

EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

1. As in many other OECD countries, sickness and disability policy in Norway Poland and Switzerland should be a key economic policy concern. Health-related problems appear to be posing increasing challenges to raising labour force participation rates and keeping public expenditures under control. All three countries have very high public spending on sickness and disability benefits compared to many other OECD countries. As elsewhere in the OECD, there is an apparent paradox that needs explaining. Why is it that health is improving, yet more and more people of working age end up out of the workforce claiming health-related income support? This report explores the possible factors behind this paradox, highlights the role of institutions and policies in explaining it and puts forward a range of reform recommendations aimed at improving the situation.

2. The essential problem in all three countries is that too little is done to avoid the flow from work to benefits and too little is done to move benefit recipients back to employment. At the same time, financial incentives to work and obligations for disabled workers as well as employers are too weak. The key policy challenges facing the three countries are summarised in the Table below.

3. Recognising the key role of policy in this field, all three countries have engaged in reform processes which go in the right direction. Poland and Norway have broadened their rehabilitation and employment policies considerably during the past twenty years, and Switzerland has followed a similar path recently, with further comprehensive reform pending. They have also started to modify their benefit systems, with a view to making access tighter while ensuring adequate coverage, putting a stronger focus on temporary entitlements and strengthening re-employment opportunities and incentives.

4. While these reforms are likely to help improve the effectiveness of the activation and integration approaches, this report shows that much more needs to be done. Efforts to curtail flows from work to benefits and to raise participation rates of those disabled people who wish to work are still insufficient in view of the outcomes in all three countries:

- In Norway, the inflow into disability benefits is particularly high, with no sign of a turnaround in the trend, and sickness absence is still twice the OECD average.
- In Switzerland, disability benefit inflow rates started to fall in the past two years after a long period of steady increase, but this fall will not be sufficient to reduce the stock of beneficiaries.
- In Poland, the inflow into disability benefits has dropped sharply in the past six years, but substitution into other benefit schemes has been substantial, putting the long-run sustainability of the decline in inflows into disability in question.
- In all three countries, employment rates of people with disabilities continue to be low, especially in Poland, and much lower than those of non-disabled people.
- Employment rates of disabled people have even tended to decline recently, partly reflecting changes in the work environment and population ageing, but also due to policy itself.

Summary Table. **The magnitude of the sickness and disability policy challenge ahead and illustrative key outcomes related to those challenges in Norway, Poland and Switzerland, 2004^a**

<i>Seven key policy challenges and related key outcomes</i>	Norway	Poland	Switzerland
#1 Controlling incapacity-related public spending Public spending on sickness and disability benefits, in % of GDP	+++ 4.1	+++ 3.6	+++ 2.7
#2 Raising employment rates for people with health problems Employment rate of disabled people of working-age (percentage)	++ 44.7	++++ 17.6	+ 52.1
#3 Tackling income inequalities across different population groups Relative poverty of disabled people of working-age (percentage)	+ 5.4	+++ 10.3	++ 9.5
#4 Reducing the inflow into sickness and disability benefits Rate of inflow into disability benefit, in % of population at risk	++++ 1.1	+ 0.4	++ 0.5
#5 Addressing the increasing medicalisation of labour market problems Inflow into disability benefit due to mental problems (percentage)	++ 25.4	+ 16.9	+++ 41.0
#6 Raising the outflow from usually permanent disability benefits Rate of outflow from disability benefit into work, in % of stock	++++ 0.5	+++ 2.5	++++ 1.1
#7 Strengthening the coordination across different benefit schemes Rejected disability benefits, in % of all applications	++ 26.1	++++ 54.5	+++ 42.0

a) The scales should be interpreted as follows: + ... minor challenge; ++ ... moderate challenge; +++ ... substantial challenge; and ++++ ... very substantial challenge. *Relative poverty* is defined as the percentage of persons with incomes below 50% of the median income of the entire population. *Rejected disability benefits* are applications for a disability benefit turned down by the benefit administration due to non-eligibility.

Source: Authors' assessment. Outcome indicators are replicated from the various analytical chapters of this report.

5. The reform process is reaching a critical stage in all three countries. In Norway, the tripartite agreement on “inclusive workplaces” has come to an end, and the partners to the agreement have started to negotiate the next steps. In Poland, reform plans of the new government would do well to re-launch some of the proposals of the previous government in the context of public expenditure reform that were turned down by parliament. In Switzerland, a proposed fifth revision of the Disability Insurance Act is currently under discussion in parliament, with enactment scheduled for early 2008.

6. *Work needs to be put at the heart of sickness and disability policies*, not only because of the needs of the economy, but also reflecting social considerations – improving work opportunities is the best way to ensure that people on long-term sick leave or with disabilities have a chance to play the role in society to which they aspire. Such an approach may increase employment rates and reduce public spending, which further justifies a diversion of resources and public expenditures to achieve this end. The starting point of this report is that the objective of policy is to ensure that people with disabilities have the opportunity to play as full a role in society, and particularly in the labour market, as they are able. Policy discussions frequently focus on how to reduce the number of people on benefit. But the trouble with approaching sickness and disability policy from this angle alone is that it misses the point of view of people with disabilities themselves. Current policies often serve such people badly: they are trapped at the margins of society, excluded from work or else marginalised into special employment categories.

Challenges, recent reforms and policy options for Norway

The current situation in Norway

7. Despite a very good general economic and labour market situation, employment rates of disabled people in Norway are just under 45%, compared to 83% for the non-disabled population. This is a poor outcome, given the sizeable investments in vocational rehabilitation and training for disabled people. These efforts have been successful in ensuring that disabled workers have the same access to continued education and training and that they are evenly represented in all sectors of the economy, including the public sector. However, the high levels of inactivity and unemployment among disabled people have yet to be tackled.

8. Public spending on sickness and disability in Norway, at 4.1% of GDP in 2004, is more than twice the OECD average, and most of the spending is on benefits rather than measures that encourage welfare-to-work transitions and labour market inclusion. The proportion of workers moving onto sickness and disability benefits is among the highest in OECD countries. With a very high overall employment rate, today the largest part of non-employment among working-age people in Norway is due to health-related reasons. Raising employment and labour force participation rates further, which is essential in order to respond to population ageing and to maintain economic growth, therefore requires, first and foremost, that sickness no longer is the major reason for dropping out of the labour market.

9. A striking finding is that the Norwegian sickness and disability benefit system appears to contain many useful provisions, and yet outcomes and take-up are disappointing. For instance, there is an option for gradual re-entry from sickness into work and there is a very fine grid of partial disability benefits, but most people receive a full benefit. Further, a possibility to keep a disability benefit upon moving into work was introduced many years ago, but outflow from benefits into work is almost nil. Likewise, no other OECD country spends nearly as much as Norway in terms of vocational rehabilitation and training to avoid inflow into long-term benefit receipt, and yet the impact on re-employment chances is extremely limited.

10. The key challenge for Norway, therefore, is to understand better *why* the existing frameworks (which look good) are not delivering; if it is lack of enforcement and implementation, how to tackle this; and if it is wrong incentives, how to change them. Little is known about how the existing regulations and provisions available in the sickness and disability benefit system are being implemented by local actors, and how implementation of policies varies across the country. Related to this is a general reluctance to apply sanctions if a particular rule is not followed, although – more than in other OECD countries – sanctions for employers, doctors and beneficiaries do exist on paper.

Recent and ongoing reforms

11. Reform over the past five years in the context of a tripartite agreement between the government and the social partners aimed at changing workplace practices in the case of prolonged and repeated sickness and reinforcing the roles of doctors and employers. Workplace Centres were established which provide, free of charge, management advice to employers. In combination with some tightening of the sickness benefit scheme, these measures started to bite in late 2004 when sickness absence fell for the first time since the early 1990s. Amendments to the sick-pay scheme in that year included an evaluation of the functional capacity of the person on sick leave by a general practitioner (GP) after eight weeks of absence and stricter sanctions on GPs who do not comply with the new rules for absence certification. The timing of the decline in absence rates suggests that the regulatory amendments have played a key role in triggering this turnaround. However, there are worrying indications that this break in trend may not be sustainable.

12. Other recent or ongoing reforms have considerable potential which could materialise if followed up closely and implemented as intended. This is especially true for the introduction of *temporary* disability

benefits, aimed at tackling the permanence of benefit entitlements. Until 2004, disability benefits were always granted permanently, today temporary entitlements are granted to about one-third of all new claimants. This is a big change though still a low share compared with other OECD countries. This reform could turn into success if a considerable part of partial entitlements do not eventually become permanent ones. At this stage, however, the data suggest that an unintended effect of this reform could be an easing of entry into disability benefits.

13. Similarly, the ongoing merger of the Public Employment Service (PES) and the National Insurance Administration (NIA) and the creation of local labour and welfare offices, which offer integrated employment and insurance services and cooperate closely with local social assistance offices, has some potential to improve the efficiency and impact of vocational measures. However, the prospective benefits of this reform will only be reaped if the organisations in question succeed in establishing an effective one-stop-shop structure and in applying a work-oriented approach all over the country.

Key policy recommendations

14. Sickness absence in Norway is going to have to fall much further if the objective of the tripartite agreement of a 20% decline in absence rates compared to 2001 is to be achieved, and would have to fall much further to match the OECD average level. The problem of persistently high rates of inflow into disability benefits, partly a consequence of the high incidence of long-term sickness absence, also has yet to be tackled forcefully. The same is true for the disappointingly low employment rate of disabled people. Three problems in particular should be addressed in future reforms:

- The lenient assessment of disability benefit entitlements and the key role of GPs in this process.
- The failure of the costly system of vocational rehabilitation and training.
- The non-existence of transitions back into employment of recipients of disability benefits.

15. Addressing these issues means that measures and reforms will have to be matched by stricter obligations for the various actors and better-enforced sanctions in case of non-fulfilment. Moreover, a new balance is needed between better work incentives and tighter eligibility criteria. To achieve this and to bolster ongoing and planned reforms, this report makes a number of policy recommendations as summarised in Box ES.1.

Box ES.1. Policy recommendations for Norway

16. First, obligations on GPs and controls of their assessments need to be strengthened. While recent reform has introduced more obligations for GPs and has helped in turning sickness in the workplace from a private to a more openly discussed matter, there is hardly any control of GPs' new obligation to assess functional capacity and to investigate the potential of graded and active sick leave. Furthermore, the assessment of long-term disability still relies too much on GP's judgement (today, more than 80% of all disability assessments are prepared solely by GPs). Therefore, additional measures are required as follows:

- Frequent control of GPs' sickness assessments by social insurance doctors, as is common in many other OECD countries, and actual use of sanctions for non-fulfilment of duties in the form of (temporarily) losing the right to certify longer-term sick leave.
- A reduction of GPs' assessment and gate-keeping function in exchange for a strengthening of their guidance and assistance function, following the general practice in most OECD countries. Gate-keeping should be transferred to the NIA and its specialised social insurance doctors, with an increased involvement of vocational experts in the assessment process.

- More efforts should be made to make use of partial work capacity and to raise the share of *partial* benefit awards. The low proportion of partial benefit awards despite seemingly strict entry criteria for a full benefit suggests that medical assessments are too lenient.

17. Second, reform of the rehabilitation and training system should be carried out to identify and promote those measures that are successful, to correct the major weaknesses in the system and to improve targeting of rehabilitative measures. The following measures should be considered in this respect:

- Programmes should be better targeted to individual needs and be used more selectively. In particular, despite recent change, many programmes are still too long.
- Medical and vocational rehabilitation, which are under the responsibility of two different bodies, should go hand-in-hand. This requires better coordination and common objectives, including the goal to restore the person's work ability.
- Geographical and occupational mobility requirements are too weak and should be harmonised with those used in the unemployment benefit system.

18. Third, more should be done to raise the proportion of people on disability benefits who move to employment. Current barriers include the awarding of permanent and full benefits to most successful applicants, the limited possibility to combine a full benefit with labour earnings and the limited incentives for partial benefit recipients to increase their working hours. The following measures could help promote job prospects of recipients of disability benefits:

- Efforts should be made to reduce the share of permanent disability benefit awards further and it should be easier to review existing entitlements. Beneficiaries who were granted a temporary benefit should be followed-up and offered the support needed to return to employment.
- The same kind of attention in terms of follow-up and support should be paid to the increasing number of people whose application for a disability benefit was rejected.
- Work incentives for beneficiaries of a temporary or permanent disability benefit need to be improved. The higher benefit level for a temporary benefit entitlement should be aligned with that for a permanent benefit. The favourable tax treatment of permanent disability benefits in comparison to taxation of labour income should be removed. In-work payments for disabled persons taking up work or increasing their working hours should be considered.

19. Fourth, a number of measures should be taken to ensure good conditions for a successful merger of the PES and the NIA. This would help ensure that all persons with disabilities get the right service at the right time. These measures include:

- Governance of the merger could be improved by clearer guidelines for the institutions involved in terms of how to establish a joint front-line service successfully and how best to collaborate with the local social assistance authorities.
- Sufficient investments are needed in training for caseworkers of the new merged institution, and proper measurement of performance of local offices delivering the services in order to assess results and identify worst performers.

20. Fifth, improvements are also possible in the context of the forthcoming reform of the old-age pension system. There is a risk that, in the aftermath of the introduction of pension deductions for those retiring before the age of 67, more older workers will exit the labour market through the disability pension system. Good coordination of old-age pensions and disability benefits should be based on two principles:

- Full contribution payments by disability benefit recipients to the retirement fund, to ensure adequate old-age pension entitlements upon reaching the retirement age.
- Adjustment of the disability benefit formula to make sure that disability benefit does not exceed the corresponding early retirement benefit entitlement at the same age.

21. Sixth, the strong focus on employers and the workplace should be continued in order to strengthen the management of absences and avoid the *automatic* transfer from sick leave into long-term disability. More support and better incentives could be provided to employers to ensure that their new obligations are being fulfilled. Measures in these areas could include the following:

- Better guidance and information should be provided to employers by the newly established local Workplace Centres, including advice on workplace adaptations and rehabilitation opportunities.
- Non-fulfilment of the employer's obligation should be penalised, *e.g.* by increasing the period during which wage payments of sick workers have to be continued or by introducing higher co-payments or experience-rated premiums to the sickness benefit insurance for employers failing to meet their obligation. Such changes could be combined with a reduction in social security contributions for employers investing in sickness management and prevention.
- Eventually, if sickness absence fails to decline to acceptable levels, reducing benefit levels – from currently 100% of the previous wage for a full year – will become unavoidable.

--- End of Box ES.1. on Norway ---

Challenges, recent reforms and policy options for Poland

The current situation in Poland

22. In certain areas, the situation in Poland has improved very much in recent years. Inflow rates into disability benefits, which were higher than anywhere else in the OECD in the early and mid-1990s, have fallen to below the OECD average. In turn, the stock of disability benefit recipients has started to fall. Outflow rates from disability benefits are also higher than in most other OECD countries, including Norway and Switzerland, not least because most benefits are granted temporarily. These are important prerequisites for integration policies to be put in place more effectively.

23. However, Poland has extremely low levels of labour market participation of disabled people, with less than one in five in employment. The employment rate of disabled people has fallen further during the past decade, along with a further deterioration of their economic well-being. The take-up of vocational rehabilitation is practically nil. Instead, the traditional segregation approach is still dominant. As a result, more than four in ten of those disabled people who work are employed in Sheltered Work Enterprises, which are heavily subsidised. If in employment, disabled people tend to have part-time, temporary jobs or to work as self-employed or family workers. They are significantly over-represented in the agricultural sector and under-represented in the public sector.

24. The employment problems of people with disabilities can be partly explained by the overall poor labour market situation in Poland, characterised by high levels of inactivity and the highest rate of unemployment in the OECD. Further reform of sickness and disability policies, therefore, needs to be done in tandem with general labour- and product-market reforms aiming at making work pay, raising labour demand and encouraging a shift from informal to formal employment so that work can become a realistic option for persons with a disability.

Recent and ongoing reforms

25. Recent reforms were characterised by attempts to tighten entitlement to both sickness and disability benefits while at the same time strengthening the focus on medical and vocational rehabilitation. Stricter rules for the issuing of sickness absence certificates and more control of GPs' decisions, introduced in 1998, have led to a fall in absenteeism by around one-third. Similarly, reform in the disability scheme in 1999 resulted in one of the fastest declines in benefit inflow rates – by more than 60% over just five years – ever observed in the OECD. The key elements of this reform were a new disability assessment procedure (which now, like in most other OECD countries, focuses on the applicant's inability to work) and a more restrictive approach to granting permanent disability benefits.

26. It remains to be seen, however, whether this is indeed a sustainable decline. Over the same period, inflows of older workers into early retirement as well as inflows of younger workers into social pensions increased rapidly, and the unemployment rate increased as well. The incidence of new entries into the special disability benefit scheme for farmers has also declined rapidly, although this system has not seen any changes in regulations. This suggests that substitution factors, i.e. a growing number of people moving into welfare benefits other than disability in response to the tightening of the disability benefit regime, made the change less painful and therefore allowed it to go faster. This, in turn, could mean that, with the abolition of early retirement in the near future, there is a great risk that the declining trend in inflows into disability benefits could turn around again very soon.

27. To prevent this risk and to contain public spending, a comprehensive public expenditure reform was prepared in 2004, but parliament rejected it. This reform proposal included, for instance, a reduction in sick-leave compensation from 80% to 70% of the last wage; a reduction in the stock of disability benefit recipients through a re-evaluation of all pensioners under age 50/55 who had been receiving a pension for less than ten years; a strengthening of the monitoring and re-examination of recipients of a temporary disability benefit; and further steps to eliminate the more generous regulations in the special system for farmers. Since November 2005, however, to further reduce the attractiveness of labour market exit on the grounds of disability, *all* disability benefits are granted *temporarily*, typically for a period of three years, with the beneficiaries having to reapply upon expiration of the temporary entitlement.

28. In parallel to the rather effective tightening of the access into the sickness and disability benefit schemes, more possibilities were introduced for rehabilitation of benefit applicants. Due to the very low take-up, however, this change has had negligible impact. In addition, following Poland's accession to the EU, permanent wage subsidies – until then only available for workers in Sheltered Work Enterprises – became available to disabled workers in all companies. So far, this broadening has had little impact. The long-established and continued focus on sheltered work does not lead to greater integration of people into the mainstream labour market, because once in sheltered work, virtually no-one leaves it. It is not a stepping-stone to better things, but rather a dead-end, giving people a better standard of living and some purpose in life, but falling some way short of what should be the objective of policy.

Key policy recommendations

29. The failure of the effective tightening of the access to sickness and disability benefits to improve the employment rates of disabled people in Poland raises the question whether the whole system of employment support for disabled people needs more fundamental reform. Some of the elements of the current system may need to be abolished altogether or replaced by more effective instruments if a real change in policy and outcomes is to be achieved. In most cases, however, it should be possible to improve outcomes by eliminating the key weaknesses and bolstering the key strengths of the various systems currently in place. Change is therefore needed especially in two areas:

- The system of medical and vocational rehabilitation has not helped to improve the qualifications and skills of disabled people.
- The system of employment support fails to deliver the right supports at the right time.

30. Changes in those two key areas have to be supplemented by measures to streamline the sickness and disability assessment process further and by improving work incentives for benefit recipients. To this end, this report makes a number of policy recommendations as summarised in Box ES.2.

Box ES.2. Policy recommendations for Poland

31. First, the system of vocational rehabilitation and training needs to be strengthened. Without addressing the causes of the negligible impact of this system, improving outcomes in terms of higher employment rates and lower benefit dependence of disabled people will be very difficult to achieve. It appears that eligibility criteria are too strict, labour offices have inadequate funding, and people hesitate to enter – so far entirely voluntary – vocational programmes. These various aspects could be addressed through the following measures:

- Eligibility criteria for participation in vocational rehabilitation should enable and encourage early intervention. Restricting vocational services to people with a legal disability certificate who are registered as unemployed or jobseekers is too limited an approach.
- The supply of well-targeted, high-quality services should be increased, and a more individualised approach in providing these be implemented.
- If the supply of effective services is increased, some elements of obligation should be introduced, *e.g.* in the form of moderate benefit reductions for people refusing to participate in vocational rehabilitation.

32. Second, a more fundamental change is needed to improve the system of employment support. More generally, streamlining administrative structures and responsibilities might be necessary. The large number of players involved – social insurance institutions, the PES, the State Fund for the Employment and Rehabilitation of Disabled People (PFRON) and local governments – makes it difficult for a disabled person to get the right support at the right time. Future reform could include the following measures:

- Promoting a one-stop-shop philosophy and reinforcing the funding structure would help facilitate reintegration of disabled people. Local governments and their specialised assessment teams are best placed to assume this function. PFRON as an independent institution may be redundant in a reformed system.
- Governance of local labour offices, local governments and PFRON activities should be strengthened to improve employment outcomes for disabled people. Monitoring mechanisms should be introduced in combination with target setting to ensure that funds are used and policy instruments implemented as intended.
- The coordination between the PES, which offers re-qualification programmes, and the social insurance authority, which covers the costs of a training pension during this period, should be improved by giving the latter a supervisory role. One should also consider a change in the funding structure so that the PES would benefit financially from successful placements into paid jobs.

33. Third, reform is needed to reduce sickness absence and to maintain the current level of inflows into disability benefits after the forthcoming abolition of early retirement pathways. Further reform should streamline and improve assessment procedures. More precisely, measures could include the following:

- The responsibility for the entire disability assessment process should be transferred to the social insurance institutions. The current separation of assessments for pension purposes (done by the social insurance institutions) and labour market purposes (done by local government assessment teams) is confusing, inefficient and likely to contribute to labour market exclusion.
- Rules in the special system for farmers (KRUS) should be aligned with those in the general social insurance scheme, ideally leading to a re-merging of the two schemes over the medium term. In particular, this would require changes to the contribution regulations in the KRUS scheme and in the very narrow definition of disability as the inability to continue to work on one's own farm.
- Better use should be made of existing legal possibilities for controlling sickness absences of all durations, including the first 33-day sickness period during which wage payments continue to be paid by the employer, and penalising treating doctors who repeatedly assess "false" sickness.
- Policy should address the high proportion of benefit refusals and of successful appeals against rejected claims. As economic and non-economic costs of the latter are very high, more accurate decisions at the initial stage are important. Refused claimants should be followed-up in order to prevent this group from becoming benefit recipients at a later stage or falling into poverty.

34. Fourth, financial incentives to work should be improved to promote voluntary moves into the labour market by beneficiaries who are willing and able to work. This would be achieved by the following measures:

- A smoother phase-out of disability benefits with increasing wages, instead of the current abrupt jumps in the amount of benefit income, would eliminate uneven incentives to work. In addition, the possibility to try work in the regular labour market without immediately losing benefit entitlements should be introduced and encouraged by, for example, temporary in-work payments.
- Housing benefit should be reformed so that it does not create benefit traps and discourage work by beneficiaries of disability benefits, in particular, but more generally as well.

35. Fifth, better coordination is needed between the reformed old-age pension and the disability benefit scheme to avoid raising pressure on the latter in the aftermath of the upcoming phasing-out of early retirement schemes. To avoid spill-over effects to the more generous disability scheme, reforms along the following lines should be considered:

- Benefit levels should be harmonised to ensure that the disability benefit entitlement for a person at, say, age 60 comes close to the benefit level of the old-age pension at this age.
- A clearer separation is needed between disability benefits and old-age pensions. Regulations on contribution payments of recipients of a disability benefit to their own old-age pension accounts need to be put in place. At retirement age, disability benefit payments should be replaced by retirement payments in line with the person's contribution history.

36. Sixth, a number of measures are required to make wage subsidies as well as Sheltered Work Enterprises (SWE) more effective. In extending wage subsidies that are financed from levies on companies not fulfilling the 6% employment quota for disabled people to all companies, new challenges have arisen. If employment of disabled people were to increase as intended, the size of the fund would decline while spending on permanent wage subsidies would increase. Moreover, the strong focus on sheltered work has perpetuated the segregation of disabled workers and hindered their integration into the regular labour market. To correct these problems, further changes are needed which could include the following:

- Wage subsidies should be financed by taxes, like other public expenditure. Financing them through an earmarked contribution results in ineffective spending. In addition, were the spending to become effective, the result would be insufficient revenues to finance the expenditures.
- The still prevailing privileges of Sheltered Work Enterprises – such as the income tax refund for *all* employees in a SWE, including non-disabled employees – should be further reduced in exchange for raising the resources available for skill improvements.
- To safeguard sufficient resources for people with moderate and severe health conditions, phasing-out permanent wage subsidies over time for those with a light disability working in a Sheltered Work Enterprise could be worth considering.

--- End of Box ES.2. on Poland ---

Challenges, recent reforms and policy options for Switzerland

The current situation in Switzerland

37. Swiss policy makers are forced to act because, without further reform, the disability insurance fund as well as its current reserve fund will run into deficit in the foreseeable future. In contrast to other countries, the Swiss funding system does not allow balancing of deficits through increased government contributions. Thus, an increase in revenues is needed in order to balance the deficit accumulated in the past. In addition, very much like Norway, if Switzerland wishes to raise its future labour force potential in order to cope with the challenges of population ageing, it would have to find ways to keep people with health problems in work longer and, ideally, to re-integrate people with reduced work capacity into work.

38. In general, policy outcomes in Switzerland are rather mixed. Inflow rates into disability benefits are still below the OECD average, but they have been rather stable over time, thus contributing to a continuous increase in the stock of beneficiaries. Sickness absence is relatively low, but creating large problems for the disability insurance due to systemic weaknesses. Like in Norway, disabled workers tend to be more often unemployed and working part-time, but, at 52%, their employment rate is relatively high compared to other OECD countries. Average disability benefits have increased very fast in recent years, yet relative poverty rates among disabled people have increased as well.

39. A special problem in Switzerland, more widespread than elsewhere in the OECD, is the steep rise in mental illnesses as a cause of disability. Mental diseases have become the single most important reason for take-up of disability benefits, accounting for over 40% of all inflows. There is much controversy about the reasons behind this development, which seem to reflect the increasing “medicalisation” of labour market and social problems. But it also reveals weaknesses in the definition of disability and the assessment process.

40. Another special feature of the Swiss situation is the strong role of the private insurance market. Several parts of the social protection scheme fall under private insurance regulations, such as the sickness cash benefit scheme, and others, despite being mandatory, are administered by privately-run institutions, such as the second-pillar old-age and disability pension. Activities of these private players can be regulated to a certain extent, but not steered directly. The actions of these private players have a strong impact on the design and effectiveness of public policy.

Recent and ongoing reforms

41. After a long phase of policy stability, the reform process is gaining momentum. With the fourth revision of the Disability Insurance Act, a major first step in the right direction was made. The newly introduced regional medical services (RAD) provide a more objective and independent medical assessment

for the 10-20% most difficult cases, and force smaller cantons to collaborate with neighbouring ones. Together with the more frequent auditing of cantonal practices and the introduction of better monitoring systems, the new RADs are likely to have contributed to the fall in inflow rates in the past two years, even though this fall partly reflects an increased backlog. The impact of the provision of active job-placement services by the cantonal disability insurance offices remains to be seen.

42. Continuing reform along the lines of the planned fifth revision of the Disability Insurance Act, which aims to reduce annual inflows by 20%, will be important. The lack of intervention during the sickness phase and the late start of the reintegration process should be addressed. Tackling this through early identification of health problems to prevent long-term work incapacity, early and short-duration intervention to avoid job loss, and provision of new types of integration measures aimed at preparing people for subsequent measures is promising. The fifth revision of the Disability Insurance Act also aims to promote work incentives, but, given the importance of the issue, this part of the reform is too vague.

43. In addition to the planned and already implemented reforms, which predominantly focus on the role of the cantonal disability offices (CDO) in keeping people in work and away from benefit, it is increasingly recognised that some of the problems are related to the lack of coordination and cooperation between and across different parts of the social protection system. This recognition is reflected in the recent emphasis on inter-institutional cooperation (IIZ) of two kinds:

- IIZ, focusing on cooperation between the CDO, the PES and the social assistance authorities so as to avoid so-called “carousel effects”, where people move around or are being moved around between different benefit schemes; and
- IIZ PLUS, focusing on cooperation between the CDO, the sickness benefit insurers and the work injury and accident insurers so as to enable the disability insurance to intervene earlier.

44. Both initiatives have great potential, yet there is a long way to go in implementing and further improving these voluntary agreements if carousel effects and system inefficiencies are to be removed.

Key policy recommendations

45. Bringing people in contact with the disability insurance at an earlier stage through earlier identification of serious health problems is a promising approach targeting one of the key weaknesses in the Swiss system. However, incentives for various actors to make this approach work are insufficient. The impact of the planned reform could be greatly enhanced by introducing obligations for actors in contact with the sick person at an early stage. Three aspects are particularly important for future reform:

- Sickness benefit insurers have insufficient incentives and obligations to address problems.
- Employers have insufficient incentives and obligations to bring sick employees back into work.
- Greater use should be made of vocational rehabilitation and training.

46. In addition, future reform should continue to address work incentives, the coordination across different schemes and the governance of the cantonal disability insurance offices. In this direction, this report makes a number of policy recommendations as summarised in Box ES.3.

Box ES.3. Policy recommendations for Switzerland

47. First, a better balance is needed between obligations and incentives for private sickness benefit insurers. Since most people in Switzerland enter the disability benefit system after a period of sickness, the

performance of these insurers is crucial. Reform affecting sickness benefit insurers and GPs should include the following changes:

- Private sickness benefit insurers should be obliged to introduce sickness management and a system of sickness monitoring, because they do not bear the full costs of failing to address problems. This should include stronger controls of sickness absence certificates and better cooperation and exchange of information between GPs and insurance doctors.
- Individual case management recently introduced successfully by SUVA, the main accident insurer, could serve as a model for sickness management by insurers. Mandatory sickness benefit insurance for all workers should be introduced (though still run by private insurance companies) to ensure that all sickness absences are managed properly.
- Retrospective payments to the private sickness benefit insurer in case a person becomes entitled to a disability benefit should be abolished.
- GPs should be obliged to seek advice from occupational health services, which should give advice on workplace adaptations and rehabilitation opportunities. More support and training for GPs should be provided to improve their knowledge on insurance medicine.

48. Second, in addressing employers a balance will have to be sought between stronger obligations, better support and proper incentives. The recently introduced experience-rated premiums to the sickness benefit insurance is a strong incentive for employers to prevent long-term absences and disabilities in order to keep premiums low, though it may also result in stricter health screening in the recruitment phase. Further reform and adjustments are needed, which could include the following elements:

- Employers, who only carry some of the costs of unaddressed sickness, should be required to prepare a plan for the reintegration of their long-term absent employees, as has become common in several OECD countries, and to introduce a system of sickness monitoring.
- Employers should receive better support from medical and vocational specialists in managing absences. This type of support should be provided by the new agencies for early identification and assistance, which are planned to be introduced with the forthcoming reform.

49. Third, eligibility for rehabilitation should be widened to move the system from “rehabilitation before benefits” to “rehabilitation instead of benefits”. Take-up of vocational rehabilitation and training measures in Switzerland is relatively low. Eligibility criteria for vocational intervention probably go a long way in explaining this. Moreover, there is no use of vocational measures as a way of raising outflow from disability benefits. Therefore, the following changes should be made:

- Eligibility criteria for rehabilitation measures should be broadened to include people not entitled to a disability benefit but with health-related difficulties in the labour market, thus moving away from assessing the legal basis of a case to helping people back to work. In particular, more efforts should be made in integrating people with mental conditions into the rehabilitation system.
- The introduction of a “premature” disability assessment, planned to be put in place in parallel to the new early identification approach, should be reconsidered. This could further increase the problem of screening out of people who are not disabled according to the definition of the disability insurance but nevertheless in need of help.
- More focus should be put on offering vocational measures to re-assessed beneficiaries. Along these lines, a re-assessment of the very large stock of younger beneficiaries, who tend to have a much higher work motivation, should be considered. Some of the new short-duration measures might be particularly suitable for these people, who often suffer from mental health conditions.

50. Fourth, work incentives should be enhanced to raise outflows from disability benefits. OECD calculations show that marginal effective tax rates for beneficiaries taking up work are very high, especially for those with children. Plans in the course of the fifth revision of the Disability Insurance Act to improve financial incentives should be implemented soon and not be postponed to after the implementation of other elements of the reform. Among the possible changes are the following:

- The system of generous child supplements in the first pillar should be changed so that they do not create benefit traps and discourage work by beneficiaries. The level of these supplements should be reduced and consideration given to introducing a means-test, because these payments constitute an important part of resources of the lower-income population.
- The use of in-work payments and temporary benefit entitlement suspension should be considered for persons taking up work or increasing their working hours to increase the likelihood that beneficiaries able to work try to find another job.

51. Fifth, ongoing but voluntary inter-institutional cooperation across different systems and institutions should be strengthened. This could be done through the following measures:

- Rejected disability benefit applicants should be closely followed-up by the disability insurance to ensure that these people obtain the necessary support to be able to remain in or return to the labour market. The planned short-duration vocational measures aimed at preventing long-term disability should, where appropriate, be made available to rejected benefit applicants.
- To further promote successful cooperation between various institutions and insurances, it would be important to strengthen the legal underpinning. The approach taken by the canton of Solothurn is a model which other cantons should consider seriously. In this canton under a new law local one-stop-shops and a cantonal case-management-office were established with legally binding cost-sharing between the disability insurance, the unemployment insurance and the communities.

52. Sixth, governance of the disability insurance itself should be improved further. Currently, there is a mismatch between funding and responsibility mechanisms, with cantonal offices granting the benefits, while most funding comes from the federal level. Supervision and inspection of cantonal disability offices by the federal supervisory authority, thereby further promoting the harmonisation of practices across cantons, could be strengthened through the following measures:

- The federal authority should have responsibility for identifying best practice and publicising such practices across cantons. It should formally signal when a canton has poor outcomes and this appears to be due to failure to introduce best practices.
- Management through targets and indicators of effectiveness, as recently introduced for the PES, should be put in place for the CDOs as soon as possible, including sanctions for their non-achievement. Indicators should mirror the overall approach of the CDO and measure its success in terms of process duration and employment outcomes.

--- End of Box ES.3. on Switzerland ---

53. Last, but not least, all three countries lack rigorous evaluation of most of their regulations and instruments. Particularly important is better knowledge on which type of rehabilitation and employment programmes work, and for whom. But thorough evaluation is also needed for the employment quota scheme in Poland, the recently introduced temporary disability benefit in Norway and the new job placement efforts of the CDOs in Switzerland. Lack of evidence has led to bad policies being put in place in the past: neither the economies of the three countries nor people with disabilities can afford such mistakes being repeated in the future.