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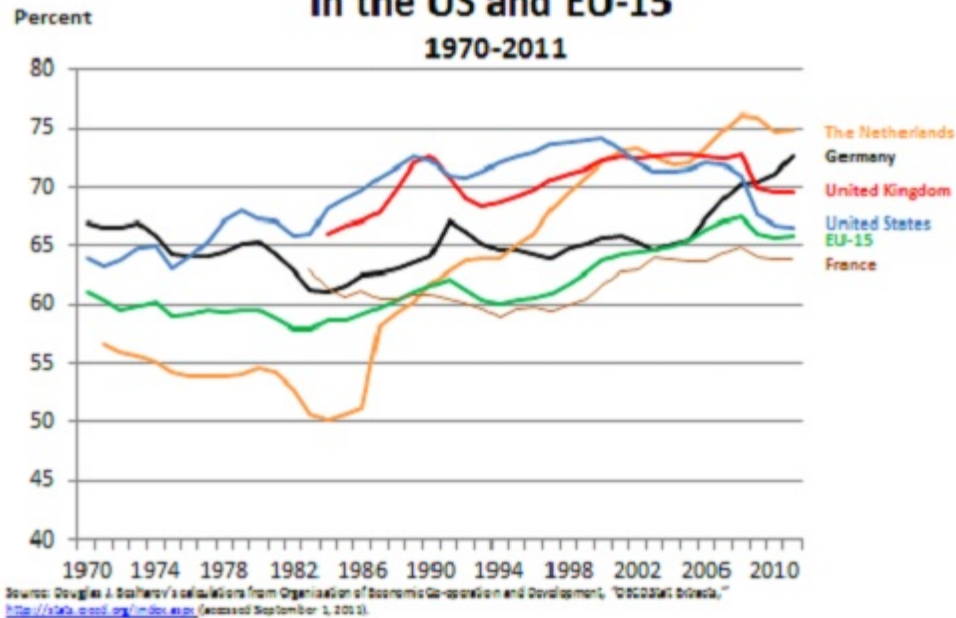
## **Recent Developments in Disability Policy in the Netherlands**

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Even before the 2007/2008 Financial Crisis and the national recessions that followed, employment and labor force participation rates in many developed countries were in worrisome decline, a trend that began in the 1970s. Across the EU-15, for example, between 1970 and 1982, the percentage of the population employed fell from 61 percent to 57.8 percent (before beginning a slow increase). For men, the decline was much longer and steeper, from 83.7 percent in 1970 to 70.5 percent in 1994. Overall labor force participation increased during this period, but only because more women were entering the labor force. (See figure 1.) At the same time, in most countries, new highs were reached in the percent of the population receiving government benefits (essentially unemployment insurance, disability benefits, and social assistance).

Various factors were at work, of course, including a general weakening in demand for workers (coupled with changes in required skills, in part brought on by automation), demographic shifts (including aging populations and the increasing role of women in the workforce), and more competition from abroad (driven by cross-national manufacturing as well as outsourcing). But, most experts agree, generous social safety net arrangements also contributed, although there is legitimate disagreement about the size of the impact (as with the other factors). The interaction between formal work and safety-net benefits is direct enough: All things being equal, at some point, means-tested benefits become large enough (often coupled with high marginal tax rates) to discourage many lower-wage workers from seeking formal employment—or, at least, to not encourage them to work, especially in times of declining wages as well as high unemployment.

**Figure 1**  
**Employment/Population Ratios**  
**in the US and EU-15**



In response, in a series of slow but steady steps over the past two decades, a growing number of OECD countries introduced policy reforms aimed at “activating” the recipients of safety-net benefits who might be able to work. These changes were both programmatic (such as tightening eligibility, limiting the duration of benefit receipt, and mandating job search and other work-first activities) and administrative (such as consolidating programs, decentralizing authority, outsourcing services, and incentivizing systems of financing and reimbursement). The U.S. welfare reforms of the 1990s were an early part of this movement, but since then, other (but not all) OECD countries have made more fundamental reforms to their labor activation policies, and they can serve as models to other countries (including the U.S.).

Given what will apparently be a long period of persistently high unemployment, many analysts and policymakers are asking whether such labor activation policies should be strengthened to help speed recovery—or whether they should be paused or at least slackened until economies strengthen. On the one side, the need to move safety-net recipients toward work seems greater than ever, and may be a necessary precursor to economic progress. On the other side, it seems an unfair waste of effort to put recipients through the stressful effort of looking for work at this time of lesser job opportunities and high unemployment.

Since the beginning of the global financial crisis (starting in 2007 in the United States and in 2008 in the rest of the world), a number of other OECD countries have continued to modify their safety-net assistance programs in an effort to “activate” those receiving disability benefits.

Up to now, however, the U.S. policy discourse has largely ignored these developments, some of which are quite substantial. Instead, recent U.S. policy has gone in the opposite direction: lengthening benefit duration, expanding eligibility, and relaxing activation requirements.

Since 2000, the two major federal disability programs, Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) have experienced large increases in spending and in caseloads. Between 2000 and 2012, spending on SSDI benefits almost doubled, going from about \$74.2 billion to about \$128 billion, and the caseload increased from 6.7 million to 10.2 million.<sup>1</sup> For SSI, in the same period, spending increased from \$41.4 billion to \$54.3 billion and the caseload increased from 6.6 million to 8.2 million.<sup>2</sup> (The number of children receiving SSI increased from about 850,000 to 1.3 million.)<sup>3</sup> In 2010, about 14.8 percent of SSDI households also received SSI, and about 16.4 percent of SSI households also received SSDI.<sup>4</sup>

The recent increase in the disability caseload is due not only to the downturn in the economy but also to programmatic changes reaching back to the 1980s that made U.S. programs easier to get on and to stay on (and, hence, also, more susceptible to the weak employment consequences of business cycle downturns). For example, in 1984, the eligibility criteria for applicants with mental illnesses were changed so that disability determination specialists were required to more heavily weight non-physician determinations of the ability to function in a work environment over narrower and more objectively determined clinical markers for determining the degree of severity of mental illnesses. As a result, mental illness and another condition that is very difficult to objectively assess (muscular skeletal conditions, especially back pain), now account for more than one-half of all new beneficiaries coming onto the rolls. At the same time, recertification reviews were changed to require that the agency not only show that the recipient no longer met the medical standards for program eligibility but that this was due to a medical improvement of previously determined conditions. In addition, disability decision-making

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<sup>1</sup>Social Security Administration, “Disabled Worker, Spouse of Disabled Worker, Child of Disabled Worker,” <http://www.ssa.gov/cgi-bin/currentpay.cgi> (accessed April 30, 2013).

<sup>2</sup>Social Security Administration, “SSI Federally Administered Payments: Table 1. Recipients (by type of payment), total payments, and average monthly payment, January 2000–December 2000,” [http://www.ssa.gov/policy/docs/statcomps/ssi\\_monthly/2000/table01.html](http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2000/table01.html) (accessed June 25, 2012); and Social Security Administration, “SSI Federally Administered Payments: Table 1. Recipients (by type of payment), total payments, and average monthly payment, January 2012–December 2012,” [http://www.ssa.gov/policy/docs/statcomps/ssi\\_monthly/2012/table01.html](http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2012/table01.html) (accessed April 30, 2013);

<sup>3</sup>Social Security Administration, “SSI Federally Administered Payments: Table 2. Recipients, by eligibility category and age, January 2000–December 2000,” [http://www.ssa.gov/policy/docs/statcomps/ssi\\_monthly/2000/table02.html](http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2000/table02.html) (accessed June 25, 2012); and Social Security Administration, “SSI Federally Administered Payments: Table 2. Recipients, by eligibility category and age, January 2012–December 2012,” [http://www.ssa.gov/policy/docs/statcomps/ssi\\_monthly/2012/table02.html](http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2012/table02.html) (accessed April 30, 2013).

<sup>4</sup>Calculations performed by Richard Bavier using U.S. Census Bureau’s Survey of Income and Program Participation (SIPP).

processes in general were modified so that evidence from the recipients' own physicians are considered first in determining disability. Only when the evidence is insufficient or unavailable does the federally-funded, state-operated Disability Determination Services staff arrange examinations for claimants.<sup>5</sup> (Only if the evidence from claimants' physicians are inadequate do DDS staff arrange examinations for claimants.)<sup>6</sup>

Whether or not deliberate attempts to increase disability rolls, these changes have a greater impact on caseloads during times of high unemployment than in better times. According to Richard Burkhauser of Cornell University and Mary Daly of the Federal Reserve Bank of San Francisco, "Plots of the SSDI application rate and the national unemployment rate show that with the exception of the doubledip recession in the 1980s, application rates are highly correlated with the business cycle—rising during recessions and falling during periods of economic growth."<sup>7</sup> (See figure 6). The result is fewer unemployment insurance recipients (who will face at least some activation requirements) and more disability recipients (who will face no activation requirements).

In addition to these programmatic changes, a number of nonprogrammatic changes have also contributed to the increase in the disability caseload. Joyce Manchester, chief of the Long-Term Analysis Unit at the Social Security Administration, testified in March 2013 that there are two major demographic trends that are contributing to the increase of the disability caseload: (1) The labor force is getting older on average and older workers are more likely to have health issues than younger workers, and (2) the total number of people in the workforce has increased as women have entered the workforce and, over the last fifteen years, the percent increase in disability receipt has been higher for women in the labor force compared to men (an increase of 110 percent compared to 50 percent).<sup>8</sup>

The Federal Social Security Disability Insurance (SSDI) program began in 1956, but

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<sup>5</sup>John Bound and Richard V. Burkhauser, "Economic Analysis of Transfer Programs Targeted on People With Disabilities," in *Handbook of Labor Economics* volume 3 (Amsterdam: Elsevier, 1999), 3418–3528, <http://elsa.berkeley.edu/~saez/course/bound-burkhauserHLE99.pdf> (accessed September 9, 2012); Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (Washington, DC: American Enterprise Institute Press, 2011); and Social Security Administration, "Disability Evaluation Under Social Security," <http://www.ssa.gov/disability/professionals/bluebook/> (accessed April 30, 2013).

<sup>6</sup>Social Security Administration, "Disability Evaluation Under Social Security," <http://www.ssa.gov/disability/professionals/bluebook/> (accessed April 30, 2013).

<sup>7</sup>Richard V. Burkhauser and Mary Daly, "Social Security Disability Insurance: Time for Fundamental Change," *Journal of Policy Analysis and Management* 31, no. 2 (Spring 2012): 458.

<sup>8</sup>Joyce Manchester, "The Social Security Disability Insurance Program," (testimony, U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Social Security, Washington, DC, March 14, 2013), [http://www.cbo.gov/sites/default/files/cbofiles/attachments/43995\\_DI-Testimony.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43995_DI-Testimony.pdf) (accessed November 26, 2013).

coverage was limited to workers with disabilities aged fifty and older. It now provides an average of about \$11,500 annually to disabled workers (and their spouses and children) who paid payroll taxes for at least ten years, or, for those under thirty-one, who paid payroll taxes for at least six quarters.

Supplemental Security Income (SSI) was enacted in 1972, replacing a patchwork of state-funded and state-administered programs for the low-income elderly and the disabled (including Old-Age Assistance, the Aid to the Permanently and Totally Disabled, and Aid to the Blind).<sup>9</sup> SSI is a means-tested federal benefit for the low-income elderly, blind, and otherwise disabled adults and children.<sup>10</sup>

In recent years, attempts have been made to encourage SSDI and SSI recipients to work, most notably through earnings disregards and the Ticket to Work program which provides vouchers for rehabilitative services, employment services, or other needed support services to help the recipient become more employable. A Mathematica Policy Research evaluation of the Ticket to Work program found the program to be largely unsuccessful because of an overall lack of interest in returning to employment led to a take-up rate of about 1.5 percent.<sup>11</sup>

One problem is that both SSDI and SSI use a dichotomous definition of “disabled” (that is, one is either completely disabled or one is not disabled). Disabled “is defined as the inability to engage in substantial gainful activity (SGA) by reason of a medically determinable physical or mental impairment expected to result in death or last at least 12 months.”<sup>12</sup> This either/or approach to eligibility is widely seen as a barrier to employment. Many experts think that SSDI and SSI recipients, often having waited a year or more before being declared disabled, are justifiably reluctant to even look for work for fear of then being declared no longer disabled.

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<sup>9</sup>Edward D. Berkowitz, “Disability Policy and History: Statement Before the Subcommittee on Social Security of the Committee on Ways and Means,” (testimony, Committee on Ways and Means, Washington, DC, July 13, 2000), <http://www.ssa.gov/history/edberkdib.html> (accessed June 22, 2012); and Mary C. Daly and Richard V. Burkhauser, “The Supplemental Security Income Program,” in *Means-Tested Transfer Programs in the United States*, ed. Robert A. Moffitt (Chicago: University of Chicago Press, 2003), 79–139, <http://www.nber.org/chapters/c10255.pdf> (accessed June 22, 2012).

<sup>10</sup>Social Security Administration, “What is Supplemental Security Income?” <http://www.ssa.gov/pgm/ssi.htm> (accessed June 18, 2012).

<sup>11</sup>Craig Thornton, Gina Livermore, Thomas Fraker, David Stapleton, Bonnie O’Day, David Wittenburg, Robert Weathers, Nanette Goodman, Tim Silva, Emily Sama Martin, Jesse Gregory, Debra Wright, Arif Mamun, *Evaluation of the Ticket to Work Program: Assessment of Post-Rollout Implementation and Early Impacts* (Princeton, NJ: Mathematica, 2007), <http://communications.mathematica-mpr.com/publications/PDFs/TTWpostrolloutvol1.pdf> (accessed June 25, 2012).

<sup>12</sup>Tim Zayatz, *Social Security Disability Insurance Program Worker Experience* (Washington, DC: Social Security Administration, 2011), [http://www.ssa.gov/oact/NOTES/pdf\\_studies/study122.pdf](http://www.ssa.gov/oact/NOTES/pdf_studies/study122.pdf) (accessed June 22, 2012).

Moreover, SSDI recipients lose their benefits if they have earnings above a specified earnings limit, but are able to keep 100 percent of their earnings below the specified limit and the entirety of their benefits.<sup>13</sup> No partial benefits are provided. Therefore, SSDI recipients do not have an incentive to take full-time employment unless it exceeds the amount they are already making by combining disability benefits and part-time work. And because benefits are not reduced for each additional dollar of earnings, the effect of exceeding the specified limit is magnified as it represents a 100 percent loss of benefits.

SSI recipients, on the other hand, have their first \$65 in earnings disregarded but then lose 50 cents in benefits for each additional dollar earned until their earnings exceed the maximum allowed amount.

Except for five state programs,<sup>14</sup> the U.S. disability programs do not consider temporary disabilities, but instead rely on a difficult to implement categorization process. In the SSDI and SSI programs, conditions where improvement is “expected” are reviewed every twelve-to-eighteen months, conditions where improvement is “possible” are reviewed every three years, and conditions where improvement is “unlikely” are reviewed every five-to-seven years.<sup>15</sup> The disadvantage of this system is that an inaccurate assessment of the duration of an individual’s disability can lead to an extended spell of disability receipt during which the individual might have been able to return to work.

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<sup>13</sup>Disability recipients are also given nine “trial months” where they may earn more than the cap on earnings without losing their benefits.

<sup>14</sup>The five states with temporary disability programs are California, Hawaii, New Jersey, New York and Rhode Island. States either have a state-run disability insurance program or require employers to purchase disability insurance from authorized providers. In all states, workers must be disabled for at least seven days before becoming eligible for temporary disability and their disabilities must be confirmed by medical professionals. Program regulations vary widely across the states: weekly wage replacement rates range between 36 percent in Rhode Island to 66 percent in New Jersey, maximum weekly payments range from about \$170 in New York to about \$1,000 in California, and the maximum number of weeks of eligibility ranges from twenty-six weeks in three states to fifty-two weeks in California. California Employment Development Department, “State Disability Insurance Frequently Asked Questions,” <http://www.edd.ca.gov/Disability/FAQs.htm> (accessed October 24, 2012); Hawaii Department of Labor and Industrial Relations, “About Temporary Disability Insurance,” <http://hawaii.gov/labor/dcd/abouttdi.shtml> (accessed October 24, 2012); New Jersey Department of Labor and Workforce Development, “State Disability Benefits,” [http://lwd.dol.state.nj.us/labor/tdi/worker/state/sp\\_clt\\_menu.html](http://lwd.dol.state.nj.us/labor/tdi/worker/state/sp_clt_menu.html) (accessed October 24, 2012); New York State Workers’ Compensation Board, “Disability Benefits (Off-the-Job Injury or Illness),” [http://www.web.ny.gov/content/main/offthejob/IntroToLaw\\_DB.jsp](http://www.web.ny.gov/content/main/offthejob/IntroToLaw_DB.jsp) (accessed October 24, 2012); Rhode Island Department of Labor and Training, “Temporary Disability Insurance: Frequently Asked Questions,” <http://www.dlt.ri.gov/tdi/tdifaqs.htm> (accessed October 24, 2012); and Social Security Administration, *Social Security Programs in the United States* (Washington, DC: Social Security Administration, July 1997), <http://www.ssa.gov/policy/docs/progdesc/sspus/sspus.pdf> (accessed October 24, 2012).

<sup>15</sup>Scott Szymendera, *Primer on Disability Benefits: Social Security, Disability Insurance (SSDI) and Supplemental Security Income (SSI)* (Washington, DC: Congressional Research Service, February 2010), <http://aging.senate.gov/crs/ss27.pdf> (accessed June 19, 2012).

## Key Developments in the Netherlands

Some of the most extensive changes to disability have been made in the Netherlands, and many of its new policies are worthy of consideration by the U.S.—as responses to the immediate economic crisis, and some also deserve consideration as longer-term solutions to chronic unemployment and a continued commitment to “labor activation.” Key aspects are summarized below.

### Disability benefits

In the mid-2000s, the Netherlands made a series of changes designed to base the amount of disability benefits on the severity and the permanency of recipient disability and modified its sickness benefits program to include an assessment of work capacity after one year of benefit receipt.

Recipients who lose more than 80 percent of their earnings capacity (and have no potential for recovery) are awarded “full and permanent” disability benefits (“IVA benefits”) that replaces 75 percent of gross earnings up to the cap of 44,400 euros. However, if the disability is either less than 80 percent of earnings capacity or there is potential for recovery, recipients receive partial disability benefits (“WGA benefits”), which has two parts:

- (1) *A wage-related benefit* that is determined upon application for disability benefits and replaces 70 percent of the pre-disability wage.<sup>16</sup> The duration of the wage-related benefits varies from four to thirty-six months based on the recipient’s age and previous years in the work force.
- (2) *A follow-up benefit* that applies after the time limits are reached. To determine the benefit level, social insurance doctors and vocational experts assess the extent of the recipient’s disability and determine the recipient’s residual earnings capacity. Benefits are to be lowered for recipients who do not work enough to meet their residual capacity. According to the University of Amsterdam’s Philip De Jong, “It shows what the purpose of the WGA-scheme is: work pays, and working more, pays more.”<sup>17</sup>

In October 2012, the Netherlands made substantial changes to its sickness benefits program which provides benefits to individuals who are sick and unable to work for up to two years. Recipients are now able to continue to receive benefits if they are mentally or physically unable to work at their previous job. After one year, recipients are re-assessed to determine if they are able to do any kind of work that pays 65 percent of their previous job. If so, they are no

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<sup>16</sup>Capped at 44,400 euros.

<sup>17</sup>Philip De Jong, *Recent Changes in Dutch Disability Policy* (The Hague, Aarts Public Economics, September 2008), <http://www.ape.nl/include/downloadFile.asp?id=75> (accessed May 20, 2011), 12.

longer eligible to receive sickness benefits.<sup>18</sup>

Between 2000 and 2010, the number of disability recipients declined by about 22.5 percent, from about 943,000 to about 730,000.<sup>19</sup>

### **Incentivized systems of financing and reimbursement**

Beginning in 2004, to help prevent worker disability, the Netherlands made employers responsible for paying sickness payments for the entire time that workers are eligible to receive benefits (up to two years). Sickness payments must be at least 70 percent of the employees' salary. (Some employers pay 100 percent of employees' salary for the first year of sickness benefits because of arrangements in collective bargaining agreements).<sup>20</sup> Beginning in 2012, employers will experience premium increases for the amount they pay for sickness benefits if a number of temporary contract workers with the company receive sickness benefits upon the ending of their temporary contracts. The purpose of this is to incentivize employers to keep employees, even temporary employees, from receiving sickness benefits.<sup>21</sup>

After two years of sickness payments, recipients who are determined unlikely to improve are transferred to the disability system where they are assessed to determine whether they have a full disability or a partial disability. Employers continue to pay the benefits of their partially disabled employees and the government pays for the benefits of the fully disabled.<sup>22</sup>

As an incentive for municipalities to activate social assistance recipients quickly and

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<sup>18</sup>Boekel de Neree, "Act to Limit Sick Leave and Occupational Disability Among Safety-Netters," [http://www.boekel.com/media/635571/newsflash\\_employment\\_law\\_november\\_2012\\_.pdf](http://www.boekel.com/media/635571/newsflash_employment_law_november_2012_.pdf) (accessed March 20, 2013).

<sup>19</sup>Centraal Bureau voor de Statistiek, "Statline," <http://statline.cbs.nl/statweb/?LA=en> (accessed June 4, 2012).

<sup>20</sup>ACCESS Netherlands, Social Security (The Hague: ACCESS Netherlands, April 2010), [http://www.access-nl.org/our\\_services/pdf/booklets/social\\_security.pdf](http://www.access-nl.org/our_services/pdf/booklets/social_security.pdf) (accessed September 5, 2011).

<sup>21</sup>Boekel de Neree, "Act to Limit Sick Leave and Occupational Disability Among Safety-Netters," [http://www.boekel.com/media/635571/newsflash\\_employment\\_law\\_november\\_2012\\_.pdf](http://www.boekel.com/media/635571/newsflash_employment_law_november_2012_.pdf) (accessed March 20, 2013); see also CMS Derks Star Busmann, "Modernisation of the Sickness Benefits Act: Change for Both Employers and Employees," <http://www.cms-dsb.com/modernisation-of-the-sickness-benefits-act-changes-for-both-employers-and-employees-31-10-2012> (accessed March 20, 2013).

<sup>22</sup>Organisation for Economic Co-operation and Development, *Sickness and Disability Schemes in the Netherlands* (Paris: OECD, November 2007), <http://www.oecd.org/dataoecd/35/30/41429917.pdf> (accessed June 15, 2012); Marco van Dal, "Sickness and Disability: The Role of the Employer in the Netherlands," (presentation, Organisation for Economic Co-operation and Development, Paris, June 28, 2007), <http://www.oecd.org/dataoecd/30/55/39464057.pdf> (accessed June 15, 2012).



reduce the length of social assistance spells, in 2004, the Netherlands also provided social assistance block grants to municipalities based on the national government's estimate of how many social assistance recipients there should be in each municipality (taking into account economic and demographic factors). The municipality is allowed to keep any excess funds it does not spend on social assistance, but, in return, must use the municipality's funds to cover any excess spending on social assistance.