

ISF Report 2012:15

Stability in sickness and disability insurance

Swedish Social Insurance Inspectorate

Stockholm 2012

© Inspektionen för socialförsäkringen

Summary

The Swedish Social Insurance Inspectorate (Inspektionen för socialförsäkringen, ISF) is an independent supervisory agency for the Swedish social insurance system. The objectives of the agency are to strengthen compliance with legislation and other statutes, and to improve the efficiency of the social insurance system through system supervision and efficiency analysis and evaluation.

The ISF's work is mainly conducted on a project basis and is commissioned by the Government or initiated autonomously by the agency. This report has been commissioned by the Government.

Background

Sickness absence in Sweden has shown large fluctuations in the past decades.¹ The sickness and disability insurance beneficiary rate began to increase sharply in the late 1990s. In 2003, roughly 4 per cent of the employed were absent from work due to sickness. In addition, a large share of the population was receiving disability pension and therefore was not participating in the labour force. Sickness absence has decreased remarkably since 2003 and sickness spells have become much shorter. Sickness absence among the employed is now about 2 per cent, which is about the same level as the EU-15 average. Even the share of population receiving disability pension has decreased during the last few years. The inflow into disability pension is now at a low level, compared to both historical and international levels, contributing to the falling disability pension reciprocity rate. However, the sickness beneficiary rate and the inflow into disability pension have increased slightly during the last year.

¹ See for example OECD (2009a) for a further description of the past development of the sickness and disability benefits.

The Government has implemented a series of extensive reforms since 2006 to increase labour supply and demand. A new sick-leave process with a stricter timeline for work-capacity assessment was implemented in 2008 to facilitate the return to work. The reform package for the sickness insurance also included a limitation on the duration of sickness benefits and reduced benefits for those who remain on sickness benefits after 12 months. In addition, stricter medical requirements have been implemented in order to reduce the inflow into disability pension and the temporary disability pension scheme has been abolished. Also, the reforms implemented in labour taxation and unemployment insurance are likely to influence the sickness and disability insurance reciprocity rate.²

Objectives

The aim of this project is to analyse the stability in the sickness and disability insurance schemes, considering the past development of benefits and how different policy reforms and other factors may affect the take-up of sickness and disability insurance schemes. The project is also to investigate if it is possible to define equilibrium for sickness absence in the same way that equilibrium unemployment is defined in economic literature.

Findings and conclusions

The report shows that it is difficult to analyse sickness absence in a similar equilibrium setting to unemployment because sickness absence and unemployment – despite some similarities – are driven by totally different mechanisms. Unemployment exists because labour supply exceeds demand for labour in the labour market. Sickness absence, however, does not have a demand side since the absent employees can always return to their jobs. Unemployed people with a considerable history of sickness absence or partial work-capacity often face a difficult labour market situation. However, theories of unemployment can be applied in those cases since it is a problem concerning matching and the competitiveness of the unemployed.

² See e.g. OECD (2008) and Ministry of Finance (2011) for an overview of the recent policy reforms aimed at boosting labour supply and demand.

Equilibrium unemployment can be used to estimate how large a part of the observed unemployment is cyclical. Cyclical fluctuation in sickness absence is, however, much smaller and the patterns are not consistent over time or between different countries. Therefore, equilibrium sickness absence, if it is possible to define at all, is driven by different mechanisms from equilibrium unemployment. However, it is not possible to analyse what the driving mechanisms are without an established theoretical framework for equilibrium sickness absence.

The number of individuals receiving sickness and disability insurance benefits in Sweden has varied over time in a way that is difficult to explain solely by changes in the health of the population, demographic changes or reforms in sickness and disability insurance. There is a vast literature that has tried to evaluate the effects of different factors on sickness absence. How well the health care system works, medical progress that affects the treatment of different illnesses, the working environment and the characteristics of those participating in the labour market all have an effect on sickness absence. There is also empirical evidence that, for example, social norms and interactions between individuals, the replacement rate of the sickness and disability insurance, control of the beneficiaries, economic incentives for employers, and the design of other social insurance systems, such as unemployment insurance, have an effect on the sickness and disability insurance beneficiary rate.

The reforms in the recent years within sickness and disability insurance as well as other policy reforms have probably reduced sickness absence. The reformed sick-leave process, with a much stricter timeline for work-capacity assessment, is also likely to contribute to a more stable development of sickness absence. However, sickness absence has fluctuated even at times when the policy rules have been unchanged. To the extent that fluctuations are due to factors other than policy reforms in the sickness and disability insurance – for example, changes in the working environment, attitudes towards sickness absence, and the enforcement of the existing legislation – it is difficult to predict future fluctuations.

An important issue for the development of sickness absence is whether today's labour market is able to create jobs for people with disabilities or a considerable history of sickness absence. Unemployed people with a considerable history of sickness absence or partial work-capacity are at a high risk of becoming long-term

unemployed. This raises the risk of future increases in the disability insurance beneficiary rate.

Work-capacity and sickness are both normative concepts that can change over time. Therefore, it is also a normative question what the optimal level of the sickness and disability insurance beneficiary rate is. The Government can influence this rate by adjusting the benefit regulation, e.g. the replacement rates and gate-keeping procedures.

References

Ministry of Finance (2011): *How should the functioning of the labour market be assessed?* Report from the Economic Affairs Department at the Swedish Ministry of Finance.

OECD (2008): OECD Economic surveys: Sweden. OECD Publishing.

OECD (2009a): *Sickness, disability and work: Breaking the barriers. Sweden: will the recent reforms make it?* OECD Publishing.