

The disability reform. Consequences for the labour market participation

Summary of

Uførereformen. Konsekvenser for yrkesaktiviteten

Fafo-rapport 2016:27

On 1 January 2015, new legislation concerning disability benefits was introduced. The primary aim of this “disability reform” was to facilitate increased participation in the labour market among recipients of disability benefits. We investigate whether this reform caused a change in the labour market participation among disability pensioners in the first 6 months after introduction. A central part of the reform was that all work should increase net income, thus our findings shed light on the assumption that financial incentives will change behaviour, also among disability pensioners.

The reform comprised four important changes:

1. Previously, an individual could not work during the first year after being granted disability pension. This one year suspension has been lifted.
2. The work income limit (before the disability pension is reduced) was reduced from 1.0 B.a to 0.4 B.a.¹
3. Taxation was changed, making disability pension taxes the same as taxes for work income. The purpose was to make it easier to understand the financial consequences of increased work.
4. The degree of disability does not change if a recipient works more than was originally anticipated. Thus, increased work does not entail a new assessment of the need for, or extent of, the disability benefit coverage.

The changes were aimed at ensuring that work will always be financially beneficial, i.e. the disability benefit alone will always be lower than the sum of labour income and disability benefit combined.

In a survey² of disability pensioners in late 2014, two out of three respondents stated that they were aware of the upcoming disability reform. However, only one in three stated that they had a good understanding of how they would be affected by

¹ Benefits from the National Insurance Scheme are determined in relation to a basic amount (B.a). This amount is adjusted annually in accordance with the increase in wages. On 1 January 2015, the basic amount was NOK 88 370 (about € 9 800).

² Conducted by the Norwegian Labour and Welfare Administration.

the new legislation. About 50 per cent agreed that the reform would make it easier to combine disability benefit and work, but only one in ten thought they would actually work more from 2015. Thus, based on the recipients' knowledge and assessments of the reform prior to its introduction, there was reason to assume that the new legislation would only affect a small share of recipients.

By linking the Labour Force Survey (LFS) with data on disability recipients from the Norwegian Labour and Welfare Administration (NAV), we were able to analyse the labour market participation among disability pensioners two years prior to the introduction of the reform, and six months after.

Overall, we found that men receiving full disability pension had a slight increase in employment in 2015, while the corresponding group of women saw a slight reduction. Partially disabled men and women both saw a reduction in employment; however the reduction was larger among the women.

In order to investigate whether the observed changes in employment were a result of the reform we performed a series of fixed-effects regression analyses. The analyses concluded that these changes for the most part did not affect employment rates among disability pensioners. The new legislation has not changed the employment rates of the fully disabled, nor of partially disabled men. Among partially disabled women, who make up about 10 per cent of the population of disability benefit recipients, the reform had a negative effect on employment rates.

However, the data used in our analyses only covers the first 6 months after the reform was introduced. This is a relatively short time to gain a foothold in the labour market, especially for a disabled person. We therefore extended our analyses, investigating not only employment per se, but also the disability pensioners who stated that they wanted to work. These analyses did not change our initial findings. Thus, with the aforementioned exception, our main conclusion is that the reform did not affect the employment rate among disability pensioners during the first 6 months after introduction.

The implicit financial incentives embedded in the new legislation are not the only factors related to the reform which can affect employment rates. In brief, the following factors may contribute to the reform's lack of impact on employment rates among disability pensioners.

Firstly, in order to qualify for disability benefit a person's earnings capacity must be permanently reduced due to illness or injury, or both. Thus, disability pensioners have health issues that reduce their work ability, regardless of the potential financial benefits to be gained from working. Based on the LFS in 2014, about 26 000 disability pensioners were either looking for work or looking for more work than they had at the time. Given that the total population of disability pensioners was 300 000, this shows that at the outset only a relatively small share of the disabled population were likely to be affected by the reform.

Secondly, there are indications that the financial consequences of the reform were not very well understood by the disability benefit recipients. Although NAV sent information to the recipients and created a website to disseminate information, a survey showed that few knew how they would be affected. Thus, uncertainty regarding both the new legislation and the financial consequences of work may have made some hesitant to start or increase work.

In addition, when the reform was first introduced, the media focused more on how the reform might affect actual benefit amounts, and not on the possibilities of combining benefit and employment. Therefore, disability pensioners may have worried more about whether their benefit would be reduced, rather than focusing on the inherent financial incentives aimed at making more recipients seek employment.

Our main conclusion is that the incentives in the “disability reform” did not affect the majority of disability benefit recipients in the first 6 months after introduction. However, this does not mean that the employment rate will not increase at a later stage, since it may take some time for the reform to have an impact. The NAV survey showed that the new legislation was poorly understood at the time of introduction. For a disabled person seeking employment, it may take some time to find work that matches their work ability and skills. If a large number of disability pensioners start searching for employment, this new supply has to be met with vacant positions and employers who are willing to hire.

There are a number of barriers that may restrict labour market participation among disability pensioners and others with a reduced ability to work. A common explanation of the low employment rates in these groups is the attitudes and the willingness among employers to hire individuals with reduced work ability. Such attitudes will affect the possibilities of getting a job, and therefore also the potential effects of a reform designed to change the behaviour of disability pensioners. With this in mind, the reform and its incentives may have been more efficient had they been combined with measures and means to increase the demand for the work capacity found among recipients of disability pension.