



OECD ECONOMIC SURVEY OF THE NETHERLANDS 2004:

REFORM OF THE SICKNESS AND DISABILITY BENEFIT SCHEMES

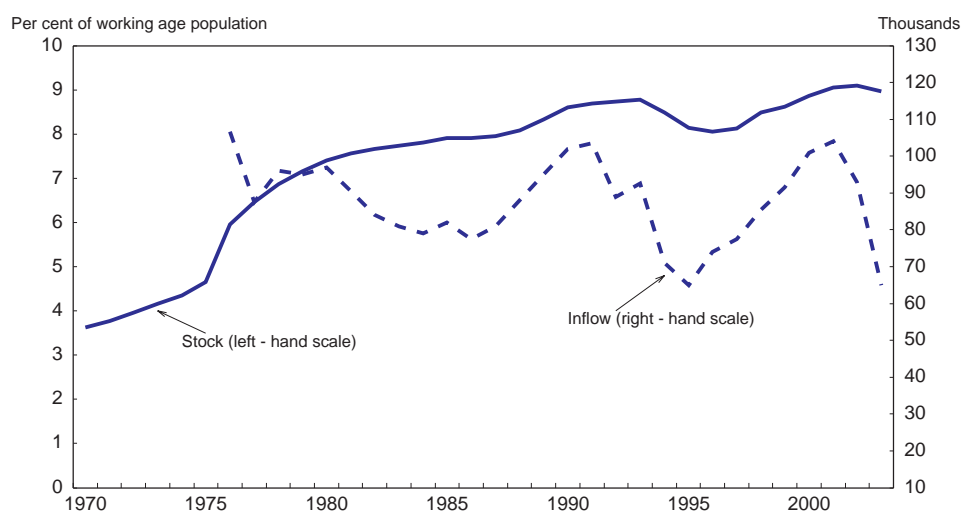
*This is an excerpt from the OECD Economic Survey of the Netherlands, 2004
from the section on reform of the sickness and disability benefit schemes, chapter 4*

A comprehensive reform of the sickness and disability schemes would have significant employment effects

Three decades of huge inflows and recent signs of improvements

There are almost one million persons receiving a disability benefit (DB) (9 per cent of the working age population), making this group the largest potential pool of inactive labour to be activated through social policy reform (**Figure 4.2**). The law on work disability (*Wet arbeidsongeschiktheidsregelingen*, WAO)¹ grants a disability benefit (DB) in case of a partial or full loss in earnings capacity regardless of the cause of this loss. The system has been reformed several times but without achieving a sustainable reduction in the number of beneficiaries. More recently, however, clear signs of improvement became visible. In 2003 the total number of beneficiaries fell for the first time in seven years. Inflows came down by one-quarter, reflecting a decline in sickness benefit (SB) take-up in 2002 that continued in 2003. Part of the decline is due to institutional improvements. First, a law on improved gate-keeping came into force on 1 April 2002, introducing stricter mutual obligations on reintegration efforts for employees on long-term sickness benefit (SB) and their employers.² Second, the five public DB agencies were merged into a single one, UWV (*Uitvoeringsinstituut Werknemersverzekeringen*), on 1 January 2002, reducing the influence of sector interests on the DB authority.³ Third, the effect of experience-rating in WAO premiums at firm level (Pemba), introduced in 1998, grew stronger as premiums became more and more differentiated for medium-size and large firms.⁴ However, the other part of the decline is likely to be cyclical. A cooling labour market usually leads to lower sickness numbers as employees fear losing their jobs. Moreover, inflow numbers also depend on societal debates on the disability problem (UWV, 2004b).

Figure 4.2. Disability numbers from an historical perspective



Source: CBS (2004) and UWV(2004b).

Policy challenges for a growing generation of partly disabled

The number of persons receiving a partial disability benefit (DB) took off during the nineties.⁵ Whereas the first wave of these typically withdrew from the labour market, more recently a new group of working recipients of partial DB has emerged and increasingly shaped the policy debate. In 1999 already 50 per cent of partial DB recipients were working (Thio and De Jong, 2002, p. 12), increasingly so with the same employer. The importance of partial DB has kept growing over recent years, especially among women and among persons in the second half of their working lives (**Figure 4.3**).⁶ As a consequence, providing the sick and their employers with strong reintegration incentives and an independent, high-quality disability assessment are obvious challenges for disability reform. However, as a precondition for successful reintegration, the benefit system should also become less attractive. According to a recent OECD study on disability policies in 20 countries (OECD, 2003a), the Netherlands is one of the most generous countries in terms of coverage and benefit levels, the two most powerful predictors for the incidence of DB across countries (**Figure 4.4**). Therefore, restricting the uptake of full DB to really severe cases, strict testing and barring access to partial DB for the mildest cases are additional core challenges.

Figure 4.3. Partial disability has kept growing

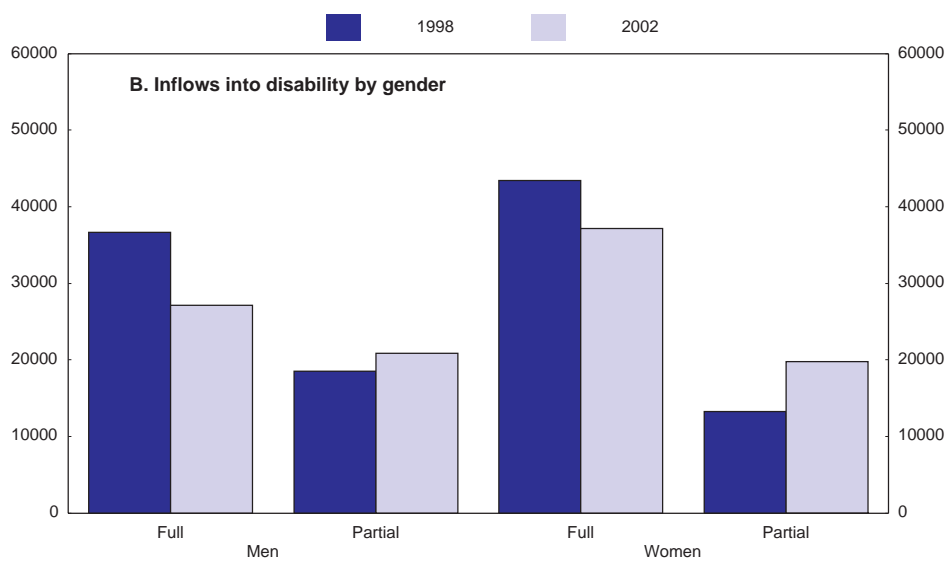
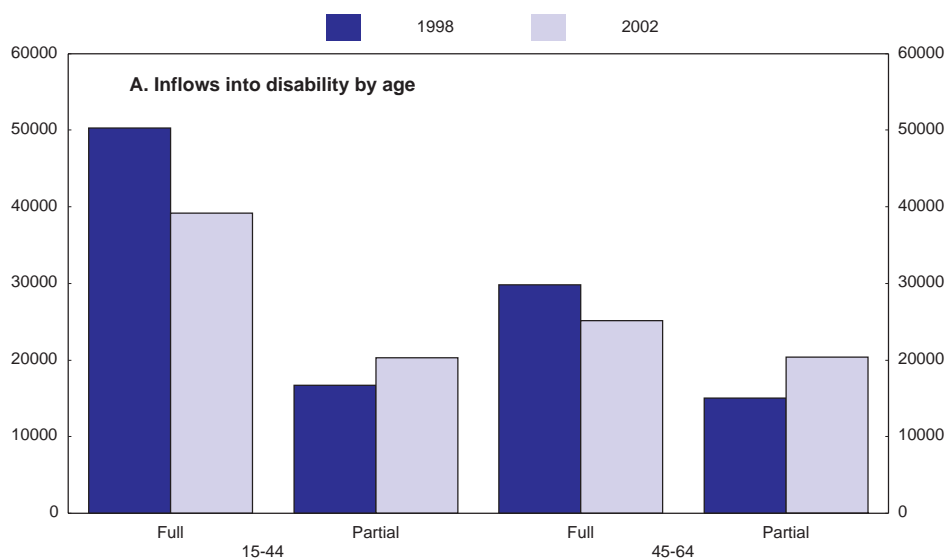
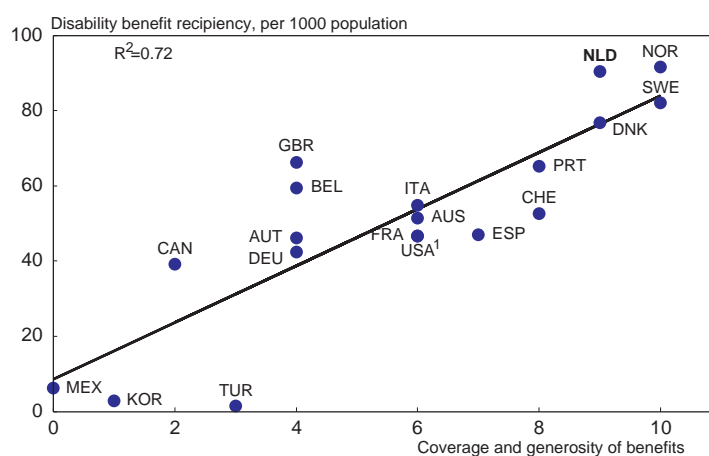


Figure 4.4 Coverage and generosity determine benefit reciprocity levels

Benefit coverage and benefit generosity 2000 vs benefit reciprocity outcome 1999



1. The scatter plot is the same value for the USA and FRA.

Source: OECD (2003f), p.135.

Current comprehensive reform proposals and the position of the social partners

To lock in the current broad consensus for tackling the disability problem the government has worked out and partly implemented a comprehensive strategy to meet the challenges outlined above, building on the Donner II proposals (*Adviescommissie Arbeidsongeschiktheid*, 2001). Apart from reducing access generosity, the objective is to mobilise labour supply among beneficiaries. In a first step this implies making the group of full DB recipients as small as possible. In a second step the resulting growth in partial DB recipients is to be channelled towards part-time work through financial incentives. The key elements of the reform to be introduced in 2006 are (MinSZW, 2003a, b, and 2004):

- Stricter medical definition of full disability and restriction to permanent cases; and
- Raising the minimum loss in earning capacity to qualify for partial DB from 15 to 35 per cent and making the level of the partial DB dependent on the use of the residual earnings capacity.

The duration of the sickness benefit (SB) period was extended from one to two years on 1 January 2004, implying that there will be very little inflow into the WAO in the year 2005.⁷ Moreover, the criteria for assessing still executable jobs will be made stricter. The authorities think it is necessary to reach a lasting consensus with the social partners on the reform in order to avoid the embedded labour participation incentives being distorted by voluntary benefit top-up agreements as in the past.⁸ In the tripartite Autumn Accord 2003, the social partners committed themselves not to top up the second year of SB and to work towards bringing down work disability inflows to below 25 000, the government's objective for 2006. If these conditions are met, the DB replacement rate will be increased from 70 to 75 per cent and the Pemba fine abolished. However, important issues have not yet been agreed. They are likely to be negotiated jointly and the results presented in a possible tripartite Spring Accord 2004. In March, the government finalised its reform plans, taking into account the advice of the Social and Economic Council (SER, 2004). Among other changes from earlier plans, this led to putting the introduction of a separate scheme for work injuries and occupational diseases on hold. It has also been decided to reassess the stock of existing DB recipients according to the new stricter rules⁹ but to leave the DB calculation and payment rules unchanged for them.

Access conditions to a full disability benefit are being tightened

Only fully and permanently disabled persons will have access to the new WAO. The definition of full disability continues to be an 80 per cent loss in earnings capacity. The remaining earnings capacity is based on the three best paid functions the applicant is still able to perform. A function will already be considered as being executable if only three jobs are available in that function (compared with seven jobs today)¹⁰. This implies that for many persons more better-paid functions can be taken into account so that the remaining earnings capacity is assessed to be higher, which reduces their measured degree of disability.¹¹ Furthermore, the assessment of whether or not a given job is feasible is becoming stricter.¹² This tightening of the all-occupation assessment mainly affects low-wage earners, the largest fraction of the WAO. The UWV, which will use the low-inflow year 2005 to reassess those beneficiaries most likely to be reclassified and found able to work, estimates at 50 per cent the share of today's full DB recipients that would be rejected under the new WAO (UWV, 2004b). Closing WAO access to temporary cases is also expected to reduce the inflow significantly given the current probability of 46 per cent of being reclassified partly disabled or found recovered within the first five years on full DB. The government plans to establish a list of average recovery durations for all the sicknesses assessed by gatekeepers (MinSZW, 2004).¹³ Persons with sicknesses lasting less than five years on average will not normally be allowed to enter the new WAO. With these decisions the government maintained its definition of "permanence" against the more lenient proposal by the SER of letting fully disabled persons with a "low chance of recovery in the long run" flow into the new WAO. On the other hand, the government made a major step towards the SER reform proposals by giving up the much stricter work capacity criterion¹⁴ in the definition of full disability. While according to UWV simulations both aspects of the SER proposal taken together would have cast doubts on bringing the number of new WAOers below 25,000 per year in 2006 (Table 4.1), maintaining the government's definition of permanence makes it likely that this goal will be achieved.

Table 4.1 Projected inflows into full disability under the SER proposal¹
Thousands of persons

	Low scenario ²	High scenario ²
Baseline	66	80
Second SB year and demography ³	-1	-2
Persons 15-35 per cent income loss	-13	-16
Persons with >35 per cent income loss	-15	-17
Fully disabled current definition	37	45
SER proposal		
Stricter all-occupation assessment ⁴	-0.3	-0.3
Fully disabled (permanent and temporary)	37	44
Share of persons judged permanently disabled ⁵	0.65	0.65
Fully and permanently disabled persons ⁶	24.2	28.7
2010	26.4	31.6
2020	29.5	35.6
No reform		
Fully and partially disabled in the WAO	65	78
2010	71	85
2020	81	97

1. Figures all refer to 2006 unless otherwise stated.

2. The low scenario takes the WAO inflows of 2003 as the basis, the high scenario averages inflows of 2002 and 2003.

3. The second year of SB is assumed to lower inflows by 15 per cent as many persons recover fully or partly during their first year in WAO. Demography almost offsets this effect as cohorts with a higher inflow probability grow stronger.

4. Effect of expecting a part-time worker to do more hours than in the past if he is able to do so in a new function. The planned relaxation of the definition of an “executable function” (three available jobs instead of seven), which would bring inflows further down, is not taken into account because the SER had not proposed it.
5. Under the government’s stricter definition of permanence the probability of being accepted in the new WAO is assessed to be 60 instead of 65 per cent.
6. Assuming an inflow probability of 60 per cent reflecting the government’s stricter definition of permanence would bring the number of fully and permanently disabled persons to 22.3 thousand persons in the low scenario and 26.5 thousand persons in the high scenario.

Source: UWV (2004b) and OECD.

A new scheme for the partially disabled, with stronger work incentives

A new Return-to-work scheme (WGA, *Werkhervatting Gedeeltelijk Arbeidsgeschikten*) is to be introduced for persons not found fully and permanently disabled who are no longer able to earn more than 65 per cent of the peer income of persons with comparable levels of education and work experience. Beneficiaries will receive a wage subsidy if they work and a benefit otherwise (**Table 4.2**). While the former covers 70 per cent of the difference between the old wage (up to a ceiling) and the new wage, the latter amounts to 70 per cent of the old wage during a first stage (duration of which is age-dependent, as for unemployment benefit) and to 70 per cent of the minimum wage times the loss in earnings capacity thereafter (“second stage”). This implies a 70 per cent withdrawal rate at the first stage but a strong work incentive at the second stage.¹⁵ For incomes between the minimum wage and the threshold for the benefit calculation, the wage subsidy at the second stage tends to be the more generous than today’s DB (excluding private top ups) the younger the beneficiary, the higher the pre-disability wage and the more severe the reduction in earnings capacity.¹⁶

Table 4.2. Partial disability benefit entitlements under the planned WGA^{1,2}

	First Stage ³	Second Stage
“Working” ⁴	0.7*(final wage ⁵ -new wage)	0.7*(final wage ⁵ -new wage)
“Not Working” ⁴	0.7*final wage ⁵	0.7*minimum wage*degree of disability

1. All wage concepts are on a daily basis.
2. At any stage, the beneficiary is entitled to a separate, partner-income tested supplement topping the household’s income up to the social minimum.
3. The duration of the first stage (0 to 5 years) depends on the beneficiary’s age and employment history.
4. At the second stage, beneficiaries are only classified as working if they use their residual earnings capacity to the full.
5. Medium wage from at least 30 jobs representing the three best paid functions the beneficiary could have got before becoming disabled (OECD, 2002 f, p. 172). The upper limit is € 37 000, around 2.4 times the minimum wage.

Source: Min SZW (2003d).

Employers have to cover the risk of partial disability under the WGA. They can choose between private insurance companies and the public insurer (UWV) or may even carry the risk themselves. In the public system premiums will be differentiated at the firm level to avoid that employers with a low-risk profile systematically opt out of the public system, making it expensive for the remaining firms.¹⁷ The government will investigate whether there is a need for mitigating differences in premiums during private insurers’ necessary capital build-up. Whether a claimant is covered by private or public insurance, benefit conditions are fixed and the UWV will remain in charge of assessing the degree of disability in any case. These decisions represent the outcome of an intensive debate on whether or not to fully privatise the insurance of the first five years of partial disability, as initially proposed by the government.¹⁸

Plans to introduce a new scheme for work injuries and occupational diseases have been put on hold

Following the advice of the SER, the government has put on hold plans to introduce a new scheme for work injuries and occupational diseases, the EGB (*Extra Garantieregeling Beroepsrisico's*). By creating the EGB the authorities wanted to give up the Dutch specificity of a single scheme for disability regardless of its causes. Another reason was that making the WGA benefit conditional on employment behaviour is difficult to reconcile with international agreements (ILO Treaty 121) in case of work injury. In most OECD countries the risk of work injury and the general disability risk are separated because they justify a different funding structure, whereby costs for work injuries are to be born by employers (OECD, 2003a, p. 168). As the aspect of compensation for damage adds to the income protection function, capacity reductions from work injuries are usually compensated already at a low minimum level of disability (**Annex 4.1**). Moreover, the government is concerned by the growing tendency of employees engaging in often long and costly court battles against their employers in case of injuries or diseases, which would become worse with tighter access to DB.¹⁹ The SER's counter-proposal consists of embedding the injury scheme as a system of specific top-ups to the new WAO and WGA while having the same basic benefit structure for occupational and other disability risks (new WAO DB for the fully and permanently disabled, and a minimum benefit or wage subsidy for the partly and fully but temporarily disabled).

Assessment

The government should implement the stricter criteria planned for full and permanent disability to ensure that the intended fall in inflows, which is plagued by huge uncertainties, is achieved. Medical assessment of "permanence" in disability cases is also subject to uncertainty, making it desirable to maintain the possibility of some periodic reassessment of beneficiaries. To reduce inclusion errors from assessing DB applicants as permanently disabled prematurely, a list of diseases considered as temporary and their average recovery periods should be established and enforced throughout the country, as proposed by the government. The planned extension of the all-occupation assessment represents a welcome adjustment to modern employment biographies that will be ever less confined to narrow functions and time slots.

A narrow and well-kept gate to the new WAO is also crucial for the success of the new partial disability scheme (WGA). The proposed benefit structure would provide for a stronger mobilisation of remaining work capacity among partial DB recipients. However, while work incentives in the WGA benefit are very positive in the second stage, they are weakened by a high benefit withdrawal rate in the first stage. Duration of the first stage should be shortened for persons in the second half of their carrier to prevent the WGA from becoming an alternative route to early retirement.²⁰ Moreover, since the scheme is still rather generous for those who work enough hours, there remains the risk of self-selection as recently diagnosed by De Jong and Thio (2002). To ensure that the replacement rate does not become even higher for many working partially disabled, the government needs to prevent the currently widespread benefit top-up payments by social partners from being applied to the WGA wage subsidy. The labour market effects of the partial disability reform will set in gradually because the new system only applies to those becoming partially disabled after 2005.

The quality, strictness and impartiality of the disability assessment by the UWV is more than ever a challenge to counter the risk of a growing, albeit working, population of partial DB recipients. The UWV should further develop its quantitative toolkit for assessing its contribution to gate-keeping, identifying high-risk groups. This would allow for benchmarking UWV regions against each other, with benefits and sanctions attached to the outcome. While remaining under the authority of the MinSZW, the UWV should publish the results of its benchmarking exercises as this would lend it credibility as a responsible gatekeeper and make discretionary policy intervention less likely in the future.

Setting up a separate work injury scheme (EGB) would have several advantages. First, it would end the Dutch tradition of neglecting disability causes that has contributed to the dramatically high stock of DB recipients. Second, a separate system with differentiated premiums would promise more effective accident prevention. The government should continue to weigh these advantages against the risk of a poorly designed EGB: that of creating an attractive benefit alternative for persons refused a full DB or not willing to fully use their remaining capacity under the WGA. To avoid this risk, any separate scheme should be limited to work injuries and the internationally agreed list of occupational diseases, and the assessment should be carried out by the UWV rather than a new body.

Overall, if the reform is implemented along the lines proposed by the government, there is a realistic chance of mobilising a significant amount of additional labour thanks to more partial DB recipients returning to work. It is not certain, however, that the sum of inflows into the new WAO and the WGA will be significantly lower than past WAO inflows. Keeping the system financially viable may require shortening the first stage of the WGA, which would also help to keep partial DB recipients closer to the labour market. Strict testing of DB claimants is also crucial for the success of the WGA. It would limit the risk of self-selection, as would ruling out top-ups to the WGA wage subsidy.

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NOTES

1. There are three different disability schemes in place in the Netherlands. The WAO covers disability of employees and the unemployed, WAjong is the scheme for young persons, and WAZ covers disability of the self-employed. The latter is being abolished by 1 July 2004.
2. Insufficient reintegration efforts, as shown by a reintegration report, lead to sanctions or refusal of the claim, prolonging the SB period at the employer's expense. In turn, employers may dismiss non-compliant employees.
3. UWV reports to the Minister of Social Affairs (MinSZW) and agrees with it on performance targets. UWV also conducts pilot projects to improve its functioning, *e.g.* with respect to the comparability of individual assessment results. A new selection protocol for reassessments was implemented (UWV, 2003, p. 9) and may have contributed to the steep rise in the share of DB outflows in 2003 (UWV, 2004a). UWV is also evaluating stricter assessment of young women who are four times as likely to obtain a DB than the average, often on grounds of psychological problems.
4. The “Pemba fine” was already replaced with a uniform contribution rate (2.4 per cent of the wage bill) for firms with less than 25 employees in 2003.
5. The first generation of WAOers was granted full DB even if they had lost only part of their earnings capacity.
6. The partial DB was initially granted to help impaired persons to shift to part-time employment rather than dropping out of the labour market. However, there may also be an opposite labour-destruction effect if the nature and degree of disability are not exactly observable, leading to self-selection. According to recent empirical evidence both effects coexist in the WAO. The positive relationship between the probability of staying employed and the probability of obtaining a partial DB shows causality in both directions (Thio and de Jong, 2002, p. 65). Specifically, those resuming work immediately after their year of sickness have a much higher chance of getting a partial DB than persons with a weak labour market position, all other conditions being equal.
7. The inflow in 2005 will not be zero because in a limited number of “evident cases” (persons with a full disability having reached a stable condition without a chance of recovering), the entry to the WAO will be possible before the end of the SB period.
8. Current examples of collective agreements reducing work incentives in many sectors are the top-up of SB to 100 per cent of the previous wage in the first year and the top-ups of first stage DB to 85 per cent and of the second-stage DB to the first-stage level.
9. An exemption will apply to persons already exempted from periodical medical re-evaluation and to persons older than 54 years on 1 July 2004.
10. The official computer system used in the assessment of available jobs does not contain all jobs existing in the Netherlands but only a representative sample.
11. For a number of persons this may imply that they will be assessed as being only partially disabled, whereas they were found to be fully disabled in the old system.

12. A previous part-time worker is in principle eligible to do jobs with more hours if he is able to execute the function. It will not be possible to reject a function because the usual hours of work are outside the slot worked in the past. Non-possession of easy-to-learn computer or language skills is no reason not to qualify for a function.
13. The lists are indicative, *i.e.* insurance doctors may let “temporarily” sick persons access the new WAO nevertheless if convincing proofs for the need to deviate from the standard can be delivered.
14. According to the government’s initially planned work capacity criterion, “A fully and permanently disabled person is someone who as a direct and medically objectively observable consequence of sickness is permanently unable to earn income from work” (MinSZW 2003c, p. 5). This definition came very close to that recommended by the *Donner II* Commission (*Adviescommissie Arbeidsongeschiktheid* 2001, p. 5) and leant against the notion of a loss in earnings capacity that is currently in force and is defended by the social partners (SER, 2002 and 2004).
15. The subsidy rate of 70 per cent of the wage loss helps to avoid unemployment traps for more severely disabled low-wage earners. A person previously earning the minimum wage and who has lost 70 per cent of her earnings capacity can achieve an income equal to 79 per cent of the minimum wage by working compared with 49 per cent when not working (topped up to 70 per cent if the household has no other income).
16. For example, a 40-year old person with a pre-disability income of twice the minimum wage who is 50 per cent disabled and fully uses her remaining earnings capacity of 50 per cent will receive a wage subsidy that is one-third higher than today’s partial DB, allowing for an increase in combined gross wage and benefit income of more than 10 per cent.
17. Experience-rating is a challenge for temporary work agencies that face an increased risk of sickness and disability of their members due to the concentration of low-skilled, foreign and older workers as well as free-rider problems as to prevention measures at the actual workplace. The government has decided to limit total SB outlays but has shrugged off the sector’s demands, supported by the SER (SER, 2004), to limit the SB-period for temporary workers to one year and to exempt the temporary work sector from experience rating in the WAO.
18. A competitive private market could foster effective reintegration because of insurers’ incentives to avoid inflow into WGA (Kist and Keuzenkamp, 2003). The advantages of a seamless reintegration trajectory covering the SB and DB periods, faster learning and dissemination of best practices and private insurers’ greater ability to find incentive mechanisms that reduce deadweight losses were also mentioned. There were, however, questions about insurers’ incentives to reintegrate more severe cases of partial disability. But the government’s main concern was that the private system would not be cheaper than the public system, even in the long run the (MinSZW, 2004).
19. Provisions in Part VI of the European Social Security Code declaring a private health insurance system (planned for 2005, see Chapter 3) incompatible with patient payment for rehabilitation after work accidents are a third reason for introducing the EGB.
20. In addition, the same job search criteria should be enforced as for unemployment benefit recipients.