

Press Conference for the release of

Sickness, Disability and Work: Breaking the Barriers

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OPENING REMARKS

by

Aart Jan de Geus

Deputy Secretary General, OECD

Ministers, Ladies and Gentlemen,

The release of our report on *Sickness, Disability and Work* policy challenges in Finland and three other OECD countries (namely Denmark, Ireland and the Netherlands) comes at a time when everyone is talking about the recent financial crisis and the impact the economic downturn is likely to have on unemployment. Indeed, most OECD countries are going to face an increase in unemployment rates, even though we do not know how large this increase will be, and some – including Finland – do already. This is a big turnaround in many cases after a period of steady economic growth with high rates of job creation and falling unemployment.

Do the new economic circumstances and the expected fall in labour demand have any impact on the analysis in our report and the recommendations we are making to the four countries which we have reviewed? *Yes and no*. Yes, because the argument that we need to reduce inactivity so as to address future, and in some sectors current, labour shortages will be less valid in the short term. No, because we argue for system reform to make sure that we help people use and exploit their full labour market potential – which would be good for the people and for the economy at large. Such reforms are of a long-term, structural nature and not invalidated by current economic trends. We are facing a situation in many OECD countries, including Finland, where inactivity is increasingly caused by health problems, or by labour market problems that are being labelled as health problems. This issue has to be addressed irrespective of the economic climate.

In the current economic downturn there is a great risk that countries may be tempted to revert to using sickness and disability schemes to cushion job losses, as some and also Finland have done in the past. The findings in the report, however, caution against this as a *big and expensive mistake*. The vast majority of people who are put on disability benefits never work again and experience progressively worse health and social outcomes. In short, their contribution to the economy and tax systems is lost forever, even when the economic climate improves. This is a tragedy at a number of levels, particularly because many would much prefer to hold jobs and enjoy the many advantages that come from earning a salary. Continued system reform to provide the right incentives and supports to those people as well as all other actors involved should therefore be a priority, irrespective of the current, very different economic climate.

Hiding unemployment in the “wrong” welfare systems is a failed strategy: it is very costly, disruptive and economically unsustainable.

What relevance does all this have for Finland? First, unemployment is *already higher* in Finland than in most other OECD countries and it is particularly high, at around 12%, for people with disability. Secondly, disability benefits are frequently used as a *substitute to early retirement*. In other words, disability benefits are already being used as an instrument to adjust and rejuvenate the workforce, which increases the danger of using such policy again as a response to the current downturn. Thirdly, until now the relationship between unemployment and disability has always been very special in Finland. Disability benefit numbers tended to move with the level of unemployment in a countercyclical way: *higher* unemployment and especially increases in long-term unemployment have tended to translate into *lesser* use of disability benefits.

That said, admittedly Finnish policy has *changed* in the recent past. Since the end of the recession in the mid-1990s, Finland enacted a series of programmes to promote good working conditions and, thus, workers’ health and work ability. These initiatives typically focus on workplaces and involve various actors including government and social partners. As a result, during the past ten years or so employment rates for workers aged 55-64 have increased faster in Finland than in most other OECD countries, though from a relatively low initial level. In addition, in 2005, the pension system was reformed, with the aim to make working longer more attractive. Accrual rates for older people were increased and one of the early retirement channels – the individual early retirement scheme, which was nothing else than a special disability benefit with lighter medical criteria – was abandoned.

The disability pension system, however, was *hardly affected* by this reform; in fact, disability pensions are now easier to access for people over age 60 (because the medical criteria for entitlement were relaxed for this age group, in line with the criteria of the abolished early retirement scheme). This is particularly problematic in view of the current economic crisis, which could now easily lead to even higher layoffs onto disability pensions among workers aged 60 and over. However, there are two other specialities in the Finnish system which should work in the opposite direction and help to prevent disability: a strong system of occupational health services, which was further broadened in 2001, and experience-rated employer premiums to disability benefits.

Current outcomes suggest that recent changes will not be enough:

- The proportion of people receiving a disability benefit fluctuates at 8.4% – this is lower than the peak level in the crisis year 1994, but as high as five years ago;
- This is because the flow into disability benefit is very high in an international perspective: every year around 1% of the working-age population start claiming such a benefit – with 70% of those people being older workers;
- Sickness absence – the most frequent gateway into long-term disability – has also increased continuously in the past decade, by no less than 50% for absences of longer duration (absences of more than three months);
- Another indicator suggests that more than 30% of those having partial work capacity and receiving a partial disability pension are *not* in work – while at the same time beneficiary surveys suggest that almost one in five of those receiving a disability benefit would be willing and able to work.

What could and should Finnish policy makers do in order to reduce benefit dependence and improve employment chances of people with health problems or disability?

First, more needs to be done to reduce the use of disability benefits for early retirement or, in other words, to avoid that older workers are deprived from participating in the labour market on the grounds of them being shifted onto disability benefits:

- Disability assessments should put a stronger focus on remaining work capacity than on medical conditions. Workers over age 60 and public sector employees should be assessed on the same grounds rather than against their own occupation. This is also important in view of the latest pension reform which will raise the costs of premature exit from the labour market.
- A gradual phase-out of disability benefit when earnings exceed allowed limits and/or in-work payments targeted to low-wage earners with disability would make it more attractive to combine benefit and work income.

A second key challenge for Finland is the fragmentation of the system of vocational rehabilitation, despite recurrent efforts for a better coordination of employment services. The following should be done to make sure people with health problems or disability get the service they need to stay in or re-enter the labour market:

- The system needs to be simplified: (1) a single entry point into the system for those concerned is needed; (2) one authority should carry responsibility for the client from the beginning to the end of the process to ensure effective service; and (3) the various rehabilitation benefits and allowances should be merged into a single payment.
- The currently existing right to vocational rehabilitation for the individual should be matched by corresponding participation requirements.
- The municipal and the PES part of the Labour Force Service Centres need to be better integrated and the social insurance institution involved as an equal partner. People with health problems must be able to access these integrated services.

A third issue is that not all employers have the same role in sickness and disability management, thus missing opportunities for better outcomes from the strengths of the Finnish system. This could be addressed by the following steps:

- Sickness management can be improved, for instance, by enforcing the mandatory notification of employers to the social insurance institution: reimbursement should be linked to this notification and retrospective reimbursement abolished.
- Some form of experience-rating for SMEs should be considered, at least for a limited number of years of disability benefit payment. To counterbalance hiring disincentives arising from the scheme, measures such as targeted payroll-tax reductions could be introduced.
- In the mid-term, occupational health services should be made mandatory for entrepreneurs and self-employed and an OHS-like system for unemployed people should be put in place.

Let me conclude by emphasising that revising policies is not enough: change has to be well *supported* and rigorously *implemented* by all actors. More will need to be done to create widespread social acceptance for the need for further structural reform.