rolls, and might thus be unlikely to return to work. Such a program has several advantages. It provides a means-tested system that encourages work. It may prevent entries into the contributory or means-test disability benefit programs by topping up work earnings. In addition, because recent eligibility to Incapacity Benefit or Income Support are two of the qualifying tests of the disability component of the WTC, this program also encourages the return to work efforts of Incapacity Benefit and Income Support beneficiaries, and is thus intended to promote exits from these same programs. Of course, if such an income tax credit with a disability component were introduced in the United States, its interaction with the Medicaid program's eligibility requirements in terms of family income would need to be taken into account. At the same time, it is important to note that there are several disadvantages with the WTC. One of them is an expected low take-up rate. People must apply for tax credits, and receipt requires that they are ready and able to negotiate the administrative system. Historically, there were major problems in the take-up of the means-tested benefits that preceded the tax credits, and these problems are expected to remain. In addition, there is a high error rate in administrative calculation of entitlement to tax credits with technical "overpayments" which result from the end of the year reconciliations by the Inland Revenue. Whiteford, Mendelson & Millar (2003) compared the UK tax credits and similar schemes in Australia and Canada, and concluded that in comparison, the UK system of dealing with changes in income and circumstances, although responsive, was of high administrative burden and of low or moderate transparency.

Conclusion

In the early 1990s, Great Britain's disability benefit system was not so different from that of the current US system, with mainly a permanent and total disability insurance program and a means-tested program. Over the last decade or so, the British government has instilled a great deal of variety and flexibility in the system by enhancing a multi-pronged approach to the standard disability problems of rising public expenditures and benefit rolls. The working tax credit with a disability component encourages low-wage and part-time workers with disabilities to stay in the labor force. It provides benefits to persons who have a partial ability to work, and thus can be considered as analogous to a partial disability benefit program. The long-run impact of the Great Britain's Working Tax Credit with a disability component on the labor force participation of persons with disabilities has yet to be evaluated. Finally, the Department of Work and Pensions is currently testing ways to provide return to work services to short-term disability recipients within six months of the onset of a disability. That is a form of early intervention that takes place before an individual may apply for an incapacity benefit.

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Chapter 7

Disability Benefit Systems in Japan

Todd Honeycutt, Akira Terashima, & Chikako Kohyama

Summary: Japan has two temporary disability programs. The first program is provided through the employee health insurance system, available to workers of companies with five or more employees. The take up rate for this program is low due to employer provided assistance and supports. Temporary benefits are also available through the employment component of Labor Insurance (unemployment benefits) for individuals who are eligible for unemployment benefits become ill or sustain a non-work-related injury and become unable to work. Permanent disability benefits are tied to a multi-tiered pension system. The basic pension, which provides near universal coverage, provides a flat rate of income support. Employees of companies with five or more workers participate in a pension system that provides additional income support based on duration and amount of contributions. Both the basic and employee pensions offer benefits for partial disabilities, with the employee pension having a more expansive definition of partial disability. A one-time disability allowance is also provided through the employee pension for persons having certain conditions. This chapter concludes by discussing some of the recent changes and concerns for Japanese disability policy, including the current pension crisis (a result of a combination of the longevity of the population and its low birthrate) and the unique relationship between the employer and employee, which minimizes the need to access benefit programs.

The foundation of economic and rehabilitation supports for persons with disabilities in Japan began in 1949 with the Law for the Welfare of Physically Disabled Persons. This was followed in 1960 with the Law for the Welfare of Mentally Retarded Persons and the Law for Employment Promotion of the Physically Disabled. Today, there are over 120 laws and acts in Japan that cover, provide for, and protect persons with disabilities. A multi-tiered Social Security pension program provides the majority of cash benefits for persons with long-term disability. National health insurance offers another system for cash disability benefits. While health insurance provides medical access and assistance, it also offers short-term income support for individuals who become too ill to work. Additional support for temporary injury and illness comes through Labor Insurance, which has two components: Employment Insurance (for the unemployed) and Labor Accident Insurance (for work injuries). Employment Insurance provides

a sickness and injury cash benefit for persons who are insured, unemployed, and become unable to work due to an illness or non-work related injury, while regular unemployment benefits are extended for persons with disabilities who are ready to work.

In addition to the pension, health insurance, and labor insurance schemes, Japan has a comprehensive set of laws, services, and benefits to support persons with disabilities, some of which are available for persons with disabilities whose conditions are not severe enough to qualify for long-term disability pensions. These includes disability allowances for persons with special disabilities, welfare allowances, in-home assistance, medical subsidies, access to technical aids, and transportation and housing assistance. An important part of labor policy in Japan includes a comprehensive quota system for persons with disabilities; this is coupled with various financial supports for employers for needed accommodations.

In this chapter, we will first describe the temporary benefit system in Japan, then explore the long-term disability pension, and conclude by discussing some of the recent changes and concerns for Japanese disability policy.

Temporary Disability Benefits

Japan has two systems to provide temporary benefits for persons who become too ill to work, though these systems are not universal in the provision of benefits. The first system, health insurance, has several tiers of coverage based on employment, and persons with the basic level of insurance (National Health Insurance) do not have short-term disability benefits. The second system, Labor Insurance, provides benefits in the case of unemployment due to illness or layoffs. In addition to providing benefits for temporary illnesses, this latter system also has features to

promote the employment of persons with disabilities who are in the labor market through making benefits available for a longer duration than for non-disabled unemployment beneficiaries.

Health insurance. Japan's health insurance system—a heavily regulated network of more than 5,000 third party insurers—is comprised of three types of plans (Jeong & Hurst, 2001; NIPSSR, 2004). The first, National Health Insurance, is organized locally around municipalities. Individuals who participate in this type of insurance are students, farmers, the self-employed, persons in smaller business, and those out of the labor force.

The second type of health insurance, Employees Health Insurance, is for employers with more than five employees and has two different plans. Government-Managed Health Insurance covers small and medium-sized companies though a government managed collective, while large companies (those with 300 or more employees) may establish a Society Managed Health Insurance, essentially creating a separate insurance group either alone or with other employers.

In 1999, 38% of the population was enrolled in National Health Insurance, 29% of individuals in Government-Managed Health Insurance, 25% in Society Managed Health Insurance, and 8% in an occupation-related health insurance plan (National Institute of Population and Social Security Research, 2003). Employer and enrollee insurance premiums for health insurance are supplemented with government subsidies, though in different amounts depending on enrollment, the type of plan, and income. In 1998, 32% of overall health insurance costs were paid for by the government.

No matter the type of plan, all insurers are required to provide a basic level of medical services and benefits. However, only Employees Health Insurance plans are required to provide sickness and injury cash benefits. Persons covered by National Health Insurance plans—the self-employed, persons in small businesses, farmers—therefore have no short-term provisions for

illness or injury. The benefits for sickness and injury allowance through health insurance are set at 60% of an individual's average wages and can last for up to 18 months. To qualify for sickness and injury benefits, individuals must be enrolled in their health care insurance plan and be unable to work due to an illness or non-work related injury for four consecutive days or more with a loss of wages. However, few persons actually obtain benefits. In 2001, only 929,560 persons received sickness and injury benefits, representing less than 3% of employees who were covered by the plan. This low take up may be due to a combination of various employer supports (such as company sponsored sick pay or vacation pay) and a shifting of duties or positions for employees who become too ill to maintain their original position.

To obtain sickness or injury benefits, claimants apply through their employer and obtain medical certificates from their physicians. The Social Insurance Agency reviews and decides all claims for temporary sickness benefits. As with pension benefits, appeals must be made within 60 days, and the appeal is made through the Social Insurance Agency. Once receiving benefits, individuals must resubmit medical information monthly. Benefits stop once the individual has earned more than the benefit amount; receives either a long-term disability pension, disability allowance, or old age pension; reaches 18 months of benefits; or is assessed as capable of returning to work.

Employment insurance. Temporary benefits are also available through the employment component of Labor Insurance, which is responsible for the distribution of unemployment benefits. If individuals who are eligible for unemployment benefits become ill or sustain a non-work-related injury and become unable to work (for 15 consecutive days or more) after having submitted a job application to a public employment office, a sickness and injury allowance will be paid instead of unemployment benefits. The amount of cash benefits is the same as for

unemployment benefits.[31] Employment insurance is administered by the Employment Security Bureau at the Ministry of Health, Labor, and Welfare.

For unemployment benefits, the payment rate is 45% to 80% of the average wage in the six months prior to being unemployed, with a maximum daily benefit limited to 8,040 JPY[32] for persons between 45 and 60 years of age and lower amounts for other age groups. Depending on the individual's age and the length of time insured, the duration of unemployment benefits due to sickness can range from 90 to 330 days.[33] For persons who receive unemployment benefits unrelated to sickness, the duration of benefits is longer for persons with than without disabilities, again depending on the length of time insured and age. For instance, for persons who have been insured less than one year, the typical benefit lasts for up to 90 days; whereas for persons with disabilities, unemployment benefits may last up to 150 days. This extension is predicated on the premise that persons with disabilities encounter more obstacles to obtaining employment and so may need additional time to obtain a job. In March 2003, 155,000 unemployed persons (out of approximately 3.5 million) were disabled and looking for work (JEED, 2004). Other benefits for employment insurance beneficiaries include lodging allowances, education and training benefits, a bonus for returning to work (employment promotion benefit), and skill acquirement allowances.

To be eligible to receive unemployment benefits, an individual must not be employed and must have six months of enrollment in employment insurance in the previous year. There are no citizenship or residency requirements for unemployment insurance systems. To qualify for the

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[31] Persons eligible for unemployment benefits are those who 1) have lost a job, 2) have intention to work, and 3) are in a condition to work. It means that those who are not in condition to work because of illness or injury are theoretically not eligible for "unemployment benefits."

[32] On June 30, 2004, 109.43 JPY (Japanese yen) = 1 United States Dollar (USD).

[33] If beneficiaries quit their jobs for their own reasons, the benefit lasts from 90 to 150 days; and for bankruptcy or dismissal, from 90 to 330 days.

sickness component, a person must be diagnosed by a physician as unable to work due to a medical condition. To qualify as disabled for the purposes of the unemployment benefit, a person must meet one of seven grades of conditions, examples of which are provided in Appendix A.

Individuals who become unemployed apply to the local job center. The job counselor explains whether the individual is eligible for any benefit options, along with the conditions and amount of each benefit. In addition, rehabilitation and training opportunities may be offered. Individuals must re-visit the job center every 28 days while on benefits and submit medical documentation while on temporary sickness and injury benefits. Unemployment benefits expire when the individual finds employment, begins receiving disability or old-age related benefits, reaches the time limit for the receipt of unemployment benefits, or is assessed as not being interested in finding employment.

Permanent Disability Benefits

Japan has a multiple tiered pension scheme administered by the Social Insurance Agency (SIA), a department under the Ministry of Health, Labour, and Welfare (NIPSSR, 2004). While there are pensions for specific occupations (such as government employees or school teachers) or as a supplement to the two main pensions (in addition to private pensions through employment), we are concerned here with the two primary pensions: the National (or Basic) Pension (*Kokumin Nenki*) and the Employees' Pension (*Kosei Nenkin Hoken*). The National Pension (NP), which provides near universal coverage, is the first tier of support and serves as the cornerstone of the social security system. The National Pension pays a basic flat-rate pension unrelated to earnings for old-age, survivors', and disability pensions. Japan requires that all residents between the ages of 20 and 59 years enroll in the National Pension. The second tier, Employees' Pension (EP), is

an employer-related pension that is mandatory for employers with more than five employees. The pension amount is based on earnings and the length of time of contributions.

In 2003, 70.5 million individuals were covered by NP, including 32.2 million with EP, 11.2 million who were spouses of EP insured individuals, and 22.4 million who were self-employed, farmers, students, or others not eligible for EP.

Funds for NP are collected by the SIA through a flat-rate monthly premium required of each individual (and their spouses, if they are not covered through EP). In 2004, this premium was 13,300 JPY, and will increase annually by 280 JPY to 16,900 JPY in 2017. The national government pays for the administrative costs of NP as well as one-third of the benefits, though to account for rising costs, the national government will eventually pay for one-half of the benefits. For NP, two categories of individuals are exempt from paying the premium: individuals who qualify for social (welfare) assistance and persons with disabilities who already receive benefits.

Employees and employers each pay half of the EP premium (which includes the premium for NP) of 13.58% of earnings, up to a maximum of 620,000 JPY (as of 2004). Beginning in April of 2003, premiums were also taken from employee bonuses, up to a maximum of 1,500,000 JPY; bonuses had previously been exempt from payroll taxes. Premiums for EP will increase annually by 0.354% up to 18.3% in 2017. While the national government pays for the administrative costs of the system, it contributes nothing to the benefits.

To receive benefits for either disability pension, individuals must be Japanese residents and be enrolled in the pension on the day of the initial medical assessment of the disabling condition. Enrollment is defined as paying over two-thirds of the insurance fee on the day before the assessment of the disability. Individuals whose condition began before the age of 20 are exempt from the enrollment requirement and may receive benefits through NP.

Definitions of disability emphasize conditions and functional limitations, and persons may receive benefits when they have a long-term impairment and limitations in daily living. An inability to engage in gainful employment is not a part of the disability definition. The impairment tables used for the pension systems are listed in Appendix B by severity, or grade, of disability. There are 11 conditions for 1st grade, 17 for 2nd, and 14 for 3rd grade disability. The grade of disability is important because benefits are paid according to severity.

Japan has a separate classification system to identify persons with disabilities (PWD) for benefits and supports other than disability pensions. For physical disabilities, specific lists of conditions are used. These lists, with 7 grades of demarcation, define a "person with disability" as one who has a condition matching grades 1 through 6 or has two or more grade 7 conditions (JEED, 2004). Examples are given in Appendix A for two conditions: visual impairments and lower limb impairments. For mental and intellectual PWD, an assessment is made by qualified professionals. The designation of PWD is used for employment quota purposes and for services and benefits other than disability pensions, such as qualifying for specific unemployment benefits (as discussed above) or obtaining transportation benefits. For example, persons with a limb impairment of grades 1 through 6 can obtain priority admission for housing, while only grades 1 and 2 receive a rent subsidy.

Payments for the disability pensions differ by type of pension and the severity of the condition. NP payments for a 2nd grade disability are 100% of the pension amount; in 2004, this amount was 794,500JPY. For a person with a 1st grade disability, the pension amount is 25% more, or 993,100 JPY annually. Persons with a 3rd grade disability are not eligible for NP. By comparison, the average yearly earnings for a family in Japan in 2003 were 6.02 million JPY. For EP, persons with 1st, 2nd, and 3rd grade disabilities are eligible for a pension. The amount for

EP is dependent on the total months of participation and the averaged indexed monthly earnings. The current annual amount is calculated as:

$$\{(E \times 0.007125 \times M_1) + (E \times 0.005481 \times M_2)\} \times \text{Commodity Price Index}$$

where E = average indexed monthly earnings, M_1 = the number of months insured before April 2003, and M_2 = the number of months insured April 2003 and after. The change in formula beginning in April 2003 accounts for changes in the law that occurred at that time (e.g., extracting premiums from bonuses). For individuals who have not contributed to EP for at least 300 months, the number of total months used in the above formula is 300. With a first grade disability level, the monthly benefit is 25% higher than that calculated above. In addition to the pension, persons with 1st and 2nd grade disabilities receive additional funds from the NP benefit; persons with 3rd grade disabilities, consistent with NP guidelines, are ineligible to receive NP. Under the EP program, there is an additional list which defines 22 additional disability conditions for which individuals are eligible for receipt of a one-time disability allowance. In both cases, mental disabilities and intellectual disabilities are evaluated separately by qualified medical doctors.

Additional cash benefits are available, depending on the program, for dependent children and spouses. EP makes payments for dependent spouses under 65 years of age for persons with a 1st or 2nd grade disability at 228,600 JPY per year, as of April 2004. Both programs provide benefits for dependent children; 228,600 JPY per year is paid for the first and the second child and 76,200 JPY is paid for the additional children. Both NP and EP are indexed to the commodity price index and have been reduced with the country's recent experiences with deflation.

Table 1 shows the number of awards and beneficiaries for each grade of disability by type of benefit in 2001. More than 100,000 persons were awarded disability benefits that year, with just over one-quarter qualifying for the EP. Persons with 3rd Grade disabilities, who do not qualify for NP, comprised the largest proportion (47%) of all EP awards, while 14% of new EP beneficiaries qualifying for 1st Grade awards. The majority of awards for NP were for 2nd Grade disabling conditions. The proportion of awards also mirrors the overall beneficiary numbers. NP beneficiaries outnumbered those for EP by a 4 to 1 margin. NP has 1.2 million beneficiaries, evenly split between 1st and 2nd Grade disabilities. For EP, relatively few individuals (14%) have a 1st Grade disability; the majority have either a 2nd Grade (40%) or 3rd Grade (47%) disability.

Table 1: Number of Awards and Beneficiaries by Pension Type and Disability Grade, 2001

	Pension Type	Disability Grade 1st	2nd	3rd	Total
Awards					
	Employees' Pension	3,760	10,611	12,845	27,216
	National Pension	22,288	51,276	NA	73,564
	Total	26,048	61,887	12,845	100,780
Beneficiaries					
	Employees' Pension	53,972	136,244	129,786	320,002
	National Pension	625,868	633,074	NA	1,258,942
	Total	679,840	769,318	129,786	1,578,944

Note: NA=Not Applicable.

The effect of earned income on benefits differs by program. Persons who qualify for EP because of their disability status are not restricted in the amount they can work and earn. In the case of NP, for those whose disability began before they were 20 years of age, benefits may be cut at 50% or 100% based on the income tax from the previous year. As of April 2004, beneficiaries with annual earnings of 3,604,000 JPY had their benefits reduced by 50%, and at 4,621,000 JPY, all cash benefits ceased. For persons with dependents, the threshold of earnings

was higher. This is not a permanent reduction: Should annual earned income decrease, benefits will resume at the appropriate level.

Being on pension for disability purposes exempts beneficiaries from premiums for pension insurance, health insurance, and long-term care insurance. Other types of cash and non-cash benefits for persons with disabilities include exemptions, reductions, or deductions for income, local (residence) consumption, and automobile taxes. Child care allowances, reduced fees for transportation, and housing assistance are also offered.

To file a claim, applicants for NP obtain an application form from their municipal office, and applicants for EP go through the Social Insurance Agency. For both types of applications, a medical certificate with a physician's evaluation of the disabling condition must accompany the form. Eligibility for the pension is verified, and the claim is sent to a central office for review. The information is reviewed by a medical doctor, who makes the disability and benefit determination, referring to the table of the disability degree. Persons who are unsatisfied with the decision have only one opportunity to appeal their case, and appeals must be made within 60 days to the central office of the Municipal or Social Insurance Agency, where the case is reviewed by physicians of the agency.

A yearly review is required of beneficiaries of permanent disability benefits. Individuals must submit self-report documentation on the month of their birthday with updates about their condition. Depending on the disabling condition, a municipal agency may ask beneficiaries to submit a medical certificate periodically (every 3 or 5 years) along with an annual report. Failure to complete this documentation could result in a cessation of benefits.

Reintegration. Vocational rehabilitation is provided by the government through the Japan Organization for Employment of the Elderly and Persons with Disabilities (JEED, formerly the

Japan Association for Employment of Persons with Disabilities (JAED)). Pursuit of rehabilitation services is not mandatory for disability beneficiaries. Local and regional vocational centers offer vocational training, evaluation, job supports, counseling, and other types of employment assistance for both persons with disabilities and employers. JEED is currently promoting job coaching and job maintenance services for persons with disabilities (Perry, 2003; JEED, 2003), with pilot projects specifically targeting the return to work of persons with mental disabilities.

Japan uses a quota system to increase the labor force participation of persons with disabilities. Companies with 56 or more employees are required to have 1.8% of their workforce filled by persons with disabilities, though the actual proportion in 2002 was 1.47% (JEED, 2003). When companies with more than 300 employees do not meet their quota, they are obligated to pay a levy of 50,000 JPY monthly per person not hired, while employers who exceed the quota receive an allowance. Companies with 300 or fewer employees are currently exempt from the levy. The money collected through the levy system goes to pay for the allowances as well as grants to assist employers in making workplace facilities and modifications and providing attendant services and transportation assistance.

Conclusion

Over the past decade, lawmakers have continued to confirm Japan's commitment to and support for persons with disabilities. In 2000, the Social Welfare Law was amended to change the focus of the support systems for persons with disabilities to a user-oriented one, rather than measure-oriented. In 2004, an amendment was made to the Basic Law for Persons with Disabilities that stipulated clearly the anti-discrimination philosophy, increased the responsibility

of local governments to make and monitor the action plans, mandated that barrier free buildings and information be promoted, and increased the participation of persons with disabilities in government policy decisions. The employment of persons with disabilities is a primary focus of the Ministry of Health, Labour, and Welfare (JILPT, 2004).

However, there has been great concern over the financing and future of the social security and health insurance systems. This concern is not directly related to disability payments, where expenses and beneficiary levels have been relatively flat, but instead are a result of demographics. Japan has the longest life expectancy in the world (81.2 years in 2000), the longest life expectancy at age 65 for women (22.4 years) and second longest for men (17.5 years), the second lowest infant mortality rate, and the lowest rate of premature mortality as measured by potential years of life lost, all with a moderate level of health expenditures (OECD, 2003). Moreover, Japan also leads the world in the disability adjusted life expectancy (the number of healthy years in which a person is expected to live), at 74.4 years (Mathers et al., 2001). The dynamics between Japan's improving health and low birthrates have created stress on the social security systems. The proportion of elderly (65 years of age and older) in the population was 17% in 2000 and projected to be 25% by 2014 (NIPSS, 2002). Complicating matters is the fact that many individuals, particularly the self-employed, are not in compliance with paying their social security premiums (Takayama, 2002). One-third of individuals who are eligible for this program and who are not employed by firms do not pay their premiums, albeit illegally (Katagiri, 2002). Another strain on the pension system involves intergenerational transfers and high tax rates, which seem to benefit the elderly. After taking into account government transfers, the elderly are better off financially than those supporting them (Casey,

2004; Takayama, 2002). Despite this finding, income inequalities in Japan have been growing, with low-income persons not receiving adequate support from the pension systems (Abe, 2003).

Recent reforms to the social security systems include the gradual raising of pension premium rates for the National and Employees' Pensions and for health insurance; applying the same premium rate to bonuses, which had previously been exempt; raising the retirement age; improving efforts to increase the pensions' reserve funds; and shifting health insurance for the elderly to a separate system (Casey, 2004; JILPT, 2004; Takayama, 2004). While not directly focused on disability pensions, changes in the financing and benefit structure of the pensions could potentially affect the disability programs and their beneficiaries.

One of the more striking findings in Japan is the low take-up rate of both short-term and long-term disability pensions, despite the recent economic difficulties and high unemployment. This stands in stark contrast to the experiences of the United States, where the disability rolls have steadily risen. Two reasons may be responsible for the low number of beneficiaries. First, the disability determination system does not involve the ability to work. Instead, the disability definition is limited to specific functional conditions, which may restrict the number of persons who qualify for benefits, and is not related to the employment situation of the person.

Second, the employment contract—the agreement between an employee and an employer—may create an obligation on the part of employers to support their employees after the onset of a disabling condition. As Schaede (2004) points out, the Japanese Constitution lists work as both a right and an obligation. Employers and employees have operated in an economic environment where lifetime employment and loyalty have been the norm (Schaede, 2004). The model as employees move into old age (and lower productivity) involves their formally leaving their jobs, then taking a new position (with lower pay and status) either with the original

employer, a subsidiary, or a new company, or becoming self-employed (Oberländer, 2004). In fact, the employment for persons over the age of 65 is one of the highest of any country. Similar patterns of support may be occurring for persons with disabilities. Despite a relatively equal number of persons being enrolled in both programs, National Pension disability beneficiaries outnumber Employees' Pension disability beneficiaries by a ratio of 4 to 1. This ratio is also low considering that persons who might qualify for disability benefits through EP have a possible financial inducement. EP benefits are not affected by earnings; beneficiaries may earn as much as possible, keeping their disability benefit (though they do not keep NP, which is means tested on earnings).[34] Employers are also encouraged or supported in their inclusion of employees with disabilities by the government through the employment quota system for persons with disabilities and employer-focused financial grants.

[34] It would be interesting to compare the employment rates of EP beneficiaries with NP beneficiaries and persons with disabilities in general, but that data is not available.

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Appendix A: Examples of List of Degrees of Physical Disabilities

	Grade 1	**Grade 2**	**Grade 3**	**Grade 4**	**Grade 5**	**Grade 6**	**Grade 7**
Visual Impairment	The sum of visual acuity in both eyes is no more than 0.01.	1) The sum of visual acuity in both eyes is no less than 0.02 and no more than 0.04. 2) Visual field diameter of each eye is not more than 10 degrees and binocular visual field loss is no less than 95%.	1) The sum of visual acuity in both eyes is 0.05 to 0.08. 2) Visual field diameter of each eye is not more than 10 degree and binocular visual field loss is not less than 90%.	1) The sum of visual acuity of both eyes is 0.09 to 0.12. 2) The visual field diameter is no more than 10 degrees in either eye.	1) The sum of visual acuity in both eyes is 0.13 to 0.2. 2) Loss of one half or more of the vision field of both eyes.	Visual acuity of one eye is 0.02 or less and visual acuity of the other eye is 0.6 or less, and the sum of visual acuity of both eyes is 0.2 or more.	Not Applicable.
Lower Limb Impairment	1) Complete loss of function in both lower limbs. 2) Loss of at least half of the thigh of both lower limbs.	1) Significant functional impairment of both lower limbs. 2) Loss of at least the half the lower leg of both lower limbs.	1) Loss of both lower limbs at or above the Chopart joint. 2) Loss of at least half the thigh of either lower limb. 3) Complete loss of function in either lower limb.	1) Loss of all toes of both lower limbs. 2) Complete loss of function in all toes of both lower limbs. 3) Loss of at least half of either lower limb. 4) Significant functional impairment of either lower limb. 5) Complete loss of function in the knee joint or hip joint of either lower limb. 6) The length of either lower limb is at least 10 cm or 1/10 shorter than the other.	1) Significant functional impairment of the hip joint or knee joint of either lower limb. 2) Complete loss of function in the ankle joint of either lower limb. 3) One lower limb is at least 5 cm or 1/15 shorter than the other.	1) Loss of one lower limb at the Lisfranc joint or above. 2) Significant functional impairment in the ankle joint of either lower limb.	1) Significant functional impairment of all toes of both lower limbs. 2) Slight functional impairment of either lower limb. 3) Slight functional impairment of the hip joint, knee joint or ankle joint of either lower limb. 4) Loss of all toes on either lower limb. 5) Complete loss of function in all toes of either lower limb. 6) One lower limb is at least 3 cm or 1/20 shorter than the other.

Source: JEED (2003)

Appendix B: Grades of Disability for Disability Pension

Grade	Condition
1st	1. The total visual acuity in both eyes is no more than 0.04. 2. The hearing level in both ears is 100 decibels or higher. 3. Significant functional impairment of both upper limbs. 4. Loss of all fingers on both upper limbs. 5. Significant functional impairment of all fingers on both upper limbs. 6. Significant functional impairment of both lower limbs. 7. Loss of both lower limbs from an ankle joint or above. 8. Difficulty in maintaining a seated position or standing up due to functional impairment of the trunk. 9. Inability to perform everyday personal tasks due to the functional impairment or conditions with long-time bed rest, which are considered to be equivalent to or more severe than the conditions cited above. 10. Mental disabilities equivalent to or more severe than the conditions cited above. 11. Two or more functional impairment, physical conditions or mental disabilities, which are considered to be equivalent to or more severe than the condition cited above.
2nd	1. The total visual acuity in both eyes is from 0.05 to 0.8. 2. The hearing level in both ears is 90 decibels or higher. 3. Significant functional impairment in equilibrium. 4. Loss of chewing function. 5. Significant impairment of vocal or speech functions. 6. Loss of the thumbs and forefingers or middle fingers of both upper limbs 7. Significant functional impairment of thumbs and forefingers or middle fingers of both upper limbs. 8. Significant functional impairment of an upper limb. 9. Loss of all fingers of an upper limb. 10. Significant functional impairment of all fingers of an upper limb. 11. Loss of all toes of both lower limbs. 12. Significant functional impairment of a lower limb. 13. Loss of a lower limb from an ankle joint or above. 14. Difficulty in walking due to functional impairment of the trunk 15. Daily activities are significantly limited due to the functional impairment or conditions requiring long-time bed rest, which are considered to be equivalent to or more severe than the conditions cited above. 16. Mental disabilities which are equivalent to or more severe than the conditions cited above. 17. Two or more functional impairment, physical conditions or mental disabilities, which are considered to be equivalent to or more severe than the condition cited above.
3rd	1. The total visual acuity in both eyes is no more than 0.1. 2. Inability to understand words spoken at a distance of 40cm away or more. 3. Significant functional impairment in chewing or speaking. 4. Significant functional impairment of backbone. 5. Functional loss of the 2 important joints in an upper limb. 6. Functional loss of the 2 important joints in a lower limb. 7. Significant motor functional impairment caused by a false joint in long bone(s). 8. Loss of a thumb and a forefinger of an upper limb, or 3 fingers including a thumb or a forefinger. 9. Functional loss of 4 fingers including a thumb and a forefinger in an upper limb. 10. Loss of one lower limb at the Lisfranc joint or above. 11. Functional loss of all toes of both lower limbs. 12. Significant limitation should be given to work or work is significantly limited due to the physical impairment. 13. Significant limitation should be given to work or work is significantly limited due to impairment in the mental condition or nervous system. 14. Limitation should be given to work or work is limited due to the impairment in physical function, mental condition or nervous system, caused by incurable injury or illness, which is specified by the Minister of Health, Labor and Welfare.

Chapter 8

Administration and Reforms to the Dutch Disability Pension System

David Dean, Rienk Prins, & Theo Veerman

Summary: The Dutch disability benefit system is part of a broad social welfare system that has been constantly changing over the last two decades. This chapter reviews recent reforms and the current structure of the sickness benefit program and the full and partial disability pension program in the Netherlands. It starts with a short description of the reforms that the disability system has been through during the 1980s and 1990s, and then describes the sickness benefits program and its recent changes. While sick pay had been collectively financed through sector specific insurance funds administrated by public agencies, employers became responsible in 1996 for coverage of sick pay first up to six weeks and then 12 months, after which the disability pension program takes over. This period was subsequently increased to two years. The impact of such reform is discussed, including the drop in sickness absence rates. The third section covers rehabilitation and reintegration efforts in the Dutch disability system. Traditionally, vocational rehabilitation has played a minor role in the Dutch disability system. Recent reforms attempt to give vocational rehabilitation a more prominent role, especially with a new focus on early intervention while the person receives sickness benefits. The fourth section gives an overview of the full disability pension program, including the assessment of disability and the financing of the program. There have been several attempts to make the definition of disability more stringent. In addition, since 1998, experience rating of firms has been phased into the disability pension program. Employers with a greater than average disability claimant rate pay a higher variable payroll tax. The last section of the chapter covers the partial disability pension program, including an analysis of the work behavior of partial pensioners and of the problems associated with administering a partial program.

The current Dutch disability pension system consists of three separate programs that provide compensation for loss of earnings capacity due to long-term or permanent disability. These programs cover employed workers, self-employed workers, residents without an employment history who have been disabled since childhood, and students. By far the most important program is the long-term disability pension program, called WAO (*wet arbeidsongeschiktheidsregelingen*), which provides wage-related benefits to workers who have been disabled for longer than one year. It provides benefits to some nine percent of the labor

force and is the entry point to many other social services, including housing, mobility, and reintegration benefits, which are made available to claimants.

The WAO program was authorized by the Disability Insurance Act of 1967. It has been changed numerous times since its inception. The WAO is administered by UWV (*Uitvoering Werknemersverzekeringen*), also known as the (national) Social Insurance Institute, an independent body under the Ministry of Social Affairs and Employment. The members of the governing Board are appointed by this Ministry. This Social Insurance Institute also administers the country's Unemployment Insurance Benefit program.

Under the WAO program, an insured worker with an illness or injury is entitled to a disability benefit after a mandatory waiting period of 12 months (starting in 2004 the waiting period is 24 months). There are no specific conditions of eligibility in terms of citizenship. One particularly unique feature of this primary Dutch disability pension system is that employers are responsible for paying benefits, irrespective of the cause of the claimant's impairment. That is, a disabled person receives a WAO pension whether the impairment occurred on the job, due to an off-the-job accident, from a sports-related injury or elsewhere--there is no separate work injury program.

The other two disability pension programs are: 1) the Self-Employed Disability Insurance Act (WAZ), which covers self-employed workers and provides benefits at the minimum wage level; and 2) Young People's Disability Act (WAJONG), which provides a subsistence level benefit to young persons with congenital impairments and students. Both programs operate in a similar fashion to the WAO in terms of disability definition and assessment procedures and provide flat rate, social minimum benefits from age 18 onwards. The former program will end July 1, 2004.

Recent Reforms to Administration of the Dutch Disability Pension System

The aforementioned discontinuation of WAZ is but the latest revision in the seemingly ever-changing Dutch social insurance system. Indeed, it was only in 1998 that WAZ and WAJONG were established to replace the AAW. The latter program, which was authorized in 1975, was a universal, contributory "incapacity pension" providing a cash benefit for disabled Dutch citizens. The AAW was a "first tier" benefit, which provided subsistence level cash payments tied to the minimum wage. The employment-based WAO cash benefit then supplemented this payment.

The WAO evolved from the Dutch tradition of local industrial branch associations comprised of employer organizations and workers' trade groups. These groups were initially established to oversee the unemployment insurance (1916) and sickness insurance (1931) programs (Van Wirdum, 2000, p.93). A comprehensive two-tiered social security system eventually evolved to pay cash benefits irrespective of the cause of disability, consisting of the universal insurance at a subsistence level for all Dutch residents and the supplementary income-related benefit for wage earners.

This notion of running disability pension programs through the autonomous Industrial Associations, which lacked direct governmental control, is another unique aspect of the Dutch social insurance system. These local agencies had wide discretion in setting benefit award and return-to-work policies. Every firm was mandated to be a member of an Association, which operated under a contract with a national agency called the LISV.

During the 1980s and 1990s, concerns about the rapidly rising number of disability claimants and concomitant increases in disability pension payments led to a series of legislative reforms intended to curtail the growth in the WAO. Most of the reforms in the 1980s were concerned with reducing the eligibility for disability pensions and cutting the amount and duration of benefit payments. Some of the reforms also changed the administrative structure. A 1986 reform severed the interaction between the "first-tier" universal incapacity benefit (AAW) and the "second-tier" employment-based disability pension (WAO). The WAO would now fully fund all disability pensions for eligible claimants. In 1998, civil servants were also brought into this incapacity scheme for employees.

The 1980 reforms did little to curtail the rapid increase in the costs of the disability pension scheme. By 1993, the total expenditure on sickness absence and work disability regulations had climbed to 14 billion euros. In that same year a parliamentary inquiry determined that employers too often used the WAO disability pension as an alternative to unemployment and/or early retirement as a method for terminating employees. As a result, from 1992-1996 the government made various attempts to restrict expenditure on disability pensions. Many of these reforms, in particular the TBA of 1993 (Act on Reducing Claims for Disability Benefits) were also concerned with restructuring the administration of the Dutch disability pension scheme. The principal objective was to increase the role of the "social partners" in terms of financial responsibility. In particular, the role of the Industrial Associations, GAK, and the Joint Medical Service (GMD, which provided disability assessments and rehabilitation services) were dissolved. In 1999, after a drastic revision of previous plans, the Dutch government replaced the 26 industrial insurance agencies with one public agency to be in force by 2002. The (national)

Social Insurance Institute (UWV, and also referred to as LISV) now administers the Disability and Unemployment Insurance benefit programs.

Sickness Benefit

The gateway to the disability pension in the Netherlands is through the sickness benefit program. The Dutch Sickness Benefits Act was originally enacted in 1967 and has been revised numerous times in the intervening 37 years. From 1967 through the mid-1990s, the sickness benefit program, along with the disability pension and unemployment insurance programs, was administered by the aforementioned Industrial Associations. As previously mentioned, these quasi-public organizations were managed by representatives of employers' associations and trade unions. All employers were required to maintain membership in an association until 1977. All disability program expenditures were financed via employer premiums that differed between sub-sectors within a given industry. These autonomous associations had wide discretion to develop benefit award and rehabilitation policies; unfortunately they were not financially responsible for these decisions.

In the past decade, there have been a series of legislative changes that, in effect, have completely privatized what was once a totally publicly-funded program. In 1994 employers were mandated to provide sickness benefits covering the first two to six weeks of an illness/injury episode. Employers were also now responsible for carrying out the sick leave inspection visits. The legislation mandated that firms must hire a private provider of occupational health services (OHS) to monitor these longer duration sick leaves. In addition to providing support to the employer's sickness absence and disability management policy, these private OHS firms also

provide other occupational health services, such as information on the nature of health risks at the worksite, how to minimize these risks, and how to best "reintegrate" workers to the job site.

The current sickness benefit program. Absence rates dropped by 20% in one year after the introduction of the employer-financed two to six week sickness wage payment period. As a result, in 1996 the Sickness Benefit Act was abolished and the employers were now responsible for providing sickness coverage through the first 12 months, after which the disability pension program provides benefits. Starting January 1, 2004 this employer-provided coverage is now extended to two years. The OHS will supervise both the sickness and reintegration process for this two-year period. Full work resumption will usually be decided by the physician of the OHS in cooperation with the employee and her employer. After one year of sickness (now extended to 2 years), the employee may apply for a disability benefit and then, if awarded, be transferred to this pension program. Either the employer or the employee may request postponement of this disability pension application for an additional period of up to13 weeks, if full recovery/work resumption is expected within this period.

This program provides sick pay at a rate of 70% of gross wage earnings to employees unable to perform their job due to either illness or injury, irrespective of its cause. Because of collective bargaining agreements, most employers supplement sickness benefits to the level of 100% of net earnings. While figures are no longer available because of privatization, it appears that the majority of employees still receive 100% of earnings from the first day on. However, with the new second year of employer-funding of this sickness benefit, there is a restriction to 70% of wages. Companies are allowed to "self-insure" (i.e., finance all claims payments themselves) for sickness benefits. Many employers, particularly smaller firms, have entered into

private insurance policies to cover the associated risks that have accompanied this privatization initiative.

There is also a publicly-funded sickness benefit scheme for unemployed workers who become ill or whose labor contract has run out during a sickness episode. This plan is administered by the same UWV that oversees the disability pension benefit scheme. It also provides a payment covering 70% of former wages.

Qualifications for receiving sickness benefit. In the Netherlands, family doctors traditionally refuse to provide sickness certificates. So when an employee reports sick, physicians employed by the OHS check whether the absence from work is legitimate and provide guidelines concerning a possible date of work resumption. The beneficiary of sick pay is obligated to do any acceptable work if he or she is able to perform it. This can be any other acceptable work with the old employer (who is obliged to offer such accommodation if feasible) or even with another employer. The legislation, which took force in 2003, stipulates that if an employer cannot offer comparable work, a reintegration service organization must be secured with the goal of placing the individual in a new firm. (See following section on rehabilitation service provision). The penalty for refusing to return to work is a curtailment of wage payments with the possibility of termination, albeit the latter rarely occurs.

Utilization and cost of sickness benefit program. As sickness benefits were largely privatized, there are no detailed statistics collected on a nationwide basis any longer. Rather, since 1994 sickness absence data cannot be based on an individual level, but based on interviews from a sample of employers. The only data available concerns gross sickness absence, i.e., the percentage of days lost due to sickness.

Aarts and de Jong (2003) note that "sickness absence rates dropped from eight percent in 1990 to six percent in 2000—a 25% drop. Both these years represent a cyclical top and comparison between these, therefore, controls for the influence of the business cycle on absenteeism. At least part of this large drop can be ascribed to privatization, and its associated incentives." However, a study by Geurts et al., (2000) reports on a Houtmann et al., (1992) study that "there is evidence of an underestimate of sickness absence by employers who deal with relatively high absence levels, the reported absence figures since 1994 are probably lower than the "true" level of sickness absence. Moreover, only the longer absence spells have been reported by employers, since only these were covered by the collective sickness absence fund."

Rehabilitation/Reintegration

Under the original intent of the WAO authorizing legislation in 1967, the Joint Medical Service determined where a person fit in the seven disability classifications, given their residual earnings capacity. Another function of the JMS was to provide the rehabilitative services that would help secure appropriate employment for the person with a given residual earnings capacity. The reintegration objective was further strengthened with the passage of the Handicapped Workers' Employment Act, enacted in 1986. This act contained a number of measures promoting the re-entry of workers with disabilities into the labor force. Employers were both mandated and provided financial incentives to provide work-site accommodations for employees with disabilities. Training costs for re-employment services were provided for workers who were unable to stay with their original employer.

While the legislative framework was in place, there was little incentive for employers and unemployed disabled persons to take advantage of these return-to-work programs. Aarts and de

Jong (2003) note that the overall expenditure on vocational rehabilitation is quite low. Indeed, they undertook a comparative analysis of the share of the disability payments dedicated to return-to-work programs in several European countries. While Germany allocated 4.2% and Belgium spent 1.4% of their disability payments on VR, the Dutch share was a mere 0.5% of the total disability budget.

The Dutch government responded with another set of reforms, implementing the Reintegration of Work Handicapped Persons Act (REA) in 1998. One of the major thrusts of this new law was to provide wage subsidies to persons designated as "work-handicapped." The latter classification includes all persons currently on, or who had been on, a disability benefit within the past five years, as well as other unemployed workers with disabilities. About 2/3 of the REA clientele are WAO/WAZ/WAJONG claimants (Van Oorschot, 2001, p. A-2). These new subsidies provide firms with a subsidy of NLG 8000 for placing workers unable to perform their previous job duties in a new commensurate job. Additionally, another one-third wage subsidy is available for workers who are found to have extraordinary readjustment costs (Aarts & de Jong, 2003).

Under the current legislation, there is a pronounced emphasis on early intervention, with well-defined responsibilities for the three actors now involved in the process: the disabled employee, the employer, and the firm's contracted occupational health service provider. Within six weeks of a sickness benefit claim, the OHS medical advisor visits with the person to ascertain the medical cause of the absence, the person's functional capacities, and a prognosis for return-to-work. A reintegration plan specifying various milestones is then drawn up between the employer and employee by the eighth week of absence. An employee who has not been reintegrated by the 35th week is only allowed to apply for a disability pension if they submit the

original rehabilitation plan and an OHS assessment as to why there has not yet been a return-to-work.

On the basis of these data, employer and employee draft a VR program in which they specify an aim (resumption of current work) and the steps needed to reach that aim. They appoint a case-manager, and fix dates at which the program should be evaluated, and modified if necessary. The rehabilitation program should be ready by the eighth week of sickness. It is binding for both parties, and one may summon the other when proven negligent. After 35 weeks of sickness the Social Insurance Administration sends a Disability Insurance application form to the sick employee. Disability Insurance 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.

De Jong (2004) has provided some recent figures on the number of reintegration plans for which the social insurance agencies contracted with the newly-privatized rehabilitation service organizations. In 2001, reintegration plans were contracted for about 50,000 persons with work disabilities. Roughly half of these contracts involved persons receiving one of the Dutch disability pension benefits, with the other half being disabled persons who were unemployed. Overall, about 2.5% of the 800,000 persons on the disability pension were getting an REA-funded reintegration plan.

Financing and Benefit Payment Determination in the WAO Disability Pension Program

Financing of the WAO Disability Pension

The old-age social security pension in the Netherlands is financed through a "pay-as-you-go" 17.9% payroll tax on the income of persons aged below 65, up to an annual maximum of 27,847 EUR[35]. However, there is no separate employee contribution rate to the WAO disability pension scheme. Rather, the employer pays a supplement of 2.2% of payroll up to a maximum of 159 EUR (as of 2002) daily to subsidize the employee's contribution to WAO. Additionally, the employer contributes 5.85% of payroll, plus a variable rate contribution (on average, 0.85% [Social Security Programs Around the World: Netherlands, 2002, p. 150]). The self-employed contribute 8.8% of earnings up to a maximum (38,118 EUR in 2002) for the soon-to-be discontinued WAZ disability pension scheme.

The variable rate contribution by the employer reflects the efforts of the Dutch government to introduce the notion of "experience rating" of individual firms into the financing of the WAO disability insurance scheme. This financing scheme was introduced in 1998 via another in a series of reforms to the Dutch disability insurance system. All benefits prior to 1998 are still to be funded through the existing pay-as-you-go "flat rate" share of payroll contribution. However, the first five years of disability benefit receipt of new claimants will be paid out of premiums that are levied according to the employer's prior record in terms of the prevalence of disability pension claims. That is, employers with a greater than average disability claimant rate pay a higher variable payroll tax. Conversely, firms hiring a disability pension recipient pay a lower payroll tax rate. Moreover, companies are allowed to opt out of this public insurance system and thereby "self-insure", but only with respect to the initial five years of coverage. To

[35] On June 30, 2004, 0.821 EUR (Euros) = 1 United States Dollar (USD)

date, Dutch firms have not shown much interest in this notion of carrying their "own risk" in disability insurance. One explanation is that there is relatively little incentive to do so right now, since the general "flat rate" contribution due is still higher than the risk-related payroll tax contribution. It is anticipated that by 2005 that there will be a greater incentive, as the ratio of flat rate to variable rate contribution declines (Van Wirdum, 2000, p. 100).

Benefit payment determination. WAO disability pension payments are currently based on a combination of the claimant's age and the level of employment-based earnings. Prior to one of the reforms undertaken in 1994 to reduce the costs of disability pensions in the Netherlands, WAO payments were provided to every covered employee irrespective of her age or employment history. In order to introduce a quasi-pension element into the WAO, post-1994 the amount and entitlement period of the earnings-related disability benefit is now dependent on age to simulate a contribution year's requirement. The WAO pension is based on two chronologically-linked age-dependent parts. The first portion is a limited-duration wage related benefit replacing 70 percent of before-tax earnings for a period ranging from one-half year for persons below age 33 up to six years for those persons who became disabled at age 58 or older. Thus, the latter group of older workers receives the 70% replacement rate until age 65, when they transfer to the old-age pension.

> "The second part is a so-called follow-up benefit with a lower income base and, hence, a lower replacement rate with respect to the pre-disability wage. During the follow-up period, the income base for benefit calculation is the minimum wage plus a supplement depending on age at onset according to the formula: 2.0 percent times (age at onset - 15) times (wage minus minimum wage). Age serves as a proxy for work history, or "insurance years", introducing a quasi-pension element into the disability system. Most collective bargaining agreements cover the gap between the lower replacement rates in the follow-up period and the 70 percent replacement rate during the first period of disablement (including the 'sickness year'). The effective replacement rate when fully disabled, therefore, stays at 70 percent in most cases"(De Jong, 2004).

Policies from private insurance companies are also available to "fill in" the resulting "gap" in disability and insurance schemes. Thus, when an applicant was found fully disabled (i.e., a disability rating of 80-100%), the effective replacement rate is basically equivalent to that provided through the sickness benefit program, that is, 70% of before-tax earnings. However, disability benefits are capped by a maximum amount of covered earnings equaling € 43,770 per annum (in 2004). This is also the maximum amount of income taxable for disability (and unemployment) insurance (de Jong, 2004). All base amounts are adjusted semi-annually (January 1 and July 1) for the general wage index.

Assessment of Disability

The evolution of the WAO definition of disability. The definition of disability for the Dutch WAO pension scheme requires that, due to a medically-assessable sickness or impairment, a person cannot earn what a non-disabled person, with comparable education and work experience, can normally earn. The operative terminology refers to loss of earnings capacity and its complement--residual earnings capacity. There is no reference whatsoever to the types of illness or impairment, nor to the cause of the disabling condition.

Like all other aspects of the Dutch disability pension system, the definition of disability has evolved considerably in the past two decades. Legislative reforms were initiated specifying new WAO policies to rein in disability pension expenditures and further restrict access to the program. A particularly important reform was undertaken in 1993 (TBA, or Act on Reducing Claims for Disability Benefits), as it changed the disability definition in two important ways. First, the benchmark for determining the degree of earnings capacity lost was made more stringent (the definition of suitable work was considerably broadened). In the parlance of the

U.S. insurance industry, the new criteria required the inability to be employed in "any occupation" versus one's "own occupation." Prior to 1994, the standard for determining disability involved the inability to secure only those jobs that were compatible with the person's prior education and training. Subsequent to the reforms, these aspects of a person's professional training have no bearing on the disability determination.

The second reform of the 1994 legislation tightened the medical definition of disability. Specifically, the causal relationship between impairment and disability now had to be "objectively assessable". Apart from changes in legal definitions, there were also guidelines implemented to increase the quality of the medical evaluations. It was no longer possible to be considered "socially disabled" due to age or economic hardship. Bound and Burkhauser (1999, p. 3512) cite a 1992 study by Aarts and de Jong that estimated the share of unemployed or "socially disabled" among WAO claimants, incorporating the pre-1994 eligibility standards, to be 40%.

The consequences of the TBA reforms were that it became more difficult to be determined fully disabled. Another stipulation of the TBA legislation was that claimants already on the WAO disability rolls must be re-assessed according to the new disability criteria. From 1994-1998 some 28% of all re-assessed WAO claimants either lost their benefit entirely or ended up with a smaller benefit amount (Van Oorschot, 2001, p. B.1.4).[1] Specifically, the number of disability pension recipients declined from 921,000 in 1993 to 855,000 by 1996. As a result of these medical re-examinations, many of the persons removed from the WAO were moved to the unemployment rolls (Geurts et al., 2000).

The WAO process for assessment of disability. The disability pension application process usually begins after about nine months of work incapacity (and concomitant receipt of sickness benefit payments). At this juncture, the disabled employee will submit a request for a disability

pension benefit, including a file showing that both the employee and employer have done all they could for reintegration. If the file does not convince the social security body, the disability benefit claim is not evaluated, and employer and employee should make additional efforts at re-integration (and wage payment has to be continued).

The first feature to be noted about the Dutch disability pension system is that there is a strict separation between the disabled person's treating physician and those who serve as "gatekeepers" to either the sickness or disability insurance programs. As noted previously, in the case of sickness benefits, the health status and prognosis of a sick or injured worker is verified by an OHS medical examiner working under contract for the employer. If the person is applying for a WAO disability insurance pension, the claim is adjudicated by a team consisting of a specialized medical examiner and a vocational expert, who are employed by the UWV (Social Insurance Institute). This pair jointly determines the degree and permanency of disability and the worker's rehabilitative potential (Aarts & de Jong, 2003).

Another distinctive feature of the Netherlands disability pension system is that these disability assessment teams were legally mandated to examine every benefit claimant personally, not just through an administrative review as is conducted in some other countries. Bound and Burkhauser (1999, p. 351) note that "[this] may have spurred a liberal, conflict-avoiding attitude, especially since neither the gatekeepers themselves nor their managers were confronted with the financial consequences of award decisions."

The current guidelines for disability assessment under WAO are stipulated through rules promulgated in July, 2000. The disability determination involves separate assessments by the UWV insurance physician and the labor market expert. This process then involves two steps. In the first stage the employee is seen by the social insurance physician, who serves as a case

manager and develops evidence for the claim from the rehabilitation plan and previous medical records.

This medical advisor first makes a determination whether or not the employee is fully incapacitated. The assessment is conducted by developing a “capacity profile,” which provides a summary of what types of tasks the claimant is capable of undertaking. This profile measures 28 different types of tasks used in various occupations (e.g., walking, lifting, dexterity, bending and turning, psychological criteria).

A common outcome from this profile is that the person is judged to have virtually no remaining working capacity. This judgment can be made owing to a variety of circumstances: an inability to engage in ADL, mental instability, hospitalization, terminal illness, or a disabling condition that is unstable. In such instances, the assessment stops after this first step and the claimant will be awarded a full disability benefit. Van Oorschot (2001) cites recent studies that report an increase from 30% of claims in 1991 to 40% in 1999 for first-time WAO-claims that don’t proceed to “Step 2" due to a decision of “no lasting capacities.” The National Institute for Social Insurance estimates this rate to be about twice as high as it probably should be. They consider this a sign that the insurance physicians are being too lenient, perhaps in an effort to ease their caseloads.

The other outcome of the Step 1 assessment is a determination that the employee has some remaining functional capacities. The physician will then make a systematic inventory of these capacities. At this point the applicant will be sent to the labor market expert, who begins Step 2 of the process--assessing the degree of disability. The idea is to compare what the claimant could earn in the absence of their disability with what they could earn in a job with their residual earnings capacity. The former earnings usually consist of the person’s pre-disability

wages. The residual earnings capacity is ascertained by matching the inventory of capacities gleaned from the "capacity profile" with the Function Information System (FIS), a constantly-updated database containing information on some 8,200 functions in the Dutch labor market and the (mental and physical) capacities they require. The typical characteristics of these functions include such aspects as wage levels, education requirement, description of specific job requirements, number of hours worked per day, and the like (Van Oorschot, 2001).[2]

The intent is to find at least three types of jobs that a person can undertake given their residual functional capabilities. It should be noted that these jobs do not have to be actually available, nor, with the 1993 reforms, do they have to accommodate a claimant's educational level or previous work experience. If less than three different functions are found, the applicant will be awarded a full disability benefit. If three or more functions are found, the three with the highest earnings levels are chosen, and that job with the wage rate in the middle serves as the basis for the "earning capacity" of the claimant. The difference between this earning capacity and the claimant's former wage determines the *loss of earning capacity.* This is regarded as the level of work incapacity, which may range from zero, wherein the claimant is judged not disabled (i.e., capable of earning at least 85% of former wages), through 80% or more, when the claimant is found to have an earnings capacity of less than 20% of their former wages. After completion of the labor expert's assessment of a claimant's earning capacity, the insurance physician then summarizes all the information available and drafts a report justifying the disability pension decision.

The UWV is supposed to have made this decision within 13 weeks after application. The applicant may file a first appeal at the administrative level (i.e., to the UWV), within six weeks after the initial denial decision. The UWV must then act on this appeal within 13 weeks. The

applicant may file subsequent appeals beginning at the Court of Justice and proceeding through higher-level appeals according to the usual legal process. This appeal procedure is available not only to overturn denials of applications, but also may be used for awarding partial benefits (i.e., if the applicant seeks a higher partial disability rating, or a full, rather than partial benefit).

One year after onset of disability benefit, and every 5 years afterwards, the disability status is re-assessed. This review may result in either a higher or lower benefit (or, indeed, the cessation of a disability pension benefit), or an unchanged benefit. The criteria are the same as with the start of the disability pension benefit. Should a person re-gain earnings from employment, the benefit will be reduced to a partial benefit (or no benefit at all if the subsequent earnings are almost commensurate with the pre-disability-onset wages. If the stability of these earnings is uncertain, the person will retain the right to a full disability pension for up to three years. Any earnings will be subtracted from the disability pension. The person will automatically revert back to the disability pension rolls if employment cannot be maintained.

Partial Disability Benefit

Disability ratings eligible for a partial pension. One of the most prominent features of the Dutch disability pension program is the range (and number) of gradations allowed for receipt of a partial disability benefit. As mentioned in the previous section, the degree of disability is now determined by the worker's residual earnings capacity (in performing any job in the Dutch economy) as a percentage of their pre-disability onset earnings. The degree of disability is then used to establish the amount of the partial disability benefit level. There are a total of seven disability rating categories ranging from less than 15% to 80% or more.

A full pension is awarded to workers with a degree of disability rated at 80% or above. Persons awarded a full disability pension are awarded a benefit of 70% of their pre-disability earnings up to the ceiling of €36,300 (in 1999), which is also the maximum amount of income taxable for disability and unemployment insurance contributions (Aarts & de Jong, 2003).[3]

Qualifying conditions for a WAO *partial* disability pension are a loss of earning capacity ranging from 15% to 80%, with benefit amounts depending on the degree of disability. There are six different partial disability categories: 15-25%, 25-35%, 35-45%, 45-55%, 55-65%, and 65-80%. The benefit payment is determined by taking the mid-point of the particular range in which the disability rating falls and multiplying this value by 70%. Thus, the lowest disability rating category of 15-25% has a mid-point of 20%, which, when multiplied by 70%, yields a benefit of 14% of covered earnings. The benefit payments for the entire disability ratings scheme are provided in the chart below:

If the degree of disability is	the benefit is
Less than 15%	Zero
15 to 25%	14% of former wages
25 to 35%	21% of former wages
35 to 45%	28% of former wages
45 to 55%	35% of former wages
55 to 65%	42% of former wages
65 to 80%	50.75 % of former wages
80% or more	70% of former wages

The Dutch social insurance scheme also includes the WAJONG disability pension for residents disabled since childhood and students. Since, by definition, these individuals do not have an employment history, the reference point for establishing benefit payments is the minimum wage. Benefit payments for a full pension are 70% of the minimum wage for at least 80% disability. Partial benefit payments of 14% to 50.75% of the minimum wage are granted for 25% to 80% disability ratings. Note that under this scheme the lowest category of 15-25% is eliminated so there are only six disability categories. Consequently, the benefit at a full disability rating is 70 percent of the minimum wage. In 2004, the pre-tax minimum wage is € 16, 442.24 per year (de Jong, 2004).

Number and share receiving partial benefits. The share of beneficiaries who receive partial versus full awards is provided in Table 1. The figures presented include the number, percentage, and number per 1,000 persons covered for both: 1) disability pension beneficiaries in

current payment status at the end of 2001, as well as: 2) new awards for the year. The "stock" of persons on the WAO pension rolls at the end of 2001 was almost 800,000 persons, representing 116 persons for every 1,000 workers covered in the WAO system. Slightly more than two-thirds are receiving full awards. This represents 79 out of every 1,000 covered workers. Roughly 32 percent of beneficiaries, or 37 out of 1,000 covered workers, were receiving partial benefits in 2001. One fifth of the persons on the rolls have disability ratings between 26 and 55%. Another seven percent having less than a 25% rating and slightly more than five percent have disability ratings between 56 and 80%.

Roughly 13 out of 1,000 WAO-covered workers were provided disability pension awards during the year 2001. Of these more than 88 thousand beneficiaries moving on to the rolls in 2001, the share that is receiving partial pensions (47%) is significantly higher than for the overall stock of beneficiaries on the rolls at the end of the period (the aforementioned 31.7%). Indeed, the share of partial benefits with disability ratings of 26-55% exceeds 30% of all awards during the year. This ratio is comparable to the share of the overall stock on the rolls receiving partial pensions at the end of 2001.

Working while receiving partial and full disability pension benefits. The Dutch disability pension system allows recipients to undertake paid work while still receiving benefits. Full benefit recipients may engage in paid work in two circumstances: 1) if the recipient is earning less than 15% of former wages; or 2) while the recipient is engaged in temporary employment while keeping the formal right of a full benefit. There are different rules for those on partial pension. If employed, partial benefits can be combined with earnings up to the threshold of the person's pre-disability wage.

Overall, more than a quarter (26.6%) of Dutch disability pension recipients were employed at some point in 2001. This includes more than half (51.4%) of the beneficiaries of partial pensions. Some 16.8% of full benefit recipients are working (Source: UWV, *Jaaroverzicht Arbeidsgehandicapten*, for 2001).

In a recent report, de Jong (2004) [4] states that WAO partial disability pension recipients and their employers view this benefit as a wage subsidy. In this view, partial benefits often are used as a partial early retirement scheme for older employees. He also cites research that has shown that partial beneficiaries are significantly better off economically from their counterparts receiving full benefits. Besides being older, partial recipients are also more likely to be married men with higher education and concomitantly better employment situations that allow the job flexibility required of a partial pension.

Table 1: Number of Full and Partial Disability Pensions in the Netherlands in 2001, in both Active Payment Status at the End of the Year and New Awards During the Year

	Number in Active Payment	Percent of Total	Number Per 1,000 Covered*	Number of New Awards	Percent of Total	Number Per 1,000 Covered
Full Benefits	540,842	68.3%	79	46,566**	52.7%	7
Partial Benefits						
15-25%	54,331	6.9%	8	10,599	12.0%	2
26-55%	154,379	19.5%	23	26,736	30.3%	4
56-80%	42,564	5.4%	6	7,896	8.9%	1
Sub-Total	251,274	31.7%	37	41,767	47.3%	6
Total	792,116	100.0%	116	88,333	100.0%	13

** The number of persons eligible for disability benefits in 2000 was 6,811,000, which serves as the denominator in the number per 1,000 covered.*

*** The total number of new benefits according to the same source is 104,142. This resulted in a reported number of full disability awards for 2001 of 58,911 versus the 46,566 reported in the table.*

Problems associated with a partial disability pension. The intent of the original 1967 WAO legislation that created the seven gradations of disability ratings was to facilitate the re-integration of disabled workers by encouraging part-time employment. The unfortunate reality is that it is exceedingly difficult to assess residual earnings capacity in a dynamic labor market where structural unemployment, business cycles and labor market discrimination exist.

Aarts and de Jong (2003) observed that the social insurance boards skirted the issue by assuming that the dismal employment prospects for the disabled were due to the firms' reluctance to hire persons with partial disabilities--what were euphemistically called "labor market conditions." As a result, all partial pension recipients were given full pension benefits due to the lack of employment opportunities. The rising costs and disability pension rolls led to some reforms in 1987 with the intent of tightening the eligibility criteria by preventing the consideration of these "labor market considerations" when determining the person's residual earnings capacity. However, there was no change in the incentive structure of the insurance boards that made the awards. Consequently by the mid-1990s, some three out of every four disability pension recipients was receiving a full benefit (Aarts, Burkhauser, & de Jong, 1998).

The inability to rein in the awarding of full WAO benefits led to still another round of reforms in 1993 and 1994. There were still two intractable issues remaining in the partial pension decision process. First, there is great difficulty on the part of the labor market experts in determining residual earnings capacity within the numerous disability classifications. Second, given the vagaries of the labor market, there is no assurance that such jobs can actually be obtained by the person with a partial pension. Is the disabled person unemployed because of the disability or because of labor market considerations? The 1994 reform removed the "own

occupation" stipulation for securing a job. As a result of the reforms, the share of partials among new awards grew from 19% in 1990 to 45% by 2001 (de Jong, 2004).

There have been numerous studies on the impacts of the reforms of the disability pension benefit program, including the partial benefits component. The most important is the release of the Donner Commission report in 2001. The most sweeping reform advocated a separation between the full benefits scheme and a partial scheme. One of the proposals being considered is that partial disability would no longer be covered under the WAO. Those eligible for a partial disability benefit would be classified in one of two groups: those with a disability rating above 35% and those below this threshold. The amount of benefit would be tied to the wage for those who were employed (i.e., a wage supplement) and those who were unemployed would get a benefit tied to the minimum wage (de Jong, 2004).

Conclusion

This chapter has reviewed some of the recent reforms and presented the current structure of the sickness benefit program and the full and partial disability pension program in the Netherlands. The Dutch disability benefit system has been changing a lot over the last two decades. For instance, drastic changes were made to the sickness benefit program by shifting an increasing share of the financial burden from the government to employers. Recent legislation has also set the ground for early intervention in vocational rehabilitation. Finally, an 'employer's disability rating' was introduced for the financing of the long-term disability pension program. The Netherlands' policy makers have taken bold and innovative steps to reform the disability benefit system with a view to control its growth. Some results are encouraging such as the drop in absence rates. Surely, this is a country of great interest in the field of disability policy, from

which other countries will learn a lot in the future.

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Chapter 9

Temporary and Partial Disability Pension Programs in Norway

David Dean & Tone Mörk

Summary: Norway has a comprehensive set of government programs that grant sickness benefits, disability pensions, and rehabilitation benefits and services. Norway has a sickness insurance program that is entirely financed by taxpayers through general funds and provides 100% earnings replacement for up to 52 weeks. Persons who exhaust or are not entitled to sickness benefits may receive vocational benefits while receiving vocational services for up to a year. Individuals must document that they have exhausted all vocational rehabilitation options when they apply for a disability pension. Norway has a comprehensive disability pension program, which grants benefits on a full and partial basis. In 2004, the Norwegian disability pension system underwent major reforms by decentralizing disability determination decisions to the local office level and by introducing a time-limited pension program. Time-limited pensions are given for a period of one to four years. Applicants to the permanent and time limited pension go through the same disability determination process. The chapter is structured as follows. The first section describes the sickness insurance program. Section two covers the vocational benefits and services available to persons receiving sickness benefits and disability pensions. Section three reviews the different components of the disability pension program including permanent, time-limited, full and partial programs. Particular attention is given to the disability determination process and the work incentives in each program.

Norway has a large welfare state, which includes a universal sickness benefit and disability pension system. There seems to be a consensus among Norwegian residents and politicians that the government needs to continue its involvement in welfare provision (Dalh and Hansen, 2003). However, there has been increasing concern recently about the growth of the numbers of sickness beneficiaries and disability pensioners, which lead to several reforms. In this chapter, we first give some background on the Norway's welfare state. We then present in detail sickness benefits, vocational benefits, disability pensions (full and partial) and the recently established time-limited disability benefits.

Background on Norway's Welfare State

The National Insurance Scheme is the major component of the Norway's welfare state. It applies to all Norwegian residents, including children, students, pensioners, the self-employed).

It covers sickness benefits, medical rehabilitation benefits, disability benefits, old-age pensions, and health insurance.

The National Insurance Administration (NIA) administers most benefits under the National Insurance Scheme. The National Insurance program on disability benefits is administered by the NIA, which is a housed within the Ministry of Social Affairs. There are national insurance offices located in each county and in all the municipalities. Vocational rehabilitation benefits and unemployment benefits under the scheme are administered by the Directory of Labor under the Ministry of Labor.

The social insurance system in Norway is funded from a payroll tax levied on both the employer and employee, with the government contributing funding of any deficit from general revenues. The employer contribution is established at 14% of payroll. The worker contribution is 7.8% of income (which is reduced to 3% of income if under 17 or over age 69). The tax rate for self-employed individuals is 10.7% of income with a ceiling contribution set at 12 times the base amount (NOK 56,856 in 2003) [36]. Contributions from employed and self-employed persons are calculated on the basis of pensionable income (gross wage income including cash sickness, maternity, and unemployment benefits) in excess of 22,200 NOK a year; however, contributions may not exceed 25% of annual income above 22,200 NOK. There is no earnings limit for contribution purposes. Together, these contributions combine to finance the network of old-age, disability, sickness and maternity, work injury, and unemployment programs (Gruber & Wise, 2002).

Sickness Insurance

Sickness benefit usually starts while the person is still employed in their old job. The public sickness benefit in Norway is generous, paying 100% of previous income from the first

[36] On June 30, 2004, 0.145 USD= 1 NOK (Norwegian Kroner)

full day of an onset of illness/injury for up to 52 weeks. Medical treatment is also provided through the national health insurance program during this period. Episodes with longer duration are thereafter covered by either a medical or vocational rehabilitation allowance or the disability pension program, both will be covered in detail below. The maximum earnings for receipt of a full benefit are six times the base amount. However, state and municipal employees and many employees in large companies have collective agreements stipulating that the employer is to make up the difference between the employee's wage and the stipulated sickness benefit. This ensures that even high-wage earners receive full pay during an extended illness. Self-employed persons receive 65% of assessed covered earnings after a 14-day waiting period subject to roughly the same maximum benefit restriction. There is also a partial sickness benefit payment payable at a minimum level of 20% of a full allowance.

Coverage is provided to persons who are employed or self-employed for at least 14 days and whose earnings exceed 50% of the base amount. The program is funded from a combination of: 1) worker contributions for the comprehensive Old-age, Survivors, Disability and Sickness benefits; 2) the employer contribution of 14.1% of payroll; and 3) government general revenues for any shortfalls. In addition, the employer must absorb the full cost of cash sickness benefits for the first 16 days, irrespective of what the worker's earnings were prior to onset of the illness or injury. Payments for absences exceeding 16 days are reimbursed by the National Insurance Administration. Furthermore, for persons with chronic diseases and frequent occurrences of sick leave, the NIA pays for sickness benefits during the whole sickness period, including the first 16 days that would ordinarily be paid by the employer.

Self-reported illness is allowed four times a year for short periods of three days. Absences of more than three days must be physician certified. The doctor's statement is

regarded as a recommendation to the NIA, which formally makes the decision about eligibility for sickness benefit payments. After an initial period of 12 weeks sick leave, the NIA is required to verify continued eligibility and may also verify the doctor's decision to award a benefit. Furthermore, after this 12-week period, the NIA must draw up a plan detailing the rehabilitation prospects for this person on extended sick leave (Dahl & Hansen, 2003, p. 285).

The Norwegian labor force in 2003 consisted of 2.39 million persons. A total of 675,651 cash sickness benefit awards were given in this year. There were 136,044 persons in active payment status at the end of 2003, or 5.7% of the labor force. During this year there were 576,726 cases of sickness insurance that were terminated from the rolls, with roughly 500,000 of these persons reintegrated into the workforce, and another 31,279 cases listed as having medical improvement. There were 8,608 cases transferred to the permanent disability pension program.

With concern about the mounting costs and utilization of the sickness benefit, cost containment measures were undertaken in the past decade. One reform restricted the criteria for sickness benefit to only those factors with a medical basis. Another mandate was implemented to attempt return-to-work through early intervention via job site accommodations, modified work tasks, and vocational rehabilitation.

The NIA also conducted a controlled experiment to attempt to reduce the time spent on the sickness benefit rolls and keep the person employed with her original employer. A summary of the Bergen Experiment is provided in Bratberg et al., (2002, page 150):

> "In the early 1990's, musculoskeletal pain accounted for approximately 45 percent of Norwegian sickness spells lasting more than eight weeks, and for more than one-third of all new entrants into disability pension every year. In the Bergen experiment, workers on sick leave due to musculo-skeletal pain received treatment that, in addition to physiotherapy, included a cognitive component aimed at increasing their knowledge about their health problems as well as their ability and motivation to cope with them."

Participants were recruited from among the approximately 285,000 persons living in Bergen or in one of the five surrounding municipalities. During the enrollment period from November 1993 to March 1995, those who met the inclusion criteria were contacted in writing by the local social insurance authority inviting them to participate in the experiment. Workers who volunteered to receive the treatment were first examined by physiotherapists not involved in the treatment. This examination consisted of a set of standardized tests of functional ability and a medical/psychological questionnaire. Participants were then randomly assigned to treatment or to a control group.[7] Those assigned to treatment underwent a rehabilitation program that lasted four weeks with six-hour sessions five days a week. In addition, participants were given individual advice at three, six, and ten months after they received treatment. Participants in the control group were subjected to ordinary treatment by their GP. After 12 months, both the treatment and the control group underwent a new examination. Vocational outcomes for both groups were then tracked for another year through their administrative records. The Bergen experiment found that the impact of gender on post-treatment income was statistically insignificant.

Vocational and Medical Rehabilitation

The rehabilitation measures for disabled people in Norway are comprised of a complicated service delivery and cash benefit system that also serves as a temporary disability payments scheme. The general rule in the National Insurance Scheme is that after 12 months on sick leave, one can apply for either medical or vocational rehabilitation benefits, or for a disability pension. These rehabilitation benefits are also granted to an insured person who is not entitled to sickness benefits, but who has been unemployed for a period of one year. However,

prior to applying for a disability benefit, the individual must document that they have exhausted all the options available through medical and vocational rehabilitation. Certain individuals (e.g., persons with an illness that is terminal, or that has severe impacts on functional capacity) are exempted from the rehabilitation process and move directly to a disability pension.

The medical and vocational rehabilitation cash allowances are authorized under various sections of the National Insurance Act. These are separate income maintenance cash benefits provided for eligible persons aged 18 to 67. The purpose of these benefits is to provide income maintenance for persons who are undergoing active treatment with prospects of improving their vocational potential. The eligibility criteria are identical to the disability pension: the person must have diminished work capacity of at least 50 percent due to illness, injury, or (congenital) defect. Eligibility for either the medical or vocational rehabilitation allowance requires the person have a lasting medical condition certified by a medical doctor. If the health problem persists beyond this additional year, the person may apply for a disability pension.

The vocational rehabilitation cash benefit is granted to an insured person who is undergoing VR training. It is also granted during periods before rehabilitation training measures start and after medical rehabilitation has been provided. The amount of a medical or vocational rehabilitation cash benefit corresponds to that of a time-limited disability pension and provides roughly two-thirds of prior wage income, with both minimum and maximum benefit thresholds. The minimum benefit is 1.8 times the basic amount; the maximum is two-thirds of prior earnings up to six basic amounts. A partial rehabilitation allowance may also be granted if the person's work capacity has been reduced by 20% or more during continued medical treatment after the payment period for sickness benefit has expired. These cash benefits are generally only granted for a period of 52 consecutive weeks.

The vocational rehabilitation sector has undergone rapid growth since the National Social Insurance Scheme was introduced in 1966. At the time of the Aakvik et al. (2002) study of the Norwegian Vocational Rehabilitation (VR) program, which was conducted in 1993, daily participation in VR training programs totaled 35,000 persons. This enrollment amounts to around 1.5% of the labor force; 0.64% of Norwegian GDP is spent annually on these programs. The traditional regimen in Norway was to introduce VR measures between extended sickness benefits and disability pension benefits. In 1994, amendments to the National Insurance Act gave the Employment Service overall responsibility for VR training measures. The time limit on medical rehabilitation, which previously had no limitation, was reduced to one year. The current intent is increasingly towards early intervention (e.g., through vocationally oriented rehabilitation activity during sickness leave). There were 52,778 persons in active payment status as of the last day of 2002, or 2.2% of the labor force. During the course of this entire year, an estimated 44,275 persons were terminated from the rehabilitation rolls; roughly one-fourth transferred to permanent disability benefits; another 20% were reintegrated into the workforce; and 57% were listed as other, moved to old-age retirement, and death.

The National Insurance Scheme also provides a separate program granted to cover the insured period's expenses in connection with rehabilitation measures. The employment service, located under the Labor Ministry, administers this VR support program and decides who will be granted support for rehabilitation expenses. A person may be granted both vocational rehabilitation support and VR cash benefits concurrently, but the eligibility rules for the latter are stricter. Under the vocational rehabilitation support program, eligible persons ages 16-67 are reimbursed for VR training expenses. Support may be given to a person participating in such activities as vocational training and education, as well as transportation and moving expenses.

A physician must certify that the claimant has a medical condition and that this condition has led to a permanent reduction in the person's work capacity. However, the National Insurance office will already have the person's medical history in most cases, as they have been paying the person other benefits (such as sickness benefit or medical rehabilitation allowance) prior to vocational rehabilitation being considered. At this juncture, the local NI office will refer the person to the Employment Service, which assesses the claimant's vocational qualifications and labor market prospects. Upon receiving a VR benefit, a decision has to be made whether the individual can return to their previous employment or seek a new job. At this point, some people do return to paid employment, while others seek a disability pension. Those individuals who are neither granted a disability pension, nor able to secure employment on their own, are usually referred to the local Employment Office to participate in some form of job training.

Aakvik et al. (2002) evaluated the effect of VR training programs on return-to-work outcomes for women. The typical duration of such training was reported to be about six months. They found that program participants have a 4.6% higher employment rate than non-participants. When they control for the observable characteristics of applicants, they find the average treatment effect falls to 4.1%. When they control for the unobservable characteristics of applicants, the average treatment effect falls to -1.4% and effect of treatment on the treated measures at -11%. They also find evidence of substantial heterogeneity in response to training.

Disability Pension

The principal disability pension program in Norway is administered under the National Insurance Scheme, as authorized under Chapter 12 of The National Insurance Act. This law was first enacted in 1936, with major amendments in1966, when the disability pension was integrated

into the Act. Further amendments took place in 1997 and again in 2001. Benefits from this National Insurance Scheme are integrated with two other large disability pension schemes covering public-sector employees: 1) Norwegian Public Service Pension Scheme (for state employees); and 2) KLP Insurance (collective agreements for municipal employees). Additionally, there are special systems for seamen, fishermen, and forestry workers.

A disability pension is calculated according to the guidelines established for the old age pension. It consists of a basic amount, as well as a supplementary pension or a special supplement, or both. The supplementary pension is calculated on the basis of earned income and pension points credited from the age of 17. The earnings-related portion of the pension covers all employed and self-employed persons earning over the base amount who were born after 1897.

The basic amount and the special supplement combine to make the minimum pension, which is based on periods of residence and is independent of previous earned income. In addition, there are income-tested supplements for dependent children under the age of 18 and for a dependent spouse. Benefits are indexed according to this basic amount, which is increased on May 1 each year by Parliament, using a combination of price and wage inflation.

The basic amount as of May 1, 2003 is NOK 56,861. The minimum amount provided to an individual who was fully-vested in the pension (i.e., basic amount and special supplement) is NOK 101,964. The maximum pension per year to a single pensioner, which consists of the basic amount and a maximum supplementary pension, is NOK 224,028. The Full Supplement per child per year is 40% of the basic amount, or NOK 22,740; the Full Supplement per year for spouse/cohabitant/partner is 50% of the basic amount, or NOK 28,428.

The number of disability beneficiaries has tremendously grown since the program was established: it more than doubled, from 98,645 in 1967 to 279,573 at the end of 2000 (183% increase). Some 9.9% of the population aged 18-67 (11.5% of the women, 8.3% of the men) now receive a disability pension (Dahl & Hansen, 2003).[2] In 2002, there were a total of 39,516 applications for the disability pension program. Roughly two-thirds (26,798, or 67.8%) were awarded, with two-thirds of these (17,973, or 67.1%) being full disability benefits. During the same period there were 19,945 persons terminated from the disability pension rolls, with 14,653 of these cases being transferred to the old-age pension program, and another 3,778 persons removed due to death.[3] Combining the flow in and out of the disability pension program with those remaining on the rolls for the entire period results in a stock of 292,224 persons in active payment status at the end of 2002. Almost four-fifths of this total (231,179 persons, or 79.1%) are persons receiving full disability pension benefits.

Eligibility. The eligibility criteria and qualifying conditions for a disability pension in Norway are that individuals be between 16 and 67 and have three years of coverage prior to disability onset. Exceptions are made for refugees, young persons disabled before the age of 26, and persons who after age 16 have less than five years of coverage. A full minimum benefit provides 100% of the base amount and the special supplement to a person deemed totally disabled. This is achieved with 40 years of residence, including future years up to age 67. In the case of the earnings-based supplementary pension, the requirement is for three years of earnings above this base amount, with future pension points included. Additionally, individuals aged 16 to 66 must have their earnings capacity permanently reduced by 50% or more to be eligible for a disability pension (i.e., people must be at least 50% disabled to obtain a partial pension). Persons working at home (i.e., homemakers) are also eligible for a disability pension to compensate for

loss of capacity to do household production. Generally, all residents in Norway are members of the disability pension scheme. Moreover, employees working in Norway are also members, even if they are not residents. In other words, citizenship is neither required nor a qualifying condition. Indeed, the qualifying condition of three years up to disability may be overruled according to agreements on social security between Norway and other countries. The same concerns apply to regulations on payment abroad. Among others, Norway has a bilateral agreement with the United States.

Disability pensions are permanent and, with the exception of a major change in the individual's working capacity, there is usually no re-test. Normally, a disability pension is granted up to the age of old-age pension (67 years).

Partial Disability Pensions

The Norwegian social insurance system provides for a partial disability pension, wherein the pension is reduced in proportion to the loss of earnings capacity. The minimum disability pension is 50% of the projected old-age benefit. Partial pensions payments range from 50 to 100% in intervals of five percent. Entitlement to either a partial disability pension requires at least 50% disability (i.e. the loss of 50 per cent of income capacity due to permanent disability caused by permanent illness).[4]The scheme covers both employees and self-employed persons. Housewives or househusbands may be measured in terms of capacity to do domestic work or as potential income earners in order to qualify for a disability pension. If a person has been granted a partial disability pension, the pension may be combined with work or other types of benefits (i.e., unemployment, sickness, and rehabilitation).

As noted above, roughly one-fifth of the persons on the disability pensions rolls were receiving partial pensions at the end of 2002. Of these 61,045 persons receiving partial disability pensions, almost 30% had disability pension ratings of 70-99%, 69% had ratings between 50 and 69%, and one percent had ratings between 15% and 49%. The latter rates pertain to persons who either have an occupational injury or were included in an experimental program, lasting until the end of 2004 as described below. The flow of newly-awarded disability pensions includes a lot of partial disability pensions. Indeed, partial-disability pension awards comprised almost one-third of all new awards in 2002. Only 0.6% of these awards were for partial disability assessments between 30 and 49%; these must be occupational injuries. Almost 80% of new partial awards were for disability ratings between 50 and 69%; the remaining 20% were for ratings between 70-99%.

Time-Limited Disability Benefit.

With the most recent legislative changes, the Chapter 12 statutes also now mandate a new time-limited disability benefit, which was implemented at the beginning of 2004. The eligibility criteria for the traditional disability pension and the new time-limited disability benefit under Chapter 12 are the same. Indeed, the individual now applies for an unspecified benefit with both benefits requiring a permanent disability. The national insurance office makes the ultimate decision on the type of disability benefit. The time-limited benefit will be granted should there be deemed any possibility for improved work capacity in the future. If not, the disability pension will be granted.

This new benefit is granted for a period of one to four years and can be a full or a partial benefit. The benefit is calculated as a daily cash benefit in a similar fashion to the rehabilitation

benefit (see section above). The benefit payable is two-thirds of earned income before the disability occurred. This period consists of either income earned the year before disability onset, or the average of the last three years' earnings, whichever is greater. The fully-vested minimum benefit per year is established at 1.8 times the basic amount, or NOK 102,550 for 2004. The fully-vested maximum benefit per year is calculated at a rate of two-thirds of a person's earnings, up to a maximum of six times the basic amount, or NOK 225,170 for 2004. The supplement for children under 18 is NOK 4,420 annually; this supplement is not income-tested.

Qualification Process for Disability Pension and Time-Limited Benefit.

The assessment of disability status is based on a mandatory medical certificate provided by the claimant's physician, along with statements on attempts at vocational training and other information. In certain cases a certificate from a specialist may be required. If there is any doubt about medical questions, the social security claims officer can request advice from doctors employed by the national insurance. These doctors do not normally see the claimant when issuing their assessment.

According to the old procedure for awarding claims, the claims initially went to the local social security office. The application would then be sent to the regional social security office, where most of the cases would be decided. Any appeals would start at the local insurance office and eventually be forwarded to the National Insurance Court of Appeal, an independent institution which rules on all aspects of Social Security Laws and programs.

Under the new system in force since January 1, 2004, decision-making power about time-limited benefits has been de-centralized to the local-office level. However, if the local office in the municipality where the person lives is not authorized by the county office, the decision is

made by another authorized local office. As before, a claim for disability pension/time limited disability benefit is filed at the local insurance office in the municipality where the person lives. The claim will now be unspecified, and the national insurance office decides upon the type of disability benefit. However, the authorized local office makes all decisions on the time-limited benefit, and may also refuse a disability pension. Thus, except for the granting of disability pensions, all decisions are to be made by the local office level. The local insurance offices also decide on sickness and rehabilitation benefits, which normally are given for periods prior to a claim for a disability pension/benefit. The normal length of time from application to final decision on disability pension is within eight months, with a stipulated upper limit of one year.

When assessing the person's vocational capability, the insurance office is supposed to take into consideration all jobs for which the claimant is qualified. Thus, the eligibility criteria are based on the ability to perform any job, rather than the more restrictive definition of being able to undertake the claimant's own job (i.e. based on the individual's age, education, and work experience). The reduction in functional capacity testing can be performed by local health service officers or by staff at the Regional Center for Technical Aids. Before a disability pension or benefit can be awarded, vocational rehabilitation must be attempted.

In the past, this "any occupation" definition has not been strictly enforced. Older applicants, persons with ties to the local community, and persons who are structurally unemployed due to local labor market conditions have been more likely to receive disability pensions (Dahl & Hansen, 2003).

Reintegration. The Norwegian social insurance scheme has several incentives to encourage disability pensioners to engage in employment after the disability pension/benefit has been granted:

- One year after the pension award, a beneficiary can increase labor market earnings within certain limits without affecting their disability rating. A person receiving a full (i.e., 100%) disability pension can earn up to one base amount annually, above which the individual's disability rating will be re-evaluated.
- If a person receives a partial pension benefit, this amount comes in addition to income in accordance with the presupposed income capacity. If a disability pension or benefit is granted after 2003, the sum of the disability benefit and earned income cannot exceed pre-disability income.
- Income from work may increase to a degree that the person's pension/benefit degree may be reduced down to 20%.
- All disability pensioners may work or engage in a vocational training program with earned income for up to three years without losing their entitlement to this pension. In such instances, the disability pension benefit is offset by the individual's earnings.[5]
- There is a frozen right period of three years during which the disability pension recipient can increase earned income until the pension benefit falls to zero and yet still be guaranteed the previous pension without re-applying.

In addition to these incentives, Norwegian policy-makers have implemented a couple of innovative, ongoing experimental programs to foster return to work:

- One program provides favorable regulations concerning the judgments of disability

degrees for pensioners who increase their income from work. The experiment lasts from September 2001 through the end of 2004.

- Another program involves six counties (out of 19) and concerns the new time-limited disability benefit. In this experiment, the benefit may be granted for disability ratings as low as 30 or 40% disability, instead of the standard 50% disability rating limit. This three-year initiative is being conducted from January 2004 through the end of 2006.[6]

Conclusion

Norway has recently taken initiatives to try and contain the growth of its disability benefit system. One important initiative is the establishment in 2004 of time-limited disability (full or partial) benefits that can be granted instead of a permanent disability pension. It is too early to assess whether this new type of benefit is effective at encouraging return to work. In the years ahead it will be important to follow developments in Norway's disability pension system, especially the role played by the time-limited disability benefits. There is scope to conduct further research on Norway given the availability of a new database (FD-Trygd) with event history data for all Norway's residents from 1992 through 2000 (Dahl and Hansen, 2003). In particular, it would be interesting to find out more about the labor market experience of Norway's partial disability pensioners concerning work hours, wages, occupation, industry and part-time/full-time work.

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Chapter 10

Public Disability Benefits in The Republic of South Africa

Scott Szymendera & Leslie Swartz

Summary: South Africa has a relatively new benefit system for persons with disabilities. Those who are determined by a medical committee to be unable to work because of a disability expected to last between six months and one year are eligible for a Temporary Disability Grant, while those with long-term disabilities qualify for the Permanent Disability Grant. Both of these programs are financed by national tax dollars and both are means tested, requiring participants to meet income and asset tests. South Africa offers no form of public sickness benefits and has no partial disability program for those that may be able to only work part time. There are no formal return to work services offered to Disability Grant recipients. However, those who become disabled while employed may receive return to work services from their employer if there is a sufficient financial incentive to retain the worker. Parents of minor children with disabilities are eligible to receive a Care Dependency Grant to assist in paying for medical and other expenses related to childcare. This grant is generally means tested, however, foster parents of adopted children with disabilities are automatically eligible for the grant regardless of their financial status. This chapter first describes the two public disability benefit programs, the Permanent Disability Grant and the Temporary Disability Grant. Available rehabilitation and return to work efforts are then reviewed, as well as other public supports for persons with disabilities.

Compared to the other countries covered in this study, South Africa presents an unusual setting in which to analyze a disability benefit system. South Africa is among a few developing countries that have benefit programs targeted at persons with disabilities. In addition, until 1993, South Africa was governed according to an Apartheid system that was based on a tradition of racial discrimination and segregation. In 1992, the disability cash benefit was expanded to cover the black population. Like many developing countries, South Africa has a very high unemployment rate. We describe below the temporary and permanent disability grant programs. We then move on to a review of return to work and other supports for persons with disabilities.

Social Security Programs

Compared to other countries in this study, South Africa appears to have a limited welfare system. However, compared to other developing countries and other African nations in particular, South Africa offers a variety of benefit programs for its citizens. In addition to disability grants, which will be presented in detail below, South Africa provides several social security grants (Sogaula et al, 2003). They are all means tested and their eligibility criteria are briefly described below.

- Old Age Grant are paid to men over 65 and women over 60.
- War Veterans Grant are paid to men over 65 who served in World War I, World War II, Korea, the Anglo-Boer War, or the Zulu Uprising of 1906.
- Foster Child Grant are given to parents of foster children.
- Child Support Grant are paid to the primary caregivers of children under the age of seven.
- Social Relief of Distress: means-tested grant and transportation assistance to those unable to work because of disability for under six months, or for those awaiting permanent grant status, or those affected by recent family death or natural disaster.

South Africa also does not have a national health care system. Some of the programs above have been shown to have significant poverty reduction impacts. For instance, it is the case of the old age grant (Case and Deaton, 1998).

Public Disability in South Africa

The South African disability cash transfer program is government run and means tested and gives benefits on a temporary or a permanent basis to persons with disabilities who cannot provide the means to support themselves through work.

Temporary Disability Grant. The Temporary Disability Grant program is administered by the Department of Social Development and is funded by public taxes. The Temporary program is only designed for those that have a disability that will prevent them from working for no less than six months and no more than one year. In 2003 there were 368,179 persons receiving Temporary Disability Grants.

In order to qualify for the Temporary program, applicants must meet six specific criteria and must not fall into one of seven disqualifying categories. Specifically, the applicant must:

1. Be a citizen of South Africa
2. Be a resident of South Africa
3. Be age 18 or older
4. Be unable to work because of a disability
5. Not have another government grant
6. Have a valid medical report outlining the disability

A doctor or assessment committee, hired by the Department of Social Development, provides the medical report for an applicant. This report remains valid only for a period of three months. The doctor or committee preparing the report will examine the applicant and determine if the person has a disabling condition and if that condition is permanent or temporary. In addition, the doctor will assess if the condition is likely to improve with rehabilitation. The doctor or medical committee can also request additional medical records from the applicant to assist them in making their report.

This medical report is forwarded to the Department of Social Development, a national agency that is under the Ministry of Social Development. The Department of Social Development uses the medical report to make its determination decision about an applicant.

In addition to meeting the six specific qualifications, applicants for Temporary Disability Grants must not fall into one of seven disqualifying categories. These are:

1. The applicant is in a psychiatric hospital
2. The applicant refused to undergo medical treatment
3. The applicant gives false or misleading information in the application
4. The applicant lives at a State Home
5. The applicant is being treated for drug addiction
6. The applicant is in prison
7. The applicant is receiving care from a treatment center

The decision making process of the Department of Social Development should not take longer than two days once all documents are submitted. There is no formal appeals process for the Temporary Disability Grant program. Appeals are officially handled by the Premier of the province, a locally elected official. However, the Department of Social Development hears some appeals referred to them by the Premier. In many cases individuals bring private litigation against the department in the South African court system.

There is a means test for the Temporary program. Single applicants cannot have assets, except for their primary residence, in excess of 252,000 ZAR[37], and married applicants are limited to assets, except for their home, of 504,000 ZAR.

Each participant in the Temporary Disability Grant program receives a monthly benefit of 700 ZAR. This benefit stops at death, if they return to work, or when the period of their disability, set by the Department of Social Development, expires. Similar to the Permanent program, there are no partial benefits or benefits for dependents in the Temporary program.

[37] On June 30, 2004, 6.228 South African Rand (ZAR) = 1 United States Dollar (USD).

Permanent disability grant. The primary long-term disability income system in South Africa is the Permanent Disability Grant. The Permanent program was established under the terms of the Social Assistance Act of 1992 and is primarily designed to assist persons with disabilities who cannot provide the means to support themselves through work. This program is means-tested and is intended to last until a person enters the retirement pension system. This program is funded by national taxes and is administered by the Department of Social Development, a national office under the Ministry of Social Development. In 2003, there were 888,982 persons receiving Permanent Disability Grants. Based on a working age population of close to 26 million (Stat South Africa, 2002, p. 54), this implies that close to 4% of the working age population receives permanent disability grants.

The application process for the Permanent program is similar to that of the Temporary program. Applicants must meet six qualifying conditions and not fall into one of seven disqualifying categories. Decisions are based on a medical report provided by a doctor or assessment committee hired by the Department of Social Development.

The Permanent Disability Grant program is means-tested and applicants must fall below asset thresholds in order to qualify. The means test is based on the full grant amount, currently set at 700 ZAR per month. The full grant amount is adjusted annually based on cost of living and inflation. The maximum allowable assets for a single person are calculated as:

$$700 \text{ ZAR} \times 12 \times 30 = 252{,}000 \text{ ZAR}$$

Thus a single person cannot have assets exceeding 252,000 ZAR. The asset test does not include the value of the primary residence of the applicant.

For a married person, the asset test is similar and calculated as:

700 ZAR x 12 x 60 = 504,000 ZAR

Similar to single applicants, the value of the primary residence of a married applicant is not counted towards this asset threshold.

Applicants must provide proof of assets, including financial statements, as well as proof of marriage and proof of unemployment.

Each beneficiary in the Permanent Disability Grant program receives a monthly grant of 700 ZAR. There are no partial benefits under this program and no provision for dependent benefits.

An applicant will continue to receive a Permanent Disability Grant until they die, are admitted to a state institution, transition into the retirement program, or begin working again. Each person's financial and work status is supposed to be reviewed by the Department of Social Development every five years, however, this is often not done due to a lack of government resources.

Labor Market Implications. In industrialized countries, there is evidence that disability benefit programs can be associated with increased exits from the labor force, even in periods of strong labor demand (e.g., Autor and Duggan (2003)). Very little is known on the size and the labor market implications of the disability grants in South Africa. This is an important issue given that, like many developing countries, South Africa has a very high unemployment rate (Kingdon and Knight (2004)). Stat South Africa (2002) reports that between 1995 and 1999, the unemployment rate of persons with disabilities rose from 15.2% to 21%. This increase is more limited than the one that was observed during the same period for persons without disabilities: from 12.9% to 20%. It might be that this relatively smaller increase in the unemployment of

persons with disabilities compared to those without disabilities results from a re-classification of persons with disabilities as disability grant recipients and thus non-labor force participants.

HIV/AIDS and Disability. South Africa has been affected by the spread of the HIV virus and AIDS more than any other nation in this study. It is estimated that over 4.8 million inhabitants were infected with the HIV virus or is suffering from AIDS by the end of 2000 and the number of children orphaned by AIDS related deaths is anticipated to reach nearly 2 million by 2010 (Sogaula et al, 2003).

HIV and AIDS affect the social security system of South Africa in general and the disability benefit system in particular. HIV and AIDS patients unable to work may be eligible to Permanent Disability Grants. As South Africa concludes its first decade of civil society and freedom for all, its social welfare programs have to face the challenges caused by this epidemic.

Rehabilitation and return to work efforts. There are no formal rehabilitation or return to work programs associated with the Temporary and Permanent Disability Grants. If a person becomes disabled and unable to work while employed, the employer is expected to provide services to get the person back on the job. While many employers have a financial incentive to get a veteran employee back in the workplace, others see providing return to work services as a costly burden and do not provide them. This is especially true when the person with a disability is an unskilled laborer who can be easily replaced.

Other Public Supports for Persons with Disabilities

The primary additional public support for persons with disabilities comes in the form of a grant for persons who require personal assistance or personal care. These people are entitled to a

grant of 150 ZAR per month to pay for these services. This grant is only open to those who are receiving one of the disability grants and who require personal care or assistance.

There is also a public support, called the Care Dependency Grant, for families who have a child under the age of 18 with a disability. The Care Dependency grant is open to all parents or foster parents who have a child under the age of 18 who requires personal assistance or care because of a disability. This program is means-tested and parents cannot earn more than 48,000 ZAR per year. There is no income test for foster parents.

Parents with children living in treatment centers or psychiatric hospitals are ineligible for this program, as are those parents who are already receiving a Child Support Grant from the Department of Social Welfare.

The Care Dependency Grant program is administered by the Department of Social Welfare and has similar application, assessment, and adjudication procedures as the Temporary and Permanent Disability Grants.

Conclusion

Compared to the other countries covered in this study, South Africa appears to offer a small set of programs for persons with disabilities but, compared to other developing countries, and other countries in Africa in particular, South Africa offers an unusually broad set of programs for persons with disabilities. Persons with disabilities who are unable to work are placed in one of two government means tested programs: the Temporary Disability Grant program and the Permanent Disability Grant program. In addition, South Africa does offer a generous monthly cash benefit to disability grantees who require personal services or attendant care and, parents of children with disabilities are also entitled to benefits. Unlike other countries

in the study, disability grantees are not offered any return to work or rehabilitative services or programs.

South Africa is also unique among the countries studied in that it has been severely affected by the HIV/AIDS crisis. Persons who are unable to work due to HIV/AIDS may be eligible to disability grants. The HIV/AIDS crisis, coupled with the difficulties inherent in providing welfare benefits in a nation with high unemployment, will continue to challenge policymakers in South Africa as they look at ways to provide benefits to persons who are unable to work.

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Chapter11

Public Disability in Sweden

Scott Szymendera & Heini Möller

Summary: In the Swedish disability income support system, adults above the age of 30 may qualify for either the means tested Income Related Sickness Compensation program or the insured Guaranteed Sickness Compensation program. Eligibility in the Guaranteed program requires that a person have worked prior to becoming disabled. Both programs have provisions for partial benefits and persons with disabilities may qualify for benefits if they are at least 25 percent incapacitated. Persons with disabilities in Sweden who are between the ages of 19 and 29 may qualify for either the means tested Income Related Activity Compensation or insured Guaranteed Activity Compensation programs. Both of these programs are designed to be temporary and only provide benefits up to a person's 30th birthday. Rather than focus on returning a person to work, both of these programs require beneficiaries to participate in certain age appropriate activities that will aid in their rehabilitation. Sweden also has a general sickness compensation program that provides short-term benefits to those unable to work because of illness or disability. This program generally lasts up to one year, after which a person is transitioned into the appropriate long-term pension program. In general, the return to work services offered to disability program participants in Sweden are minimal. Government rehabilitation programs are available to those in the sickness compensation programs; however, it is the responsibility of the employer to assist those receiving sickness benefits in their return to the workplace. In addition to disability benefit programs, Sweden offers a wide range of heath care and other welfare benefits and services that persons with disabilities may qualify for. This chapter begins with a brief overview of the Swedish model of welfare state and then follows with a detailed description of the major disability benefit programs. The chapter also includes an overview of the return to work services provided to persons with disabilities and a description of some of the other public benefits available to persons with disabilities and their families, such as transportation and home adaptation services.

The public disability funding system in Sweden is complex, involves both permanent and temporary benefits, and includes provisions for partial benefits. When taken as a whole with the traditionally strong Swedish welfare state, it creates a large safety net for those unable to work because of impairment. The Swedish system has undergone recent major reforms.

The Swedish disability system includes both means tested and insured long-term programs. These programs provide partial benefits for those unable to work because of disability. In addition, the Swedish system includes a short-term sickness benefit available to workers. One unique feature of the Swedish system is that, after recent reforms, persons above and below the

age of 30 are treated differently, with younger beneficiaries enrolled in an Activity Compensation program designed to be a temporary program and last no more than three years. Older persons with disabilities receive a Sickness Compensation for the duration of their period of disability. This chapter is divided into two main sections. The first one presents a background on the welfare state in Sweden and the second one reviews in detail different components of the disability benefit system.

Background on The Welfare State in Sweden

This section gives some general background on the Swedish welfare state, in which the disability benefit system is placed. Sweden has a large and progressive welfare state that provides a litany of benefits to its citizens and residents (RFV (2002)). Included in this welfare system are comprehensive healthcare, childcare, unemployment, and retirement benefits, in addition to the disability and sickness programs reviewed later in this chapter.

All residents of Sweden are guaranteed subsidized medical care at primary physicians and public hospitals. All medical treatment for those under the age of 20 is completely free of charge. The counties administer medical coverage and each county sets its own subsidized rates for outpatient care. These range from 100 to 150 SEK[38] for each primary care service and 180 to 300 SEK for each specialist service. All public hospitals in Sweden, including those run by the counties and the larger, more advanced regional hospitals, charge 80 SEK per day for inpatient services. Services by other health professionals, including occupational therapists and home care nurses, are also set by the counties and range from 50 to 100 SEK per visit. To help control out of pocket costs to patients, there is a 12-month cost ceiling of 900 SEK. After a patient pays 900

[38] On June 30, 2004, 7.525 Swedish Kronor (SEK) = 1 United States Dollar (USD).

SEK, she is entitled to free medical services for the remainder of the 12-month period calculated from the date of her first visit.

Prescription drugs are sold in 900 pharmacies, all of which are owned by the National Corporation of Swedish Pharmacies, a public body that has the exclusive right to sell drugs in Sweden. These pharmacies sell all prescription medicine to patients and to hospitals. The national Pharmaceutical Products Board and the national Medical Products Agency approve all drugs for public use and negotiate prices with the manufacturers. Pharmaceutical subsidies are provided by the counties. In most cases, a patient is responsible for the full retail price of all drugs, up to 900 SEK in any 12-month period. After reaching this level, prices are subsidized up until a patient has paid 1800 SEK in 12 months. After reaching this level, all additional drugs required are provided to the patient at no charge. All children up to the age of 19 receive free dental care. Adults are required to pay for dental services that are subsidized by the social security system. Dentists may either work in county clinics or private practice and are free to set their own rates. Patients may sign an agreement to provide basic services for two years at a fixed price. For those over the age of 65, there is a special program to help limit catastrophic dental costs.

All families in Sweden are also entitled to guaranteed subsidized childcare for their school age and preschool children. Childcare is administered by the municipalities and occurs in private homes or leisure-time centers. Municipal governments are free to set their own fees for childcare and to decide at what levels to subsidize this care. Municipalities are encouraged to adopt the national price ceiling for childcare, and if they do, are entitled to money from the national government to make up for lost revenue. In addition to free public schooling, all children in Sweden receive free pre-school at the ages of four and five.

In addition, Sweden has a largely voluntary unemployment system. Employees have the option of paying membership fees to join a private unemployment fund regulated by the National Labour Market Board. Many of these funds are run by labor unions, and labor union members are required to join their local fund. Currently 90% of all workers in Sweden contribute to and are members of an unemployment fund. If those who belong to a fund lose their job, they are entitled to receive a daily maximum benefit, based on previous income, of 730 SEK for the first 100 days of unemployment and up to 680 SEK for the next 200 days. After 300 days benefits expire, and those who are unemployed must apply for an extension. Those who chose not to participate in the voluntary unemployment program are covered by a public program that pays up to 320 SEK per day while unemployed. The government funds both programs, with the private funds earning additional revenue from membership fees.

Finally, Sweden has a national old age pension system. The national old age pension system underwent significant reforms in 1999, and today all persons in Sweden are guaranteed a pension at the retirement age of 65. Those who are employed contribute to the national pension system and are entitled to an income related pension. Time spent in the military or at home caring for children is counted towards this pension. Those who do not have a work history or who earned too little to be considered for the income related pension are entitled to a public guaranteed pension that is designed to ensure them a minimum standard of living. All workers are also required to contribute to a private savings fund of their choice to be used to supplement their public pension. In addition, while the traditional retirement age in Sweden remains at 65, persons can chose to retire as early as 61 years of age.

The Swedish Disability System

The primary responsibility for administering disability programs in Sweden lies with local social insurance offices, which are directed in policy matters by the National Social Insurance Board. The National Social Insurance Board is a part of the Ministry of Health and Social Affairs and is responsible for supervising all social insurance programs in Sweden. In addition, the National Social Insurance Board is responsible for keeping all data and statistics related to social insurance programs and with assisting in the evaluation of these programs. Each county has its own social insurance office and social insurance committee that is responsible for the day-to-day administration of all programs and the processing of applications. Directors of these local offices are selected by the national government; however, they maintain independence from the national board, and their offices, and the benefits they provide, are financed by grants from the national government. Each local social insurance committee is made up of elected members. Many of the local social insurance offices operate satellite offices throughout their counties.

We present below different components of the Swedish disability benefit system: the sickness compensation program, the means tested programs, the insured programs and other public supports for persons with disabilities.

Sickness Compensation in Sweden

The Swedish sickness compensation program is designed to provide short-term benefits to those unable to work because of a temporary illness. This program, which is a combination of employer provided benefits and public compensation, was established in 1991 by the Sick Pay Act.

If a person is unable to work because of illness, she is entitled to certain compensation. If the person has worked for at least 14 days for an employer before the sickness period, the employer is responsible for paying sickness benefits after a one-day waiting period and for the next 21 days. This sickness benefit is calculated as 77.6% of the previous salary up to a ceiling of 7.5 times the price base amount. Those who are self employed, or who have not worked 14 days for an employer are paid the same benefits from the government.

If a person cannot return to work after 22 days, the employer stops paying her sickness benefit, and she is transferred into the public benefit program. Under this program, sick persons are paid 77.6% of their prior salary. However, persons who are able to partially return to work may receive a partial benefit of 75%, 50%, or 25%. This public sickness compensation program is run by the Swedish Social Security system.

The sickness benefit program is designed to be only temporary. However, there is no formal time limit on the receipt of benefits. After a period of one year, the local social insurance office will usually review the case and recommend that it be transferred into the appropriate disability compensation system. However, current data shows that the typical sickness benefits recipient has been receiving benefits for over 500 days.

The local social insurance office determines the eligibility of persons for the sickness program. After the 21 days of employer benefits, for the first seven days of public benefits a person need only declare themselves unable to work or only partially able to work. After seven days, the person must present a medical certificate from a doctor, and her case is reviewed by the local social insurance office for a final decision. If an applicant is dissatisfied with this decision she can ask for reconsideration and then appeal this decision. This decision can be appealed first

to the County Administrative Court, then to the Administrative Court of Appeal, and finally to the Supreme Administrative Court.

Table 2: Data on Sickness Benefits, 2002

Number eligible for benefits (registered, insured, and age 16-64)	5,637,551
Number of awards this year	756,000
Number receiving benefits this year	892,680
Average duration of benefits in days	538.2
Number of recipients transferred to disability compensation programs	54,025

Means Tested Programs

Income related activity compensation. One component of the Swedish disability income system is Income Related Activity Compensation. In order to qualify for this program an applicant must be between the ages of 19 and 29 and meet an income standard. The income standard is based on a complex formula involving the "price base amount." The price base amount is an amount set by the Swedish government under the terms of the National Insurance Act of 1962 and indexed to inflation. This amount serves as the standard for many income based social programs. The price base amount for each year is set on January 1st. The price base amount for 2004 is 39,300 SEK, up from the 2003 amount of 38,600 SEK.[39]

In order to determine eligibility for the Income Related Activity Compensation, an average of a person's annual income for their three highest earning years of the last eight years, or their two highest earning years of the last three years, is taken. The method of averaging that grants the highest level of compensation is used. This average income figure cannot exceed 7.5 times the current price base amount. For 2004, this income ceiling is set at 294,750 SEK.

An applicant must demonstrate some disability to qualify for the Income Related Activity Compensation program. The first step in this process is the completion of an official application

[39] SEK (Sweden Kronor) is the basic unit of currency in Sweden. Sweden rejected the Euro in a nationwide referendum in 2003.

and the submission of a certificate of disability from a physician of the applicant's choice. The decision of whether to grant benefits is ultimately made by the local social insurance committee after a recommendation from the local social insurance office.[40]

When examining an application for Income Related Activity Compensation benefits, the social insurance office and committee are required by law to find objective medical grounds for a person's inability to work, and only in exceptional cases can they include factors such as education and location. A person must be unable to make a living through work or have their work capacity decreased by at least 25% to qualify. The social insurance office is aided by a team of "insurance doctors" who review the medical records and offer consultations but who do not make eligibility decisions themselves. The social insurance office may require that an applicant undergo further medical examination in order for her application to proceed.

If an applicant is dissatisfied with the decision of the social insurance committee, she can appeal to the County Administrative Court. This primary appeal must be within two months of the original disposition and can be settled immediately by the social insurance office if they feel an obvious mistake has been made. Appeals of the County Administrative Court's decision are heard by one of the four regional Administrative Courts of Appeal. The Supreme Administrative Court, the highest administrative court in the country, hears appeals of these regional court decisions.

Award amounts in the Income Related Activity Compensation program are based on previous income and the amount of work related impairment as judged by the social insurance committee. If a person is judged to be totally incapacitated and unable to work, she will receive a full amount that equals 64% of the average previous income used for her application.

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[40] A full discussion of these offices can be found later in this chapter.

Participants can also receive 75%, 50%, and 25% compensations that are equal to the relevant percentage of the full compensation amount.

For example, a person aged 28 who earned 235,800 SEK in each of her three highest previous years and who is determined to be 50% disabled will receive an annual compensation of:

[235,800 (64%)] * 50% = 75,456 SEK

In addition to this amount, the person would be eligible to work the equivalent of half time at a job. Even those determined to be fully disabled can do volunteer or political work or work at a job for no more than the equivalent of 1/8 time.

The Income Related Activity Compensation program is limited to those aged 19 to 29 and is designed to be a temporary program. The maximum time any person can receive benefits is three years. At the conclusion of the three-year period, a person can reapply for benefits.

Income related sickness compensation. The Income Related Sickness Compensation program is open to those above the age of 30 and below the age of 64. At 65, all persons transition into the retirement program. This program is means tested, and much like the Income Related Activity Compensation program, the maximum income level is largely based on formulas involving the price base amount. Income qualification for this program is based on an average of the highest three years of annual earnings in a given time period. This time period is based on the age of the applicant as follows:

Age of Applicant	Length of Time Period
30-46	8 years
47-49	7 years
50-52	6 years
53-64	5 years

Thus an applicant who is 51 years old would use the highest three years income of the last six years to determine her eligibility for this program. Similar to the Income Related Activity Compensation, the maximum average income permitted is 7.5 times the price base amount, or 294,750 SEK.

The application process for the Income Related Sickness Compensation program is similar to that for the Income Related Activity Compensation. Applicants begin with an official application to their local social insurance office, accompanied by a certificate from their doctor. This material is reviewed by the local social insurance office and, if necessary, the local insurance doctors, and recommendations are made to the local social insurance committee. The committee can either make the final decision or require additional medical exams. Decisions of the local social insurance committee can be appealed, first to the County Administrative Court, then to the regional Administrative Court of Appeal, with a final appeal possible to the Supreme Administrative Court.

The local social insurance committee determines the amount of the compensation based on the amount of work related incapacity suffered by the applicant. Award amounts can be full, 75%, 50%, or 25% and are based on the full award amount of 64% of the average income used in the determination process. A person with a full award can still work in community service, political, or volunteer work and may hold a job up to the equivalent of 1/8 time.

Insured Programs

Guaranteed activity compensation. Similar to the Income Related Activity Compensation program, the Guaranteed Activity Compensation program is designed only for those between the

ages of 19 and 29. This program is not means tested; however, in order to qualify, one must be covered by the social insurance program for some time prior to application.

In order to receive the Guaranteed Activity Compensation, one must have lived in Sweden for at least three years prior to the application for benefits. In certain circumstances, immigrants from other nations can apply time in residency in their previous country to their qualification for the Guaranteed Activity Compensation.

The application for the Guaranteed Activity Compensation program is similar to the process for the means-tested programs. Applicants file their own doctor's certificate and are evaluated by the local social insurance office and committee, which makes the final decision. The committee may consult insurance doctors, and the committee can require additional medical examinations. Appeals of the committee's decisions are heard first by the County Administrative Court, then the regional Administrative Court of Appeal, with a final appeal possible to the Supreme Administrative Court.

The amount of compensation for a full award is based on the age of the applicant according to the following table:

Age of Applicant	Amount of Compensation	2004 Amount
19-20	2.10 times the Price base amount	82,530 SEK
21-22	2.15 times the Price base amount	84,495 SEK
23-24	2.20 times the Price base amount	86,460 SEK
25-26	2.25 times the Price base amount	88,425 SEK
27-28	2.30 times the Price base amount	90,390 SEK
29-30	2.35 times the Price base amount	92,355 SEK

Awards can be given in the full amount, or in 75%, 50%, or 25% amounts, based on the amount of incapacitation. Persons can work the equivalent of the amount they are not ruled incapacitated. For example, person receiving a 75% award can work up to the equivalent of 25% of time, and persons receiving full awards can do volunteer and other work and can work at jobs up to the equivalent of 1/8 time.

The Guaranteed Activity Compensation Program is designed to be a temporary program and benefits are limited to three years. At the conclusion of the three year period, a person can reapply for benefits.

A person may also qualify for the Guaranteed Activity Compensation Program if she is over the age of 18 and still attending either elementary or high school because of her disability.

Guaranteed sickness compensation. The Guaranteed Sickness Compensation program is open to most Swedish residents who are at least 25% incapacitated. There is no means test for this program; however, persons must meet certain insurance and residency requirements. The Guaranteed Sickness Compensation program is open to those above the age of 30 who have not yet reached the age of 65. At 65 years of age, persons are eligible for the retirement system.

In order to qualify for a full compensation award, a person must meet certain insurance requirements based on residency in Sweden. If a person became disabled before the age of 18, she is automatically qualified for the program. For all others, a formula is used to calculate the total number of insured years based on the number of years the person lived in Sweden prior to application, and the number of years she has remaining until age 65. For example, a person who is 35 years old and has lived in Sweden for the last five years would have a total of 35 insured years under this system. Five of those years are for the time before application, and 30 are for the time after application and until retirement age. In order to receive a full compensation amount

under the Guaranteed Sickness Compensation Program, a person must have a total of 40 insured years. For those with less than 40 insured years, the full amount is reduced by 1/40 for each year below 40. The full amount is 2.40 times the Price base amount. In 2004, the full amount is 94,320 SEK.

The amount of compensation is also based on the amount of incapacitation as judged by the social insurance committee. Awards can be full, 75%, 50% or 25%. The following table provides some examples:

Number of Insured Years of Applicant	Amount Incapacitated	Formula	Amount of Compensation in 2004
40	75%	39,300 (75%)	29,475 SEK
30	100%	(30/40)*39,300	29,475 SEK
30	75%	(30/40)*[(75%)39,300]	22,106.25 SEK

As in the other programs, those receiving a partial benefit can work up to the equivalent of their incapacity, and those judged to be fully incapacitated can do political and volunteer work and be employed up to the equivalent of 1/8 time.

The application process for the Guaranteed Sickness Compensation Program is the same as for the other programs. Applicants get a certification from their doctor and present that to the local social insurance committee. The committee rules on the application with the recommendation of the social insurance office, which may use the consultative services of Insurance Doctors. The committee can require that applicants submit to further medical examinations. Applicants can appeal the decisions of the social insurance committee to the

County Administrative Court, the regional Administrative Court of Appeal, and the Supreme Administrative Court.

Table 1: Data on Guaranteed and Income Related Activity and Sickness Compensation, 2002

Number eligible for benefits (registered, insured, and age 16-64)	5,637,551
Number of disability pension awarded this year	63,738
Number awarded full benefits	43,021
Number awarded partial benefits	20,717
Number awarded ¼ benefits	4,728
Number awarded ½ benefits	14,189
Number awarded ¾ benefits	1,800
Total number of current disability benefit recipients	488,552
Number of current full disability benefit recipients	371,536
Number of partial disability benefit recipients	117,016
Number receiving ¼ benefits	22,083
Number receiving ½ benefits	82,850
Number receiving 2/3 benefits	980
Number receiving ¾ benefits	11,103
Number of beneficiaries terminated in 2002	36,882
Number moved to retirement benefits	28,954
Number died	5,019
Number withdrawn for other reasons	2,503

Offset Rules

It is possible for a person to qualify for both the Income Related Activity Compensation and Guaranteed Activity Compensation Programs, or for both the Income Related Sickness Compensation and Guaranteed Sickness Compensation Programs. In such cases, if the amount of the Guaranteed Compensation award is larger than the Income Related Compensation award, the Guaranteed Award is reduced by the amount of the Income Related award. In cases in which the Income Related award is larger than the Guaranteed Award, the Guaranteed Award is forfeited and only the Income Related award is earned.

Rehabilitation and Return to Work Efforts

Return to work efforts for those receiving Activity Compensation and Sickness Compensation are minimal. All return to work activities are administered by the employment office, which coordinates efforts with the social insurance office. However, it is the general policy of the employment office to deny employment services to persons with less than ½ time capacity for work, thus excluding many of those receiving Activity and Sickness Compensation.

There is, however, a special return to work program for those receiving a 75% disability compensation in the Sickness Compensation program. Persons in this program can request that their local social insurance office notify the employment office at the time of the award and request a part time job. The employment office is required to respond to this request within six months, and if a part time job is accepted, the social insurance office pays some of the salary for a limited time.

There are also special activity programs for those receiving Activity Compensation. Persons in this program are given the opportunity to participate in certain activities determined by the social insurance office to improve their physical or mental capacity. The social insurance office covers any costs involved in participating in these activities.

The primary responsibility for providing rehabilitation and return to work services to those receiving sickness benefits lies with the employer. Under terms of the Social Security Law, employers must review all cases in which their employees have been out of work for four weeks to determine what possibilities exist for vocational rehabilitation. This review must be completed within four weeks and is sent to the social insurance office.

Based on this report and on a seven-step model, the social insurance office develops a plan of vocational rehabilitation services for the recipient. The case of the recipient is reviewed

according to these criteria to determine which course of rehabilitation, retraining, or job placement is appropriate. Each step is reviewed, and if the recipient is unable to complete that step, the next step is reviewed. If the recipient reaches Step Seven and is deemed permanently incapacitated, she is moved into one of the permanent or temporary disability programs. These steps are outlined below:

1. Can recipient work at previous job?
2. Can recipient work at previous job after vocational rehabilitation?
3. Can recipient work at another job for same employer?
4. Can recipient work at another job for same employer after vocational rehabilitation?
5. Can recipient work at another available job?
6. Can recipient work at another available job after vocational rehabilitation?
7. Is the recipient's work capacity permanently reduced?

If a recipient enters a vocational rehabilitation program, her sickness benefits are suspended and she receives a special rehabilitation benefit of 80 percent of her previous income. In addition, the social insurance office covers any costs or fees associated with the vocational rehabilitation (including necessary materials such as books) and any costs associated with transportation to the vocational rehabilitation program.

A recipient may also receive up to 50,000 SEK to cover work aids and facility improvements necessary to for her to return to her previous job. Decisions regarding this benefit are made by the social insurance office with the goal of removing persons from the sickness benefits program.

Other Public Supports for Persons with Disabilities

As one of the world's leading and model welfare states, Sweden offers a wide range of services and supports for persons with disabilities in addition to the compensation programs mentioned above. These services are provided by local municipal governments, county governments, and the national government.

Municipal government supports

- Public transport services, including taxi fare or vehicle adaptation
- Home adaptation services
- Organized daily activities
- Assistance and accommodation in public services
- Personal assistance

County government supports

- Housing assistance
- Technical devices and aids
- Interpreter services
- Counseling services

National government supports

- Building of new apartment complexes specifically for persons with disabilities
- Grants to employers to adapt workplaces
- Grants to employers to cover part of the salary of workers with disabilities
- Sheltered employment
- Day centers for persons with mental disabilities
- Disability allowance for those over 19 who need personal assistance or who bear costs due to their disability
- Assistance allowance for those who need personal assistance to perform everyday activities
- Car allowance for those who need their own specially adapted motor vehicle
- Benefits for work injuries
- Allowance for housing
- Vocational rehabilitation services
- Housing supplement for pensioners is also available for those receiving Activity Compensation or Sickness Compensation
- Dental care
- Drug cost control program

Reform of the Disability Systems

The Swedish disability compensation system underwent significant reforms in 2002 that resulted in the creation of the four compensation systems in use today (Kruse (2003)). The genesis of these reforms was the end, in 1991, of nearly 50 years of post-war full employment that Sweden had enjoyed. The economic crisis forced the government to make drastic cuts in a variety of welfare services and led to calls for reform of these programs. The goal of reform was to ensure the long-term stability of welfare programs in a changing world that would soon see the fall of communism and the Soviet Union, as well as the creation of the European Union.

The first round of reforms occurred in 1999 and changed the public pension system in Sweden. The new pension system requires the contribution of employees and pays out benefits based on earned income over ones lifetime. In addition, time spent out of the workforce serving in the Swedish armed forces or caring for children counts towards the final retirement pension. The new pension system also includes compulsory personal savings accounts for workers and a flexible retirement age ranging from 61 to 65. All persons in Sweden have a statutory right to work until the age of 67.

The pension reform movement continued with the 2002 creation of the Guaranteed Sickness and Activity Compensation programs and the Income Related Sickness and Activity Compensation programs that now cover all Swedish adults unable to work because of disability. Prior to 2002, those who had temporary disabilities that were expected to last longer than one year received benefits from a temporary disability pension. Those who were judged to be permanently unable to work were given benefits under the permanent disability pension system.

The transition from the older system to the new compensation programs has largely been without problems, and there has been little change in compensation amounts. In addition, those

receiving benefits prior to the January 1, 2003 transition were not required to reapply and were automatically transferred into the appropriate new program. The only problems that have arisen have dealt with a tax increase that has affected participants in different programs differently and has caused some participants to lose money after the transition. The effects of this tax system are currently being investigated by the legislature.

Conclusion

Sweden does offer a comprehensive range of welfare benefits to all of its citizens, including those with disabilities. For those who's disabling conditions are likely to keep them out of work for only a short time, Sweden offers a sickness benefit program that provides wage replacement paid for initially by the employers and then by the government.

Sweden is unique in that it provides different types of benefits to adults with disabilities based on their age. Disabled adults who are under the age of 30 may qualify for a special Activity Compensation program which awards them benefits as well as provides them opportunities to engage in activities, such as sports, that are likely to augment their physical rehabilitation efforts. Adults over the age of 30 may qualify for a more traditional disability pension scheme. Disability pensions may be granted on a full or partial basis. Sweden offers only minimal return to work services to disability pensioners. The primary responsibility for rehabilitation and return to work lies with the employer and while there are some public programs and the ability to receive public money for expenses incurred, these efforts are limited compared to other nations in this study.

Sweden has recently undergone a major overhaul of its public pension system, including disability pensions, with a view to ensure the long-term stability of the welfare system. Some of

the programs described in this chapter were recently established or modified as part of these reforms. It remains to be seen if these reforms will result in reduced disability benefit rolls and increased return to the workforce.

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Chapter 12

The Disability Benefit System of the United States

Scott Szymendera

Summary: This chapter provides an overview of the major disability income programs in the United States including state Temporary Disability Insurance programs, Social Security Disability Insurance and Supplemental Security Income. Other relevant public programs including the Social Security retirement program and the Medicare and Medicaid programs are also covered. In the United States, there are no statutory provisions for sickness benefits at the federal level, but five states (California, Hawaii, New Jersey, New York and Rhode Island) have introduced them. Except in these states, "sick pay" is provided voluntarily by the employer or is a part of the collective bargaining agreement negotiated by the employer and its unions. In addition, every state has a no fault workers' compensation system that requires employers to pay for lost wages and medical care associated with employment-related injuries and illnesses. At the federal level, the Family and Medical Leave Act in the United States guarantees that persons who stop working because of sickness, disability, or caring for a sick relative, will be able to return to their job after their absence. The United States has two public disability programs that provide cash benefits and some medical coverage to those deemed totally unable to work because of a disabling condition. The Supplemental Security Income program is a means-tested program that provides benefits to persons with disabilities who fall below certain income and asset thresholds. The Social Security Disability Insurance program provides benefits to persons with disabilities who are unable to work but who have a work history and who have paid taxes to fund the program. Both programs are permanent programs that offer no provision for partial benefits and only allow a minimum level of work while in the program. Participants in the Supplemental Security Income and Social Security Disability Insurance programs may receive return to work services from their home state Vocational Rehabilitation program. State rehabilitation agencies are reimbursed by the federal government for these services only if they are successful at returning a person to sustained employment. Generally, participation in these programs is low and has historically yielded little success. The new Ticket to Work program allows disability program participants to shop for privately provided return to work services paid for through a federally funded voucher. Though just begun, early data show very little use of these vouchers by participants.

As a federal republic with a long tradition of yielding policy-making authority to the individual states, the United States has a complex network of public programs that make up its disability policy. Historian Edward Berkowitz observed, "America has no disability policy. It maintains a set of disparate programs, many emanating from policies designed for other groups, that work at cross-purposes" (Berkowitz, 1987). Persons with disabilities in the United States are

not guaranteed any type of benefits and often must navigate a series of federal and state programs to determine what types of benefits to which their physical and economic condition entitle them.

The role played by some state programs such as Temporary Disability Insurance will be discussed, but this chapter will largely focus on national disability programs administered by agencies of the United States government.

Temporary Disability In the U.S.

Temporary Disability Insurance benefits are provided by employers in the United States. Temporary benefits provide for salary replacement, often partial pay, for a 6 to 12 months period. Benefits are calculated as a percentage of an employee's earnings or as a flat dollar amount.

In the United States, there are no statutory provisions for temporary disability benefits at the federal level, but five states have introduced them. Except in these states, temporary disability benefits are provided voluntarily by the employer or is a part of the collective bargaining agreement negotiated by the employer and its unions. Workers may also buy individual disability insurance policies from insurance companies.

State Administered Temporary Disability Insurance. Five states (California, Hawaii, New York, New Jersey, and Rhode Island) as well as Puerto Rico, have state administered temporary disability insurance programs. In Hawaii, Rhode Island, and New York, all employers are required to participate in the state program. In California and New Jersey, employers may be exempted from the program if they offer a comparable private insurance program to their employees.

In each state, cash benefits are paid for a fixed duration ranging from 26 to 52 weeks and according to statutory guidelines, which are based on prior earnings. Each state has a several-day waiting period before benefits can begin and requires a level of previous work and income to qualify for benefits. Benefit costs are paid from a public fund in Rhode Island and from a combination of public and private insurers in the other four states. Program costs are paid by employee contributions. TDI benefits are generally only paid in the absence of an SSDI or SSI stipend.

Temporary Disability Insurance coverage. Based on the Employer Benefit Survey for 2002-2003 (BLS, 2005), short-term disability insurance covers 37% of private sector employees and is more likely to be provided in medium and large establishments than in small firms.

Based on CPS data for 1993, Levy also finds that temporary disability benefits are more prevalent for highly educated workers, full time and prime-aged workers (26 to 64 years old). Levy also finds that there does not appear to be a clear trend in rates of private disability insurance coverage, which suggests that "in contrast with employer-sponsored health insurance, there is no cause for concern that private disability insurance coverage is eroding over time". However, a troubling result is that workers without health insurance are also likely to lack private disability insurance coverage. Levy's findings suggest that lacking private disability insurance is another important component of the ongoing debate on the "uninsured", which so far has focused on individuals without health insurance.

Unpaid Leave. At the federal level, the Family and Medical Leave Act became law in 1993 and provides many employees with the opportunity to take time off of work without pay to care for

an injured or sick family member, or to seek treatment for their own serious condition. Leave may also be taken to care for a newborn or newly adopted child. There is no requirement that the injury or illness used to qualify for this leave occur in the workplace or be in any way related to work. Employees are eligible for 12 workweeks of leave in each 12 month period.

All public agencies at the local, state, and national level are covered by this law, as are all private firms that employ 50 or more employees for at least 20 workweeks in a year. Employees must have worked for an employer for at least 12 months and at least 1250 hours during those months in order to qualify for leave. Certain key employees deemed essential to the operations of a firm may not be entitled to return to their previous job after their leave period. Based on a survey conducted in 2000, Waldfogel (2001) finds that 16.5% employees took leave under the Act, and the employee's own health was the most commonly mentioned reasoned for taking leave, only 7.8% of employees who took leave reported that it was because of maternity or disability.

Workers' Compensation. If the injury or illness that causes the need for leave occurred during the course of employment and is covered by workers' compensation, special rules apply. An employer may use covered workers' compensation leave to substitute for leave under the Family and Medical Leave Act, and time away from work due to a work injury can count against the 12 weeks of leave provided. Each state has its own system of workers' compensation that guarantees most workers coverage for medical costs and lost wages due to employment-related accidents or illnesses.

Permanent Disability Programs: SSDI and SSI Overview

The two largest disability programs in the United States are the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs. These programs are each funded and administered by the Social Security Administration (SSA), an independent federal agency headed by a commissioner who is appointed by the president with the approval of the Senate. The SSA commissioner serves a fixed six-year term that is designed to insulate her from politics and the general election cycle. SSDI is an insured program that requires past work to qualify, while SSI is a means-tested program that requires that participants fall below income and asset thresholds.

The Disability Test. SSDI and SSI both use the same basic disability test to determine who is eligible for program benefits. Neither program allows for partial benefits, nor short term benefits. Program participants are expected to be unable to perform any work that exists in the national economy and to have a disabling condition that will last longer than one year. Disability decision making for the SSDI and SSI programs is done at the state level in accordance with national policy. The disability test is administered by the Disability Determination Service (DDS) in the applicant's home state. The DDS is a state agency funded by the SSA and charged with making decisions based on policies established by the SSA. While there is considerable evidence that disability decisions vary by state, in theory, decisions should be consistent nationally, despite being made by independent state agencies not under direct federal control.

After an initial application to either the SSI or SSDI program has been taken at a Social Security Field office, over the phone or via the internet, state DDS employees conduct a five step

disability test. The first step in the protocol is a work test. The current work status of applicants is determined. In order to qualify for SSI or SSDI, an applicant must not be currently working at or above the Substantial Gainful Activity (SGA) level of $810 per month[41] or $1350 per month for those that are blind. If current earnings average more than the SGA amount, a person is denied entry into the program. If a person is not earning at or above SGA, their case moves to the second step in the process. An applicant cannot be accepted into the SSI or SSDI programs after this first test, but can have their application denied if it is found they are earning above the SGA level.

The second step is a test of the severity of the disabling condition. In order to qualify for SSI or SSDI, an applicant must have a condition severe enough to interfere with the basic activities needed for work. If an applicant's condition is judged to be severe enough to interfere with basic work activities, that applicant's case is moved to the third step in the process. If the condition is determined to not be as severe, the applicant is ineligible for the SSDI program. As is the case for the first test, an applicant cannot be accepted into the SSI or SSDI program solely on the basis of this second test. However, if she fails to meet this test because her condition is judged to not be severe, her application will be denied.

The third step is a medical listings test. The SSA maintains a listing of disabling conditions deemed so severe that if an applicant is facing one of these, she is automatically placed into the SSI or SSDI program. If an applicant is facing a condition not on this list, the DDS examiner will attempt to determine if the condition is as severe as a listed condition. If such a match can be made, the applicant is placed into the SSI or SSDI program; if not, she moves on to the fourth step. This third step differs from the first two in that a person can be accepted into the SSI or SSDI program based on the results of this test. However, if the applicant fails this test

[41] Unless otherwise specified, all benefit levels and program regulations are current as of 2004.

because of a condition that is not found in the medical listings, her application is not denied but is rather moved to the fourth step.

The fourth step is the previous work test. During this step the applicant is evaluated to determine if she could perform the type of work she did before becoming disabled. If an applicant can perform such work, that applicant's claim is denied. If it is determined that the applicant cannot do the work she did prior to becoming disabled, her case is moved on to the final step.

The fifth and final step in the process is a more comprehensive work test. During this step, the applicant is evaluated to determine if they could do any work that exists in the national economy. An applicant's skills, education, age, and experience all factor into this decision. If it is determined that an applicant cannot perform any other work that exists in the national economy, that applicant is placed in the SSDI program. If it determined that there exists some job that the applicant could work at, her claim is denied.

This process, from the time of the applicant's initial contact with the SSA and a final decision by the DDS, takes over 106 days according to data from 2001. An applicant that is denied entry into the SSI or SSDI program is entitled to appeal this decision. The initial appeal is a reconsideration by the state DDS. This decision can be appealed by the applicant to an administrative law judge. An administrative law judge is a judicial officer employed by the SSA, but who is expected to make independent decisions based on an interpretation of the law and federal regulations. During this hearing before the administrative law judge, the applicant may be represented by an attorney or representative, but the SSA is not represented, as this process is not considered adversarial.

The decision of the administrative law judge can be appealed to the SSA Appeals Council. Decisions of the SSA Appeals Council can be appealed to the United States District Court and, like all decisions of this court, these may be further appealed to the United States Court of Appeals and ultimately the United States Supreme Court.

SSI. The Supplemental Security Income (SSI) program is the primary means-tested component of the United States disability income system. SSI benefits and administrative costs are paid out of the general revenue of the United States and are provided by the general income tax. The Social Security Trust Fund, which will be discussed later in this chapter, is not affected by the SSI program, as no program costs or benefits are drawn from this fund. Both children and adults can qualify for SSI benefits.

SSI is a means-tested program, and in order to receive benefits, a person must both have a disability and meet the income and asset limitations test. The basic income test requires that a person have unearned income of less than $584 per month. A couple can have unearned income of no more than $866 per month. Unearned income includes money taken in from interest, government payment programs like Social Security, and money from pensions and workers' compensation. While there is no formal limit on earned income from wages, money earned from work in a given month is deducted from the SSI payment according to the following formulas:

- The first $20 of earned or unearned income in a month is exempt from counting against the SSI payment
- If a person has both earned and unearned income in a month, one half of all earned income after the first $65 is counted against the SSI payment

- If a person has only earned income in a month, one half of all earned income after the first $85 is counted against the SSI payment
- Tax refunds, capital gains, and benefits from certain small, specific government programs are not counted against the SSI payment
- Blind or disabled children under the age of 22 may earn up to $1340 per month up to a ceiling of $5410 per year that is exempted from counting against the SSI payment

In addition to the income test, SSI has a test of resources to measure the value of a person's assets. An individual cannot have assets of more than $2000, while a couple may not own assets of more than $3000. The primary place of residence and the land it is on is exempt from this calculation, as is one car. In addition, life insurance policies valued at less than $1500 per person are exempt, as are burial plots and burial funds of under $1500 per person. Assets from some small specific government programs are also exempt.

All persons in the SSI program receive the same basic monthly stipend. Once a person is accepted into the SSI program, she is entitled to receive a monthly cash benefit of $564 for individuals and $846 for a couple. This amount is reduced by wages earned during that month according to the formulas used in the income test and can also be modified by in kind support and maintenance payments as well as living and parenting arrangements. Fourteen states and the District of Columbia pay a state supplement to SSI recipients, which increases the total amount of their monthly stipend. These supplements vary but are highest in California, where a disabled SSI beneficiary can receive up to $790 per month and a couple in the SSI program can receive up to $1399 per month. In addition to the fourteen states with their own automatic supplements, 30

states run supplemental programs that require a separate application and adjudication process to receive additional benefits.

There are no medical benefits provided as part of the SSI program. However, receipt of SSI, in most cases, results in eligibility for Medicaid. SSI Recipients can apply for the federal Medicaid program if they meet their state's income and asset tests, or Medicare if they meet the minimum age requirement of 65. In addition, SSI participants may also qualify for the federal Food Stamp program or other public welfare programs such as Temporary Assistance to Needy Families (TANF). A separate application is usually required to each of these public welfare programs.

SSDI. Social Security Disability Insurance (SSDI) is the primary insured program providing cash and medical benefits to persons with disabilities who are unable to work. SSDI is administered by the SSA, and all benefit costs and administrative expenses are paid out of the Disability Insurance Trust Fund. The Disability Insurance Trust Fund is one of two trust funds, along with the Old Age and Survivors Trust Fund, managed by the United States Department of Treasury for the purposes of funding Social Security benefit programs. Employees and employers fund the trust fund through payroll taxes authorized under the Federal Income Contributions Act (FICA) and the Self Employment Contributions Act (SECA). Money from the trust fund is used to pay out benefits immediately, and any unused money is invested in government securities. The Old Age, Survivors, and Disability Insurance Trustees, appointed to manage the trust funds, estimate that by 2018, outlays from the funds will exceed income, and that by 2042 the trust funds will be exhausted.

There is no means test for the SSDI program. In order to qualify for benefits, an applicant must be insured for the program. Insurance for the program comes from the payment of taxes under the FICA or SECA programs. Not all jobs in the United States are covered by these programs, and employees in jobs that do not pay FICA or SECA taxes are not authorized to participate in the SSDI program. Those who have paid FICA or SECA taxes are considered insured if they have accumulated a minimum number of credits before the onset of their disability. One credit is earned for each $900 in covered wages earned in a given year. The minimum number of credits needed to qualify by age is listed in Table 1.

Table 1: Credit Rules for the SSDI Program

Age	***Minimum Number of Credits***
18-24	6 earned in the previous 3 year period
24-31	Number of years after age 21 multiplied by 2 (i.e. if 27, then 12 credits needed)
31-42	20 in the last 10 year period[1]
44	22, 20 of which must have been in the last 10 year period
46	24, 20 of which must have been in the last 10 year period
48	26, 20 of which must have been in the last 10 year period
50	28, 20 of which must have been in the last 10 year period
52	30, 20 of which must have been in the last 10 year period
54	32, 20 of which must have been in the last 10 year period
56	34, 20 of which must have been in the last 10 year period
58	36, 20 of which must have been in the last 10 year period
60	38, 20 of which must have been in the last 10 year period
62 or older	40, 20 of which must have been in the last 10 year period

Once a person is accepted into the SSDI program, they are entitled to begin receiving benefits in the sixth month after the onset of their disability as determined by the DDS. The monthly cash stipend paid to SSDI recipients is based on their prior earnings and number of credits at the time of application. In 2002, the average monthly SSDI stipend for new participants in the program was $898.

After 24 months in the SSDI program, recipients are qualified to receive Medicare Part A benefits, which cover hospitalization, at no cost. Medicare Part B benefits to cover doctors and

outpatient services can be purchased for the standard monthly premium of $78.20. The 24 month waiting period is waived for SSDI recipients with amyotropic lateral sclerosis (Lou Gehrig's Disease).

An SSDI participant may work while in the program but may not earn above the SGA level. If an SSDI participant earns above the SGA level in a given month or above a service level that is less than SGA, that month is counted as part of the trial work period. During the trial work period, an SSDI recipient can earn any amount of income and still receive their full SSDI benefits (SSA (2004)). SSDI recipients are entitled to one trial work period of no more than 9 months during their enrollment in DI. These months do not have to be in succession but are counted if they occur during a rolling 60 month period. At the end of the trial work period, the beneficiary has a three-year *extended period of eligibility* during which benefits are withheld for those months when earnings are above the earnings limit. Medicare Part A coverage continues during that period. If during the Extended Period of Eligibility, earning drop below SGA, benefits may be immediately restored. For a period of five years after benefits cease due to work, a beneficiary may be immediately reenrolled in DI if they are unable to work because of their condition. Once the extended period of eligibility is over, the person is terminated from the SSDI rolls.

Return to Work Efforts. Participants in the SSI and SSDI programs are entitled to utilize the return to work services of state vocational rehabilitation (VR) agencies. If state VR agencies are successful in returning a participant to work at above the SGA level for longer than the trial work period, the VR agency's costs are reimbursed by the SSA. SSI and SSDI recipients are not required to participate in any VR or other rehabilitation programs.

In 1999, Congress passed the Ticket to Work and Work Incentives Improvement Act. This law allows SSI and SSDI recipients in selected states to receive a voucher that they may use to secure return to work services from a state VR agency or a private provider. If the agency or provider accepts the voucher, they will be reimbursed by SSA for any services provided to the recipient if the recipient finds a job earning above SGA for longer than the trial work period. Partial payments to vendors are also available if a beneficiary reaches certain employment milestones. The Ticket to Work program was implemented in three phases, with 13 states joining the program in February of 2002, 20 states joining in November of 2002, and the remaining 17 states joining in November of 2003.

SSDI and SSI recipients who incur certain work expenses related to the disability may be able to deduct the amount of these expenses from their monthly earnings used to determine if they are under SGA. This allows persons with such expenses to work at a level above SGA without any penalty. Participants may also set aside certain expenses if they are part of a defined Plan for Achieving Self Sufficiency. If a plan is in place, expenses used towards the employment goals of that plan may be deducted from the amount used to determine benefit eligibility. Similarly, if a DI or SSI beneficiary has an Individual Development Account with money set aside for training or education, the amount contributed to this account does not count against their eligibility.

The SSA has also funded a variety of demonstration projects to test various additional forms of return to work supports for DI and SSI recipients. In the 1990's, the SSA instituted Project Network, which provided DI, and SSI recipients with intensive employment-focused case management services as well as the State Partnership Initiative project in which the SSA worked with select states to develop comprehensive return to work programs. Currently SSA is planning

demonstration projects that would provide some benefits to DI applicants, provide medical only benefits in some cases, and allow for a gradual reduction of benefits when earnings exceed SGA.

Continuing Disability Reviews. A beneficiary may be terminated from the SSDI due to return to work following the completion of a trial work period and the extended period of eligibility and also after being assessed as having recovered as part of a continuing disability review. After deciding that an individual has a disability, SSA is required under the Social Security Disability Amendments of 1980 to evaluate the impairment to determine whether or not the disability continues. To fulfill this obligation, SSA conducts a Continuing Disability Review (CDR), which may lead to terminations from the rolls.

During a CDR, the beneficiary is asked to provide information about any medical treatment he or she has received and any work he or she might have done. A team comprising a disability examiner and a doctor will determine whether the person is still disabled and should stay on the rolls. If they decide that the person is no longer disabled and is to be terminated, benefits stop three months after the beneficiary is notified of the termination (SSA (2004)).

Other Related Public Programs in the United States

Unlike several countries covered in this study, it is important to note that there is no universal health insurance coverage in the United States. However, there are two public health insurance programs, Medicaid and Medicare, that may provide insurance for persons with disabilities who meet specific eligibility criteria.

Medicaid. Medicaid is a federal program that provides medical benefits, including prescription coverage, to persons who fall below certain income and asset tests. The Medicaid program is

jointly funded by the states and the federal government, and while it is a federal program, each state has its own rules for eligibility. In general, eligibility for Medicaid is restricted to individuals and families with low income or a small amount of personal assets. In some states, persons with disabilities who are otherwise not qualified for Medicaid may purchase coverage through the state. While state Medicaid benefits do vary, there is a minimum level of care required by the federal government. In order to receive federal Medicaid matching funds, states must provide coverage for inpatient and outpatient hospital services, physician services, dental services, pediatric care, laboratory and x-ray procedures, and adult care at home or in a nursing facility.

Medicare. Medicare is the primary public medical insurance and coverage program for older Americans with a work history and SSDI beneficiaries. Most American's pay into the Medicare trust fund through payroll taxes. Medicare is available to all American's over the age of 65 as well as those participating in the SSDI program after a two-year waiting period and those with end stage renal disease who require kidney dialysis.

Medicare has two major components, Part A and Part B. Part A covers hospitalization, care in a skilled inpatient nurse facility, and some home health care. For those who have paid into the system for at least 40 quarters, there is no annual premium for Part A coverage. Those who have paid into the Medicare system for less than 40 quarters, but more than 30 pay a monthly premium of $206, while those with less than 30 quarters of payments pay a monthly premium of $375. For each period of hospitalization, a Medicare participant is required to pay $912 for up to the first 60 days of care, $228 per day for days 61 through 90 of a hospital stay, $456 per day for days 91 through 150 of a stay, and the full daily hospital rate for all days over

150 that they are under hospital care. Treatment in a skilled nursing facility that lasts between 21 and 100 days is charged to the Medicare participant at a rate of $114 per day.

Medicare Part B covers a substantial portion of the costs of doctors' visits and services, outpatient hospital care, some home health care, and durable medical equipment. All persons must pay $78.20 per month to receive Part B coverage. For all services covered under Part B, the recipient pays 20% of the Medicare approved amount after a $110 annual deductible. Medicare recipients enrolled in both Part A and Part B can also purchase special "Medigap" insurance that pays for some of the out of pocket expenses not covered by Medicare.

Medicare recipients who do not have private prescription insurance coverage can purchase a Medicare Drug Card that gives them discounted prices on certain drugs. This card costs $30 per year and this fee is waived for those with low income. Low-income card holders also get an automatic $600 annual credit that they can use to purchase discounted drugs on the card. When the credit runs out, they can still access the discounted drug prices with their card.

Beginning in 2006 Medicare will offer a new prescription coverage program. This program will cost $35 per year and Medicare will pay 75% of the price of all drugs after a $250 annual deductible and up to $2,250 per year. The recipient will pay the full price of drugs after the $2,250 threshold is met and until their out of pocket expenses reach $3,600 per year. Medicare will pay 95% of all drug costs over $3,600 in a given year. This new plan will be privately administered and recipients will have choice of program providers.

Old-Age and Survivors Insurance. The SSA administers the Old-Age and Survivors Insurance (OASI) program, which is the primary general pension program in the United States. OASI is funded by FICA and SECA taxes, and only those who have earned credits for working in

covered occupations are eligible to receive benefits. In general, at least 10 years of covered employment is necessary to collect benefits. Monthly benefit amounts are based on previous income and number of credits.

Retirees may begin to collect benefits at the age of 62 but cannot collect full benefits until they reach the full retirement age of 65, 66, or 67 depending on their year of birth. Retirees may work after the full retirement age and collect full benefits and are automatically enrolled in the Medicare program. OASI benefits are available for the spouses, dependents, and survivors of retirees.

Other Public Welfare Programs in the United States

The United States does not have as large of a social welfare system as other industrialized nations. There is no guarantee of health coverage in the United States, and there is no one general welfare program that covers all low-income individuals.

The primary general welfare program is Temporary Assistance to Needy Families (TANF), which provides time limited cash benefits to mothers with children or families who fall below state specified income thresholds. TANF is financed by the federal government through block grants to the states, and each state may establish its own eligibility and benefit rules. In each state, benefits are limited and some work, job training, or educational activity must be engaged in for a minimum of at least 30 hours in order to qualify for benefits. Benefits can not exceed 60 months in a recipients lifetime. Some states have additional general welfare programs that cover a broader group of individuals and that have less stringent time and work requirements.

Persons with limited means in the United States may qualify for reduced price housing through their state or local housing authority, which administer programs largely funded by the federal government. Low-income individuals and families may also qualify for the federal Food Stamp program, which provides coupons or electronic benefit cards for limited purchases of food items from approved retailers. Food Stamp recipients must meet work or training requirements similar to those found in the TANF program. Pregnant women and those caring for children may also qualify for the Women, Infants, and Children program which provides vouchers to pay for certain food products deemed essential for the health of children.

Each state in the United States participates in the federal unemployment program to provide limited cash benefits to those unable to find work or unemployed through no fault of their own. The unemployment system is financed through employer taxes and some agricultural or self-employed workers are not covered. Recipients must be actively looking for work while they collect benefits and must agree to accept any suitable job that is offered to them. In most cases, unemployment benefits expire after 26 weeks, but in some cases states or the federal government may extend benefits for longer periods.

Some states have additional public welfare programs including, but not limited to, additional medical coverage programs, cash benefits, housing benefits, education benefits, and job training and placement benefits. These programs are funded and administered by each individual state, and each state is free to set their own eligibility requirements and benefit amounts.

Conclusion

With South Africa, the United States is the only country in this study that has no government administered or mandated sickness program. Those absent from work because of disability, or care for a relative, are guaranteed a job upon return under the Family and Medical Leave Act. Payment for wages lost due to missed work is generally left at the discretion of the employer. However, several states have mandatory Temporary Disability Insurance programs that provide short-term benefits.

Benefits for persons with disabilities in the United States are largely provided by the Social Security system through the Disability Insurance program and the Supplemental Security Income program. Neither program offers time limited disability benefits and neither offers any partial disability benefits. While some work is permitted, significant work above an earnings limit will disqualify a person from receiving benefits. Until recently, return to work and rehabilitation services were mainly provided by state Vocational Rehabilitation programs which use federal funds to provide a wide range of services. Under the Ticket to Work program, however, Disability Insurance beneficiaries may now use government provided vouchers to pay for private sector return to work services. Persons with disabilities may also access other benefit programs including public health care programs (Medicaid and Medicare), voucher for food through the Food Stamp and WIC programs, and cash benefits through state administered TANF programs.

Overall, the size and scope of the disability benefit system in the United States is limited compared to other countries in this study. Yet, the United States also has to deal with the growth of its disability benefit programs. To that end, several demonstrations were recently announced

in the areas of disability determination and return to work for the Disability Insurance and Supplemental Security Income programs (Barnhart (2003)).

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Appendix: Questionnaire

"Learning from Others" Questionnaire January 2004

Country:
Population:
Size of Labor Force:

Name of Respondents:
Title:
Address:

Telephone:
Email:

Disability Benefits

1. **Please specify the names of the existing disability benefits program. (If there is more than one program that provides disability benefits, please fill out a questionnaire for each program.)**

2. **Which agency in the government administers this program? Is this agency a cabinet level department/ministry, part of a cabinet level department/ministry, or an independent commission? How is the director of this agency chosen?**

3. **What are the basic benefit amounts for an applicant who is adjudged to be fully, completely, or totally disabled? Please explain how these amounts are determined or calculated (i.e., as a percentage of prior wages, or according to a flat rate, or by some other formula). If benefits for dependents are paid, please explain how these are calculated.**

4. **Describe how benefits are indexed and the frequency of that change (i.e., through wage inflation, cost inflation, etc.).**

5. **How are benefit amounts for full, complete, or total disability affected by a person's employment status? Please explain and include any earnings limits for beneficiaries.**

6. **In addition to basic cash benefits, list and explain other monetary and non-monetary benefits or allowances that are generally available to persons with disabilities (i.e., extra cost of disability allowances, other allowances, tax credits).**

7. **Describe the steps involved in applying for disability benefits. Include in your response a description of the disability determination process and the methods used to evaluate disability applications.**

8. **What is the average length of time from application to final decision on benefits? (Please complete only if data is readily available.)**

9. **Describe the appeals process available for applicants who are denied benefits.**

10. **Describe the types of reintegration or return to work services that are available to disability benefits recipients.**

11. **Explain any process that is undertaken to review the disability status of recipients while they are receiving benefits.**

12. **Does this program include a provision for partial benefits?**

13. **What categories of disability are used for partial benefits (e.g., 25%, 50%, 75%)?**

14. **What percentage of partial benefit recipients are employed in addition to receiving benefits?**

15. **What are the advantages, if any, for the government in your country to have a partial benefits program?**

16. **What are the specific problems with this partial benefits program?**

17. **What efforts have been made to evaluate the partial benefits program in your country? Please provide the reference(s).**

Temporary Disability Benefits

18. This section of the questionnaire relates to temporary benefits provided to persons with disabilities. Briefly describe the nature and administrative structure of the temporary disability benefit program in your country. This includes government mandated sick leave and short-term disability programs.

19. Which agency in the government administers these programs? Is this agency a cabinet level department/ministry, part of a cabinet level department/ministry, or an independent commission? How is the director of this agency chosen?

20. What are the basic benefit amounts for the temporary disability program? Please explain how these amounts are determined or calculated for a beneficiary. If sick leave and short-term disability benefit amounts differ, please discuss them separately. If benefits for dependents are paid, please explain how these are calculated.

21. In addition to basic cash benefits, list and explain other monetary and non-monetary benefits or allowances that are available to persons in this program (i.e., extra cost of disability allowances, other allowances, tax credits).

22. Please specify and explain any restrictions on a temporary disability beneficiary's earnings or employment.

23. Other than having a disability, what are the conditions of eligibility for receipt of temporary disability benefits? Discuss whether a record of contributions or employment in covered industries is necessary. Are there citizenship, residency, or other requirements?

24. Persons may cease to receive temporary disability because of medical improvement, employment, transferring to the long-term disability program or unemployment benefits, or other reasons. Please explain the processes by which receipt of benefits ceases, or by which recipients transition to other benefit programs.

25. What obligation does a temporary disability beneficiary have if he or she cannot return to a previous job? An example of such obligation may include looking for a job, accepting a job offer, etc.

26. What are the penalties if a temporary disability beneficiary refuses to return to a suitable job?

27. Is there a definition of "suitable job"? If so, please specify.

28. Describe the steps involved in applying for and receiving temporary disability benefits. Include in your response a description of the temporary disability determination process and the methods used to evaluate disability applications. If sick leave and short-term disability benefit programs differ, please reply for each program.

29. What is the average length of time from application to final decision on temporary disability benefits? (Please complete only if data is readily available.)

30. Describe the appeals process available for applicants who are denied temporary disability benefits. If sick leave and short-term disability programs differ, please answer for each program.

31. Describe the types of reintegration or return to work services that are available to temporary disability recipients. If sick leave and short-term disability programs differ, please answer for each program.

32. Explain any process that is undertaken to review the disability status of recipients while they are receiving temporary disability benefits? If sick leave and short-term disability programs differ, please answer for each program.

33. What are the advantages, if any, for the government in your country to have a temporary disability benefits program?

34. What are the specific problems with this temporary disability benefits program?

35. What efforts have been made to evaluate the temporary disability benefits program in your country? Please provide the reference(s).

Data Tables

Part I. Disability Benefits.

Please fill out the following data table for the last year for which complete data is available.

Year	as at August 2003
I. Application and Award Data	thousands
A. Number of persons covered or eligible for disability benefits	
B. Number of applications	
C. Number of ~~awards~~ commencements	
1. Number awarded full disability benefits	
2. Number awarded partial disability benefits	
a. Partial disability assessment: 1-25%	
b. Partial disability assessment: 26-50%	
c. Partial disability assessment: 51-75%	
d. Partial disability assessment: 76-99%	
D. Number of denials	
II. Active Payment Status and Termination Data	
A. Number of disability beneficiaries in active payment status as at August 2003	
1. Full disability	
2. Partial disability	
a. Partial disability assessment: 1-25% [a]	
b. Partial disability assessment: 26-50%	
c. Partial disability assessment: 51-75%	
d. Partial disability assessment: 76-99%	
B. Number of terminated disability beneficiaries (including credits only)	
1. Moved to retirement/ old-age benefits 2. Death 3. Reintegrated into workforce 4. Medical improvement 5. Other	
IB terminations, excluding transfers to retirement pension, in quarter ending August 2003	
all persons	
certificate closed	
death	
by request	
failure to comply	
found not incapable of work	
return to work	

Part II. Temporary Benefits.

Please fill out the following data table for the last year for which complete data is available.

If sick leave and short-term benefits programs differ, a second table has been provided so that you may answer for each program. Please specify the program associated with each table.

Program Name:

Year	
I. Application and Award Data	
A. Number of persons covered or eligible for temporary benefits	
B. Number of applications	
C. Number of awards	
D. Number of denials	
II. Active Payment Status and Termination Data	
A. Number in active payment status	
B. Average duration of benefits	
C. Number who terminated	
1. Transferred to permanent disability benefits	
2. Moved to retirement/ old-age benefits	
3. Death	
4. Reintegrated into workforce	
5. Medical improvement	
6. Other	

Program Name:

Year	
I. Application and Award Data	
A. Number of persons covered or eligible for temporary benefits	
B. Number of applications	
C. Number of awards	
D. Number of denials	
II. Active Payment Status and Termination Data	
A. Number in active payment status	
B. Average duration of benefits	
C. Number who terminated	
1. Transferred to permanent disability benefits	
2. Moved to retirement/ old-age benefits	
3. Death	
4. Reintegrated into workforce	
5. Medical improvement	
6. Other	