Financial incentives for job retention

An analytical framework applied in three countries

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Study in three countries

<table>
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<th>Country</th>
<th>Organisation</th>
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<td>The Netherlands</td>
<td>TNO</td>
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<td>Denmark</td>
<td>Danish National Centre for Social Research (SFI)</td>
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<td>Great Britain</td>
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Sickness absence – (adverse) effects

› Employee: health, income, employability, job security

› Employers: productivity, replacement, benefit payments

› Public sector / insurance companies: benefit payments

› Health sector: provision of services
Prevention of sickness absence and support return to work

- OECD (2010): “The best way to combat sickness absence and its unfavourable effects is by strengthening the financial incentives of all the actors involved.”

- The OECD stresses the significance of a balance of incentives between the actors aimed at prevention of sickness absence and supporting return to work.
Analytic framework – financial flows

Provision of services
- reintegration, vocational rehabilitation etc.
- Health sector
  - curative
  - OSH

Employers

Employees

Public authorities

Insurers (public/private)
The Netherlands

- Strong incentive for employers: wage payment during first two years of illness of their employees.

- Financial risks of employers largely insured: shift of financial incentives to private insurance companies.

- For employees main incentive in second year: 70% of previously earned wages.
Denmark

- Limited incentive for **employer**: payment of sickness benefits in first three weeks.

- After three weeks sickness benefits are paid by municipality, partly reimbursed by the state: incentive lies with **public authorities**.

- **Employees** have strong incentives to return to work:
  - significant reduction in income
  - avoid dismissal.
Great Britain

- **Employers** are obliged to pay Statutory Sick Pay for 28 weeks.
- In addition **employers** may voluntarily provide Occupational Sick Pay.

- After 28 weeks employees are entitled to **state** benefits.

- Strong incentives for **employees**:
  - sick pay implies significant loss in income.
  - possible dismissal after 28 weeks of sickness.
Timelines for sick pay in three countries

INCOME
(% of wages)

TIME

3 weeks  28 weeks  52 weeks  2 years

100%

70%

62%

50%
Timelines for sick pay in three countries

INCOME (% of wages)

TIME

3 weeks 28 weeks 52 weeks 2 years

The Netherlands

EMPLOYER

PUBLIC
Timelines for sick pay in three countries

INCOME (% of wages)

3 weeks 28 weeks 52 weeks 2 years

TIME

100%
70%
62%
50%

The Netherlands
Denmark

EMPLOYER
PUBLIC

EMPLOYER
PUBLIC
Timelines for sick pay in three countries

- **The Netherlands**: 100% for 3 weeks, then 70% for 28 weeks, then 62% for 52 weeks, then 50% for 2 years.
- **Denmark**: Starts at 62% for 3 weeks, then remains 50% for the rest.
- **Great Britain**: Starts at 50% for 3 weeks, then remains 50% for 2 years.
Effectiveness of incentives

› Little evidence on effects in these three countries.

› Complexity due to diversity of actual incentives as a result of specific arrangements at sector, company and individual level.

› Available evidence indicates relatively small, transitory effect of financial incentives in reducing sickness absence.

› However, also indications that financial incentives for employers, combined with sickness management and provision of health services is effective in reducing sickness absence.

› This indicates the potential effectiveness of a balance of incentives, including incentives for the health sector.
Room for improvement: stronger (direct) incentives for health sector

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