

OECD says financial incentives would help Luxembourg to increase workforce participation

Luxembourg should strengthen responsibilities and incentives for both employers and employees in order to encourage more people to work, according to a new OECD report. This is one of the recommendations in *Sickness, Disability and Work: Breaking the Barriers (Vol.2) – Australia, Luxembourg, Spain and the United Kingdom* which analysis disability policies and proposes reforms to reduce the number of people claiming benefits and help them re-enter the labour market.

With a large number of cross-border workers, Luxembourg can afford to have a relatively low overall local employment rate. Nevertheless, employment rates of people with disabilities are higher than in most other OECD countries: half of them have a job. The number of people claiming disability benefits has been falling and the annual inflow is now 4.5 per 1,000 of the working-age population, which is half the level ten years ago and below the current OECD average.

However, as the rate of disability claimants fell, unemployment rates increased from 2.4% in 2000 to 4.5% in 2005. Notably, while unemployment for people without disability increased by one percentage point during that period, the increase for people with disability was five percentage points. There is a great risk that much of this additional unemployment could become structural, with some disabled people permanently parked on long-term benefits. Another big challenge for Luxembourg is that disability benefits are often used as an early retirement instrument.

The main policy objective in recent years has been to address the unsatisfactory situation of people with a partially-reduced work capacity. In 1997, access to disability benefits was de facto closed for this group of people, in turn leading to a rapid increase in long-term sickness benefits. In 2002, Luxembourg introduced stricter absence monitoring and new *redeployment* oriented procedures to assist people who were able to work but unable to return to their current jobs.

So far, this new procedure has little positive effect. The transition into work was unsatisfactory and most of these people are unemployed for a long time, if not permanently. Luxembourg should study the obstacles for redeployment - lack of interest on the part of employers, inadequate intervention by the Public Employment Service (PES), lack of motivation of workers, or a combination of all three. To improve outcomes, three aspects will have to be tackled.

1. Employer responsibility: Financial incentives for employers to prevent sickness should be increased. In harmonising sick pay regulations, incentives for the blue-collar sector should be strengthened without weakening those for the white-collar sector.
 - To make internal redeployment more likely, non-compliance should be tightened; employers should be involve in the rehabilitation and retraining of their sick or disabled employees; a faster process would avoid unnecessary loss of skills, work motivation and jobs.
2. Employee responsibility: Given the current high levels of sickness and disability benefits, the work incentives for unemployed disabled people should be improved. Making work pay in all circumstances will require lowering the level of out-of-work benefits in exchange for introducing permanent in-work payments to stimulate the return to work.
 - Strict job-search requirements and compliance rules should be introduced for unemployed people with partially-reduced work capacity receiving a waiting allowance.
3. The redeployment procedure should be more flexible. For instance, an internally redeployed worker who is fired after one year should be eligible for external redeployment or, at a minimum, have access to the same activation support.
 - The focus on *work-related* rehabilitation and training should be increased and the work capacity aspect of the redeployment procedure strengthened. Today, the assessment of disability is heavily medically-oriented and vocational experts are involved at a very late stage, if at all.

Journalists can obtain a copy of **Sickness, Disability and Work: Breaking the Barriers (Vol. 2) – Australia, Luxembourg, Spain and the United Kingdom** by contacting the OECD's [Media Relations Division](#) (tel. +331 4524 9700). For further information, please contact one of the authors in OECD's Directorate of Employment, Labour and Social Affairs: [Christopher Prinz](#) (tel. +331 4524 9483) and [Michael Förster](#) (tel. +331 4524 9280).