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Future Focus Evidence Brief

Incapacity benefits: Part-time work assessments and recent international reforms

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FUTURE FOCUS EVIDENCE BRIEF

INCAPACITY BENEFITS: PART TIME WORK ASSESSMENTS AND RECENT INTERNATIONAL REFORMS

Key points

- Many countries have reformed their disability policies over the last decade. Increasingly countries have changed their approach to one of active integration which encourages employment and incorporates tighter eligibility rules for benefits.
- There is a greater focus on what people *can do* rather than what they cannot do in incapacity benefit assessments for people who have partially-reduced work capacity.
- Evidence suggests that work availability requirements should be accompanied by the provision of employment services, support measures, activation strategies, mutual obligations and employer involvement.
- Even with a stronger emphasis on activation strategies and mutual obligations¹, disability policies may not be successful where there is not a strong labour market, including a willingness on the part of employers to employ people with some level of incapacity.
- Gate-keeping measures may transfer some clients from incapacity benefits to unemployment benefits.
- There is insufficient evidence on the effectiveness of partial benefits on benefit recipient rates and employment rates, and the impact of partial work-availability requirements on outcomes.

¹ Activation measures may include requirements to participate in interventions designed to ensure continued effective job search and/or to improve employability through participation in employment, training or rehabilitation programmes. Sanctions could be applied when benefit recipients fail to meet their obligations to participate in the activation measures.

Key documents

- OECD (2003), *Transforming Disability into Ability – Policies to Promote Work and Income Security for Disabled People*. OECD Publications Service. Paris.
www.oecd.org/els/emp/transformingdisabilityintoability.htm
- OECD (2006) *Sickness, Disability and Work: Breaking the Barriers: Norway, Poland and Switzerland*. Paris.
www.oecd.org/publications/sickness-disability-and-work-breaking-the-barriers-9789264088856-en.htm
- OECD (2006b) *From inactivity to work: the role of active labour market policies*. Paris.
www.oecd-ilibrary.org/docserver/687686456188.pdf?expires=1553658374&id=id&accname=guest&checksum=2AF28A83D23CE6DF63626AA6C499F2F5
- OECD (2007) *New ways of addressing partial work capacity: Issues paper and progress report on the OECD thematic review on sickness, disability and work*. Paris.
www.oecd.org/social/soc/38509814.pdf
- OECD (2007b) *Sickness, Disability and Work: Breaking the Barriers, Vol.2: Australia, Luxembourg, Spain and the United Kingdom*. Paris.
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Disability benefit recipient rates are high in many OECD countries. Comprehensive reforms during the past decade have led to a re-orientation of disability policy from passive compensation to active integration. The former approach stresses benefit payments while the latter approach encourages employment and incorporates tighter eligibility rules for benefits (Mont, 2004 p12). Within the OECD, the way in which countries deal with people with a partially-reduced work capacity is changing to a focus on what people *can do* rather than what they cannot do, and to provide support accordingly (OECD, 2007 p2).

There is strong evidence that participation in appropriate paid work is beneficial to health and wellbeing (Waddell & Burton, 2006). Average work incomes of disabled people who have a job are as high as average worker incomes of people without disabilities. However, while employment is crucial for determining personal income resources, the employment rates of working age disabled persons in OECD countries is low (OECD, 2003).

Recent international reforms²

The way countries are dealing with people who have a partially-reduced work capacity, in particular, is changing following recent reforms of disability policies (OECD, 2007 p3). Recent reforms include:

- Treating people with partially-reduced work capacity as if they were unemployed eg Australia, Denmark, Luxembourg and the Netherlands (OECD, 2007 p3).
- In-work compensation payments to people with partial work capacity who have moved into lower-paid jobs eg Denmark, Luxembourg, the Netherlands and the UK (OECD, 2007 pp7-8).
- Strengthening employer involvement and financial responsibilities eg the Netherlands, the UK and Switzerland (OECD, 2007 pp9-10).
- Governments taking a more active role in supporting people back into work and investing more resources in activation programmes³ (OECD, 2007 p7).

Treating people with partially-reduced work capacity as jobseekers automatically increases the requirement for them to actively seek work and participate in courses or programmes (OECD, 2007 p9). It also entails a change in medical and vocational assessment towards a work orientation, and means more job search support and activation programmes must be put in place (OECD, 2007 p2).

Descriptions of reforms in a range of countries are outlined below. The following section – What Works? – looks at the outcomes of these reforms.

Australia: Welfare to Work 2006 reforms

Granting of disability benefits for *new* claimants has been restricted to people with substantially reduced capacity to work (ie, people who are unable to work at least 15 hours per week). People who have significant capacity (ie, able to work 15-29 hours per week) are now moved onto the unemployment benefit where they are expected to actively look for suitable part-time work (OECD, 2007b p70).

The reform has three important features (OECD, 2007b p20):

- *Assessment*: this was changed to evaluating a person's remaining work capacity rather than disability
- *Activation*: the focus on individually-tailored activation and employment support was extended

² The New Zealand incapacity benefit system is unusual among OECD countries which typically have some combination of contributory or earnings-related disability insurance, non-contributory disability benefits and either flat-rate or earnings-related short-term sickness benefit for the employed. New Zealand, Australia and Denmark have only non-contributory benefits (OECD, 2007b p198).

³ These are measures that are directly and explicitly aimed at the (paid or unpaid) labour participation of unemployed people or at preventing employed people from becoming unemployed. Activation measures may include requirements to participate in interventions designed to ensure continued effective job search and/or to improve employability through participation in employment, training or rehabilitation programmes. Sanctions could be applied when benefit recipients fail to meet their obligations to participate in the activation measures (OECD, 2003; Tergeist, P. & Grubb, D, 2006; OECD, 2007).

- *Responsibilities*: a new balance was put in place between responsibilities and support. People with a partially-reduced work capacity are no longer entitled to a disability benefit but only to an unemployment benefit, with much stricter compliance rules and compulsory activity test requirements.

United Kingdom: Pathways to Work 2003 reforms

The Pathways to Work process has been rolled out nationwide and requires new and repeat benefit claimants to go through a series of mandatory work-focused interviews with their personal adviser. Any action proposed in response to these interviews is still non-compulsory (OECD, 2007b p31, Bewley et al, 2008 p1). Failure to comply with the requirements can result in benefit sanctions, although these have been rare in practice (Adam et al, 2008 p1).

Denmark 2003 reforms

A disability benefit is only granted to people with severe loss of capacity. People who used to qualify for a disability benefit now either receive a “flex-job” subsidy once employed or, if still unemployed, a special unemployment or waiting benefit which is set at the level of a disability benefit. In addition, a permanent wage subsidy is paid to employers of people on a flex-job to compensate for their reduced work capacity, while flex-job workers receive a standard wage (OECD, 2007 p4).

Luxembourg 2002 reforms

Only individuals with assessed continued work incapacity can remain on sickness benefit. Those no longer entitled to sickness benefits are provided with job search support in the form of a clearly defined redeployment procedure. A successfully redeployed person receives a permanent payment to compensate for any difference between previous and new earnings (OECD, 2007 p4).

Netherlands 2006 reforms

The scheme now has two components – a permanent disability benefit for people who cannot work any more, and another benefit for those whose disability is either partial or not permanent with an accompanying wage supplement (OECD, 2007 p4).

Switzerland

Switzerland is in the process of introducing new responsibilities for people with poor health conditions at risk of moving into disability benefit. Those people will now be obliged to participate in measures aimed to reduce the costs for society arising from their disability. In new legislation, these obligations will be listed explicitly, together with possible sanctions in case of non-fulfilment (OECD, 2007 p9).

What works?

Pathways to Work (UK)

A cost-benefit analysis of Pathways to Work (Pathways) by the UK Department for Work and Pensions (DWP), found that overall the estimated financial benefits of Pathways significantly exceeded the estimated financial costs, with net measured benefits both to Pathways participants and to the government (Adam et al, 2008, p2).

A separate evaluation of Pathways by DWP found:

- Pathways reduced the number of people receiving incapacity benefits in the short term, with no reduction in the medium to long term.
- Pathways increased receipt of Jobseeker's Allowance⁴ (JSA) in the short term, while decreasing JSA receipt in the medium term. The reduction in JSA receipt was not sustained beyond the first year.

Fewer people were receiving Incapacity Benefit in the early months after starting the programme (around six percentage points at five months). However the positive effect reduced until 10 months after starting the programme, after which time no impact was seen in each successive month (Bewley, Dorsett & Salis, 2008 p2).

Some of this reduction in incapacity benefit receipt was thought to be as a result of Pathways reducing the proportion of people granted incapacity benefits after initial enquiry. In other words, Pathways had a deterrent effect for people coming onto incapacity benefits rather than helping people into work once on benefit (Bewley, Dorsett & Salis, 2009 p3).

Pathways increased the proportion of clients moving onto JSA over the first six months after the start of their claim for incapacity benefit. After one year, the trend reversed with Pathways decreasing the proportion on JSA. The reduction in JSA receipt could be due to people moving into work or returning to incapacity benefits. The reduction in JSA receipt was not sustained beyond the first year (Bewley, Dorsett & Salis, 2008 p3).

Welfare to Work (Australia)

An evaluation of the Welfare to Work reforms by the Department for Education, Employment and Workplace Relations (DEEWR), found that, compared to those in previous years, people with a partial capacity to work are now more likely to leave income support and a greater proportion of those still on income support have paid work (DEEWR, 2007 p1).

Ten percent of Newstart Allowance⁵ or Youth Allowance⁶ recipients with a partial capacity to work of 15–29 hours per week had left income support after six months, compared to four percent of a similar group of recipients in previous years (DEEWR, 2007 p7).

⁴ Jobseekers Allowance is equivalent to the Unemployment Benefit in New Zealand

⁵ Newstart Allowance is for unemployed people aged over 21 or people who are temporarily unable to work due to illness, injury or disability (Centrelink, 2010)

⁶ Youth Allowance is for full-time students aged 16 to 24 or unemployed people aged under 21 (Centrelink, 2010)

Compulsory participation in labour market programmes or job search requirements for people with a partially-reduced capacity for work can be effective.

- Work requirements have been effective in reducing benefit caseloads and enhancing welfare-to-work transitions in Australia, Canada, and to some extent, the Netherlands (OECD, 2006b p10).
- Work-focused interviews in the UK contributed to the positive impact of the recent Pathways to Work programme for short-term incapacity benefit clients (OECD, 2006b p10).

Work-availability requirements need to be accompanied by a system of sanctions when requirements are not respected (OECD, 2006b p10).

- There is some evidence that enforcing sanctions, even on a temporary basis, can improve welfare-to-work transitions⁷ (OECD, 2006b p10).
- Countries tend to shy away from using sanctions even if they are in place on paper, because enforcing sanctions on people with health problems is often perceived as socially questionable (OECD, 2007 p9).

Gate-keeping measures can help reduce flows into disability benefits by people who have remaining work capacity (OECD, 2006b p9).

- Tighter gate-keeping to avoid initial entry into a long-term incapacity benefit status, is critical for increasing long-term activity and employment rates among people with partially-reduced work capacity (OECD, 2006b p23).
- Australia, Denmark, Luxembourg and the Netherlands have all abolished existing partial disability benefits or closed access to full disability benefits for those with partially-reduced work capacity. All four countries have recorded a fall (to varying degrees) in the share of working-age people on disability benefit. However, this may hide corresponding increases in other benefit schemes, such as unemployment benefits (OECD, 2007b p6; DEEWR, 2007).
- Gate-keeping measures of this kind may transfer some clients to unemployment benefits (OECD, 2006b p9).

Financial incentives such as in-work bonuses can help promote transitions to work (OECD, 2006b p11).

- For groups who are only required to take part-time work, benefit tapers or in-work benefits should ensure the transition to work pays.
- Where appropriate, disabled people should receive financial help with living expenses that can help them remain in work indefinitely during employment (eg Germany).

Reforms of the assessment process for people with mental health problems who have partially-reduced work capacity will only be effective if claimants receive adequate support to remain in, or return to, work.

- Without adequate support, there is a considerable chance that the number of people on unemployment benefit with mental health problems will increase (OECD, 2007 p98).

⁷ For further evidence on the effectiveness of sanctions, refer to the MSD Future Focus Evidence Brief “Compliance by Sanction”.

- Tackling stigma around ill health and disability is key to enabling more people with health conditions find and retain work. This is particularly true for those with mental health conditions, as many organisations often fail to recognise the full value of the contribution they can make (Black, 2008 p11).
- Pathways to Work (UK) has had a limited effect for those whose main health condition is a mental illness (Black, 2008 p13).
- For people with severe mental illness, evidence shows that individual placement and support is better than ‘train and place’ initiatives for those who are ready for paid employment. However, the economic benefits are not yet proven (Black, 2008 p87).

Best Practice – Key elements of effective programmes

In a comparative review of working-age disability policies and outcomes amongst 20 OECD countries, (OECD, 2003 p13), the following policy positions were recommended (OECD, 2003 p11):

- **Recognise the status of disability independent of the work and income situation.** The term “disabled” should no longer be equated with “unable to work”. Disability should be recognised as a condition but it should be distinct from eligibility for, and receipt of, benefits, just as it should not automatically be treated as an obstacle to work. The disability status, ie the medical condition and the resulting work capacity, should be re-assessed at regular intervals. The recognised disability status should remain unaffected by the type and success of intervention unless a medical review certifies changes.
- **Include a culture of mutual obligations.** Most societies readily accept their obligation to make efforts to support and (re)integrate disabled persons, but it is less common to expect disabled persons themselves and, if applicable, their employers to contribute to the process as well.
- **Design individual work/benefit packages.** Merely looking after the financial needs of disabled people through cash benefits is insufficient as this leaves many excluded from the labour market and sometimes even from society more generally. Therefore, each disabled person should be entitled to a “participation package” adapted to individual needs and capacities. The package could contain rehabilitation and vocational training, job search support, work elements and benefits in cash or in kind.
- **Introduce new obligations for disabled people.** Benefit receipt should in principle be conditional on participation in employment, vocational rehabilitation and other integration measures. Active participation should be the counterpart to benefit receipt.
- **Involve employers in the process.** This is crucial to the successful re-integration of disabled persons. The effectiveness of the measures depends on the willingness of employers to help disabled persons stay in or enter work (which can be influenced through incentives aimed at raising labour demand).

A recent review of the health of Britain’s working age population suggested that employers have significant scope to facilitate an employee’s early return from sickness absence. Early, regular and sensitive contact with employees during sickness absences can be a key factor in enabling an early return (Black, 2008 p11).

- **Promote early intervention.** Early intervention can in many cases be the most effective measure against long-term benefit dependence.

Emerging evidence suggests that for many people, early interventions help to prevent short-term sickness absence from progressing to long-term sickness absence and ultimately worklessness (Black, 2008 p12).

- **Make cash benefits a flexible policy element.** The cash benefits would have to be available with sufficient flexibility to take account both of differing levels of remaining work capacity and of the evolution of an individual's disability status over time. In addition, benefit entitlements should be designed such that the disabled person is not penalised for taking up work.
- **Reform programme administration.** A more individual approach will place a wide range of new demands on disability gatekeepers. Caseworkers will need to have an extensive knowledge of the range of available benefits and services, and more time to assist individuals and follow each case.
- **Design disability programmes as active programmes.** Often disability benefit systems function as early retirement programmes, providing a route for quasi-permanent exit from the labour market. Emphasising activation and the mutual obligations of both society and the disabled person moves disability policy closer to the underlying logic of unemployment programmes, which expect an active contribution and effort from beneficiaries.

What doesn't work?

Restricting access to disability benefits without opportunities for part-time employment.

- To manage the increasing group of jobseekers with labour market disadvantages, it is necessary for countries to have strong labour markets and good (re)employment support systems in place, otherwise reforms may only translate into higher numbers on unemployment benefit (OECD, 2007 p6).
- Even with a stronger emphasis on activation measures and mutual obligations, the success of disability policies depends on labour market factors such as unemployment levels or demand for older workers in general (OECD, 2003 p157).
- Policy makers should be honest about what job opportunities can be offered to middle-aged incapacitated workers, and in some cases it might simply prove impossible to find appropriate work (OECD, 2003 p157).

What don't we know?

The effectiveness of partial benefits. Some countries (eg Spain and Norway), use a partial disability benefit to encourage people with partially-reduced work capacity to remain in, or return to, employment. Across the OECD, there is inconclusive evidence about whether partial benefits help reduce benefit recipiency rates, or whether they instead increase them, and how they impact on employment rates (OECD, 2007b p101).

Impact of partial work availability requirements on outcomes. The impact of partial work availability requirements on outcomes often seems to be low despite the fact that many recipients of incapacity benefits have a degree of work capacity. Possible reasons for this are (OECD, 2006b p29):

- The effectiveness of job search and placement assistance for those restricted to part-time work is limited by the supply of part-time job vacancies with convenient schedules.
- Work-focused interviews may persuade people of the advantages of work over benefits and encourage their participation in more intensive programmes, but expecting people to participate repeatedly in such interviews or employment programmes without a requirement to accept suitable job offers, is ambiguous (eg Pathways to Work, UK).
- Increasing the number of possible benefit statuses with the introduction of partial benefits increases the number of borderline cases and thus administrative complexity and the incidence of contested decisions.

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