

International Experience with Disability Reform

Mary C. Daly

San Francisco Federal Reserve Bank

Richard V. Burkhauser

Cornell University

Prepared for Social Security Disability Insurance: The Time for Reform?

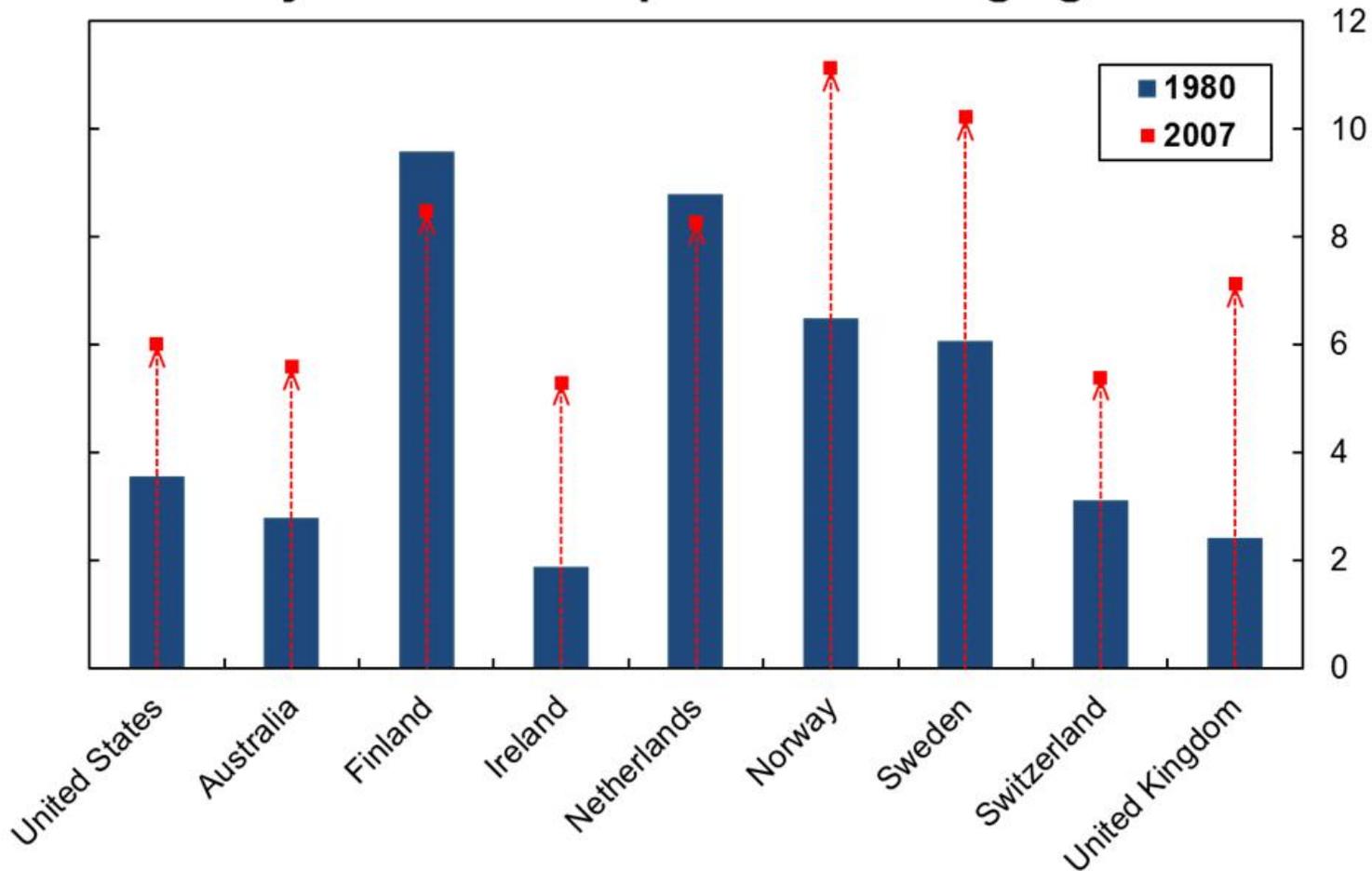
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The findings and conclusions expressed are solely those of the author and do not represent the views of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

Rapid Rise in DI Rates Across OECD

Disability beneficiaries per 100 working age



Source: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

Note: Switzerland 1980 data are from 1990.

Not All Explained by Underlying Trends

- **Demography:** accounts for only part of the rise
- **Health:** objective measures are steady or improved
- **Labor markets:** jobs less physically demanding and work schedules are more flexible

OECD report found that changes in these factors explain no more than 50% of the increase in disability reciprocity rates among countries

Important Role for Economy and Policy

Additional factors boosting DI rates

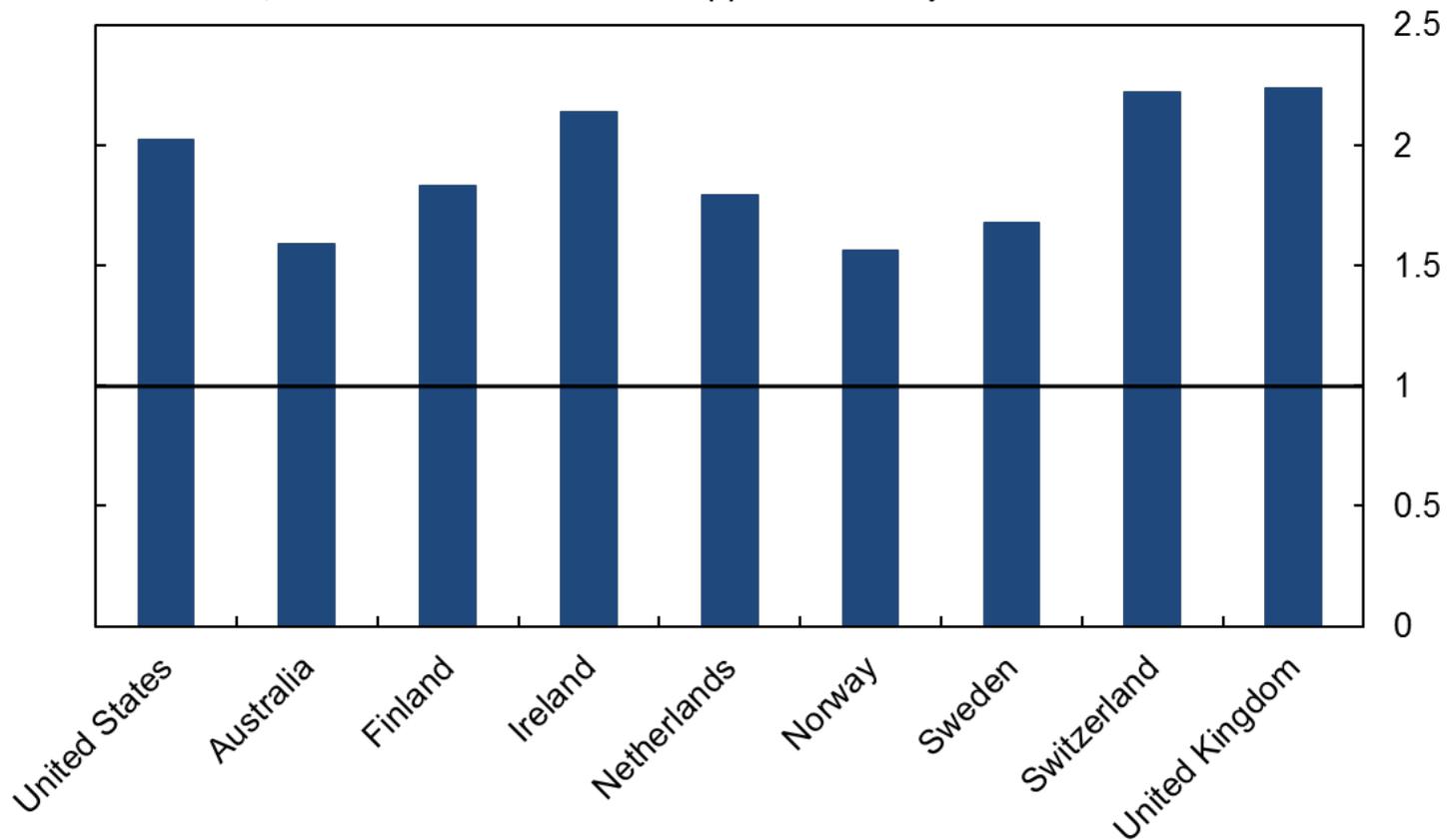
- Declining opportunities for low-skilled workers and rising replacement rates of DI benefits
- Poor economic conditions which bring unemployed workers onto DI rolls; once on, recipients don't exit
- Reductions in size and duration of unemployment and general social assistance benefits

And the future does not look good...

Lower Education Levels of Disabled

Share of disabled with low education, relative to non-disabled

Late 2000s; low education is less than upper secondary educational attainment

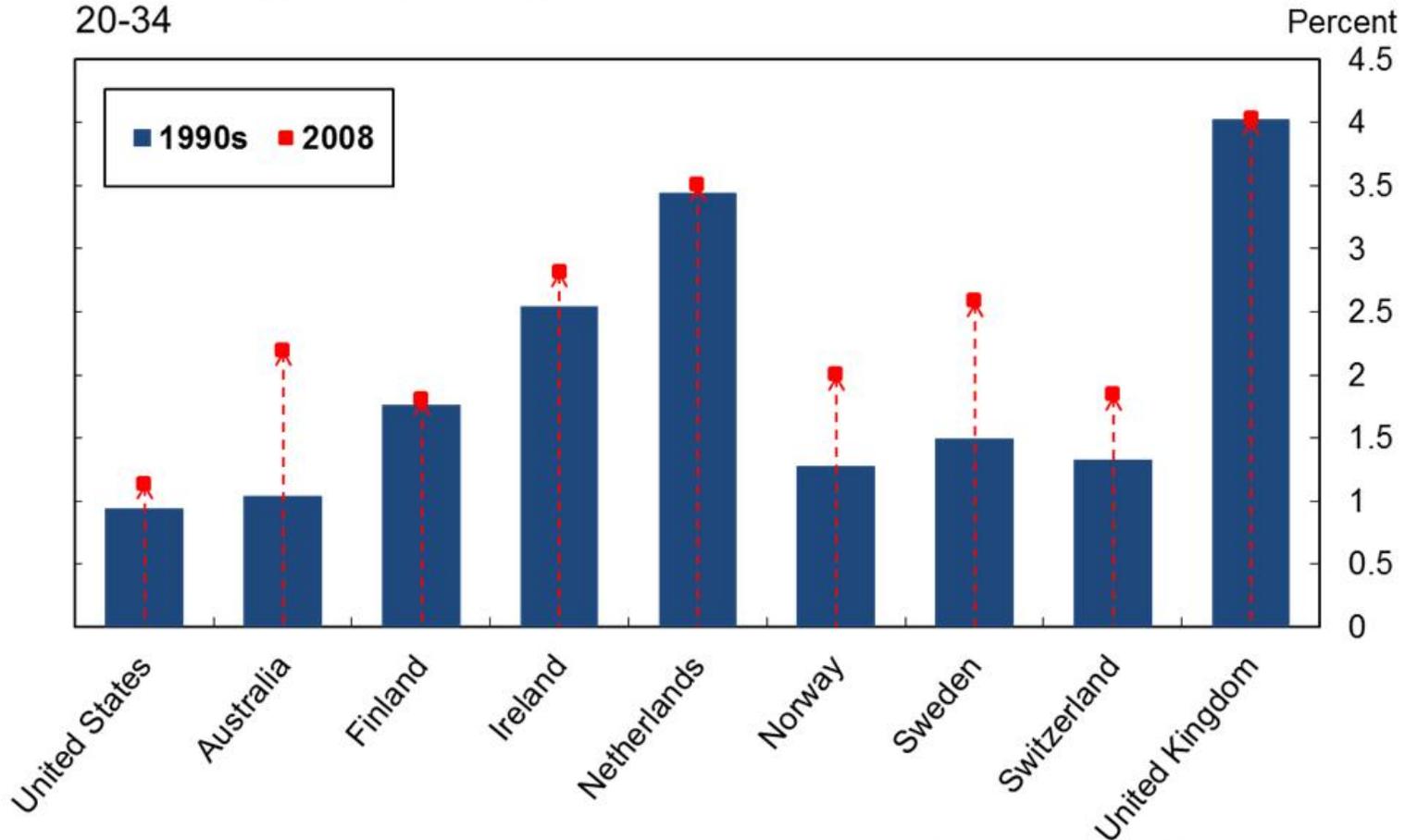


Source: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing

DI Reciprocity Rising at Younger Ages

Disability reciprocity rates

20-34

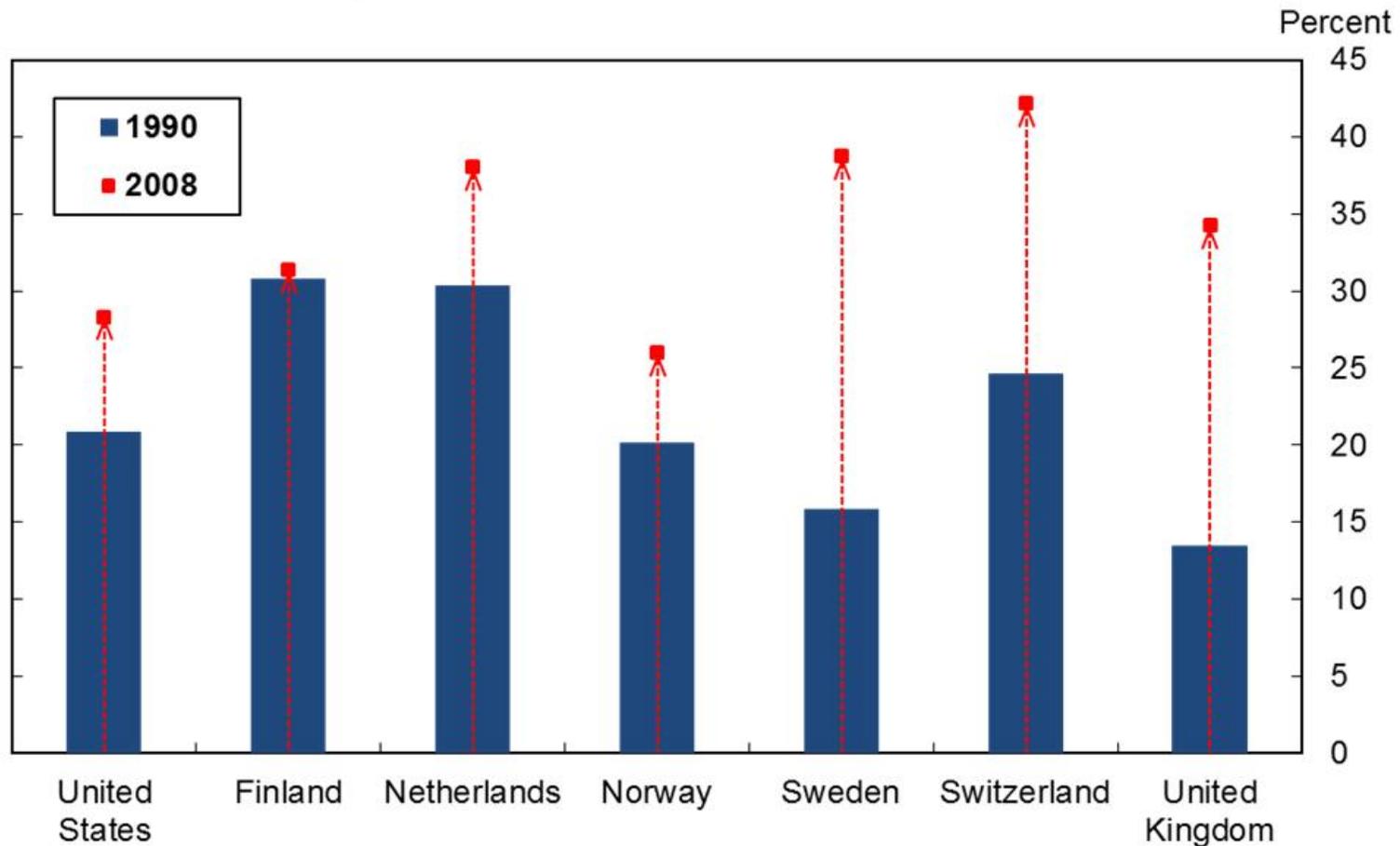


Source: OECD (2010), *Sickness Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

Years covered: 1990-2008 for Australia, Finland, Norway; 1992-2008 for Switzerland; 1995-2008 for Sweden; 1999-2005 for the United Kingdom; 1999-2008 for the Netherlands; 2000-08 for the United States; 2001-08 for Ireland;

Rising DI Incidence for Mental Illness

New disability claims on the basis of mental illness



Source: *Turning Disability into Ability* (OECD 2003) and *Sickness, Disability, and Work* (OECD 2010).

Notes: Data for the United States do not account for the overlap in contributory and non-contributory benefit receipt. Data for UK are for 1990-2005; data for Norway are for 1990-2008. Finland data are for 2000-2008, and Switzerland data are for 1995-2008.

OECD Urges Fundamental Reform

1. There is an urgent need to address the “medicalisation” of labour market problems by tackling the widespread use of disability benefits across the OECD and promoting labour market participation of people with disability.
2. Many people with health problems can work and indeed want to work in ways compatible with their health condition, so any policy based on the assumption that they cannot work is fundamentally flawed.
3. Helping people to work is potentially a “win-win” policy: It helps people avoid exclusion and have higher incomes while raising the prospect of more effective labour supply and higher economic output in the long term.

Excerpt from the forward of *Sickness, Disability and Work: Breaking the Barriers*, 2010 OECD Publishing, Paris

Disability Reforms in Netherlands

- Fundamental reforms in 2002, implemented in 2004
- Employers fund first two years of sick leave for employees and produce a return-to-work plan
- Employers pay experience-rated premiums for workers who move onto long-term disability benefits after two years
- Those without employers are managed by the state
- Workers are assessed for residual work capacity and taxed if they do not earn up to that capacity

Disability Reforms in Sweden

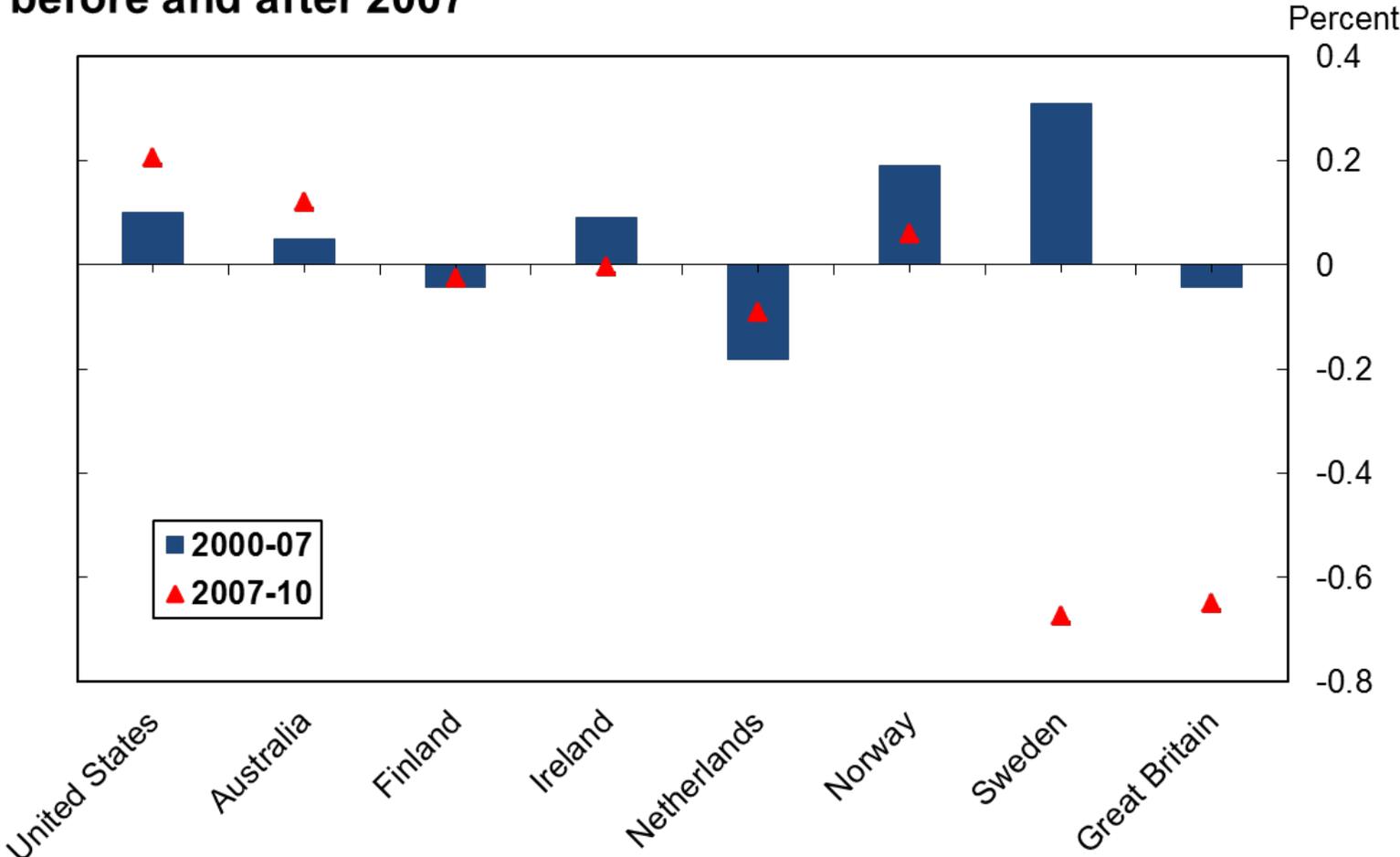
- Fundamental reforms in 2007, implemented in 2008
- Time limits and decreasing compensation profile for sick leave at 3-6-12-30 months, managed federally
- Rehabilitation, occupational health services begin immediately, return-to-work is goal
- Subsidized employment; existing or new job
- Greatly tightened eligibility criteria for long-term cash benefits

Disability Reforms in U.K.

- Fundamental reforms began in 2001 with additional reforms in 2008 and 2013, managed federally
- Focus on work capacity rather than incapacity; evaluation changed to assessing capabilities
- Goal of disability benefits changed to temporary support; only the most severely disabled allowed permanent cash benefits
- Work credits to make work pay

Caseloads Fell Following Reforms

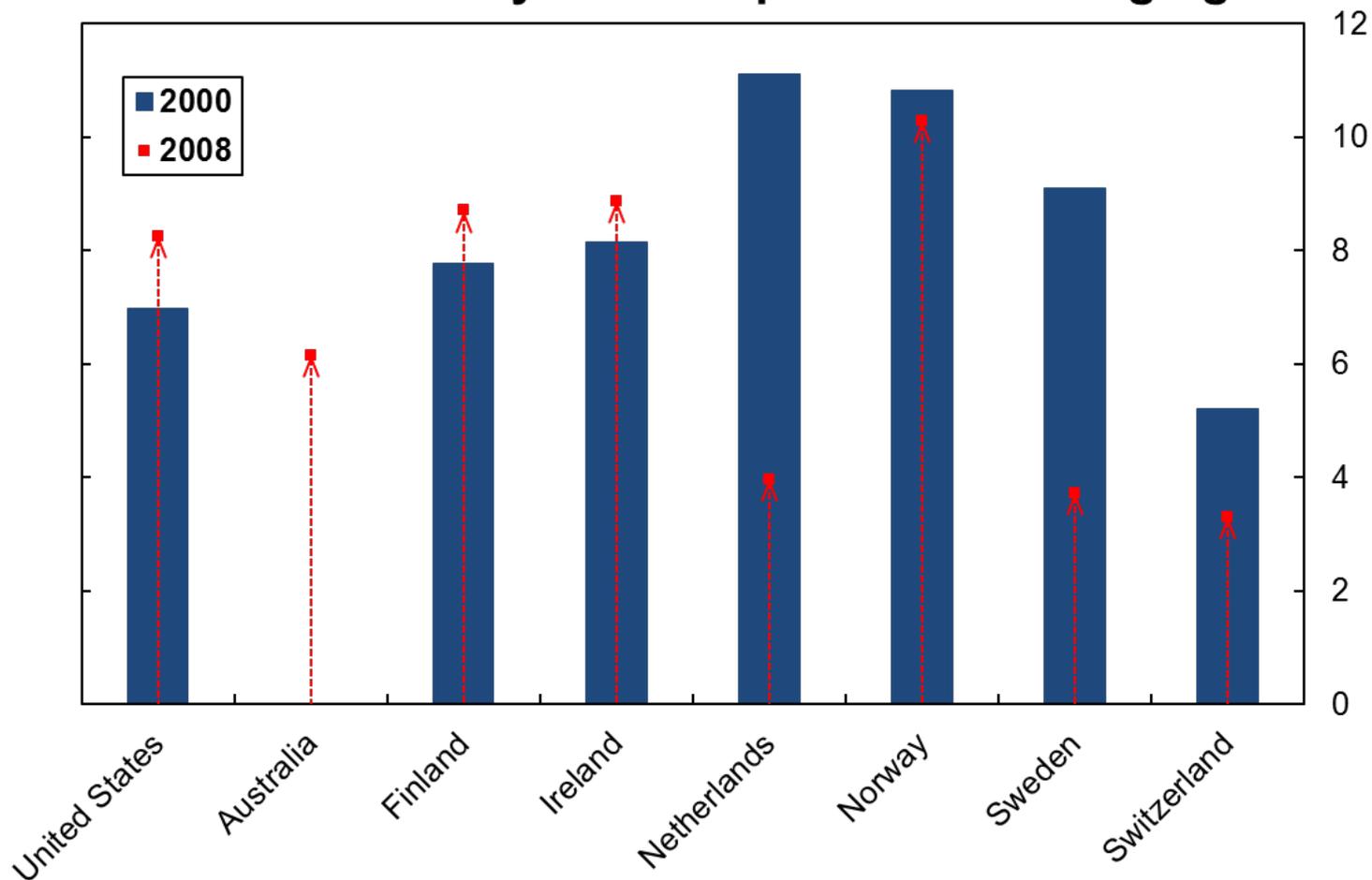
Annual average growth of disability benefit caseloads, before and after 2007



Source: OECD (2011), *Employment Outlook*, OECD Publishing, Paris.

Stemming Inflows Most Important

Inflows to disability benefits per 1000 working-age



Source: OECD (2010), *Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

Lessons Learned from These Reforms

- Disability does not mean incapacity
- Policy incentives matter and must be applied to all actors including employers, employees, program administrators, state and federal agencies
- Early intervention is critical and significantly affects flows onto the program
- Stocks of beneficiaries are more challenging and likely require different types of interventions
- Pilots and field experimentation are important

Unique Challenges in the U.S.

- No universal health care program; ACA may help
- No long-term unemployment insurance program
- No universal general assistance program
- SSDI is an insurance program and considered an entitlement, making reforms more challenging