


Financial incentives for job retention

An analytical framework applied in three countries

Peter Brouwer MSc.

Study in three countries

Country	Organisation
The Netherlands	TNO
Denmark	Danish National Centre for Social Research (SFI)
Great Britain	Department for Work and Pensions (DWP)

Sickness absence – (adverse) effects

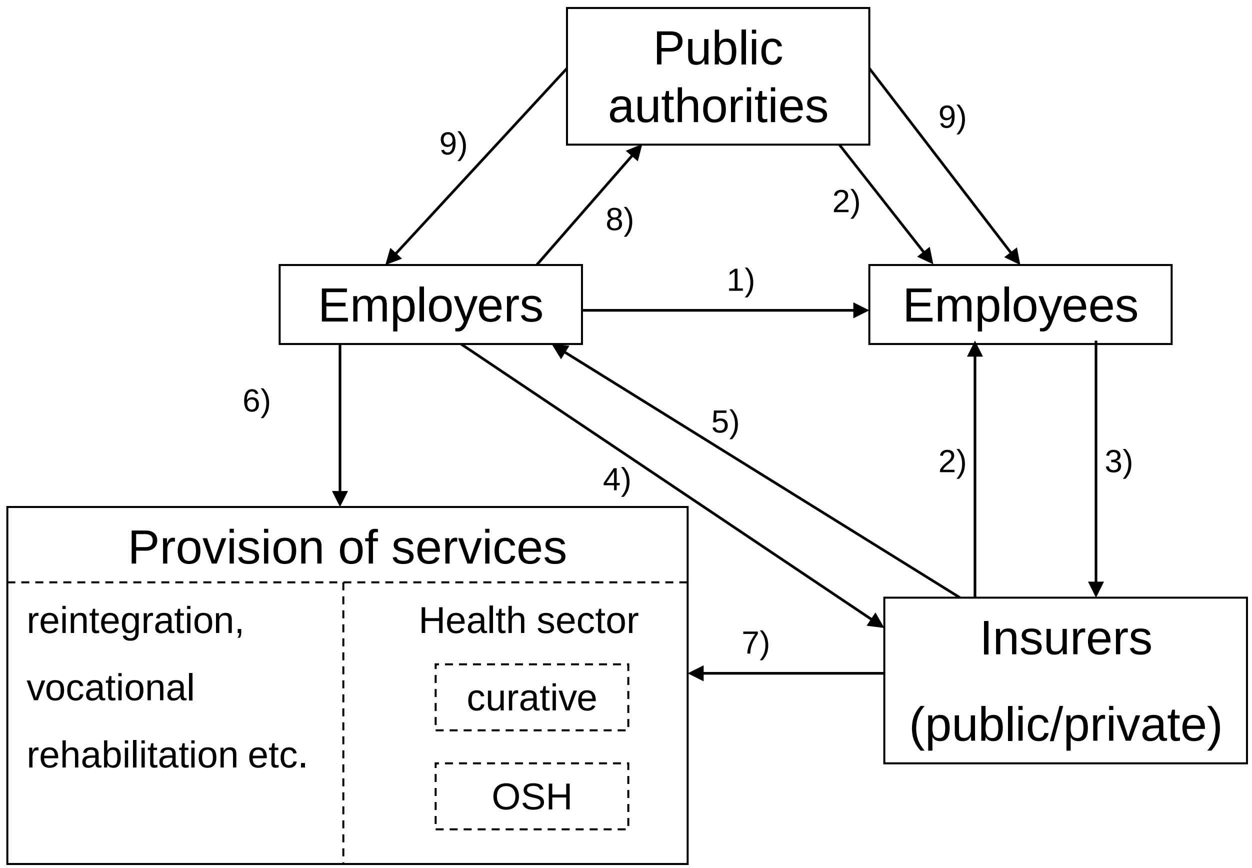
- Employee: health, income, employability, job security
- Employers: productivity, replacement, benefit payments
- Public sector / insurance companies: benefit payments
- Health sector: provision of services


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



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.

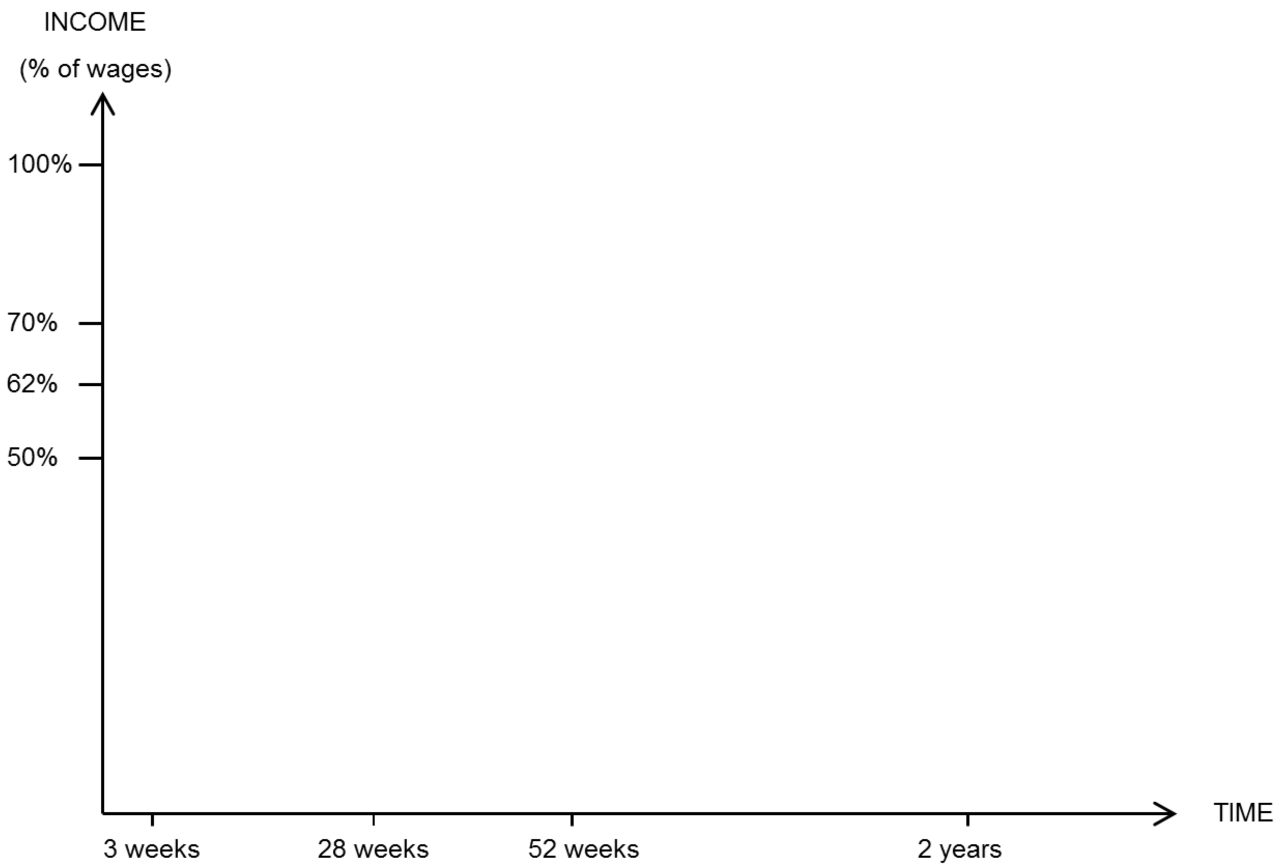
Great Britain

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

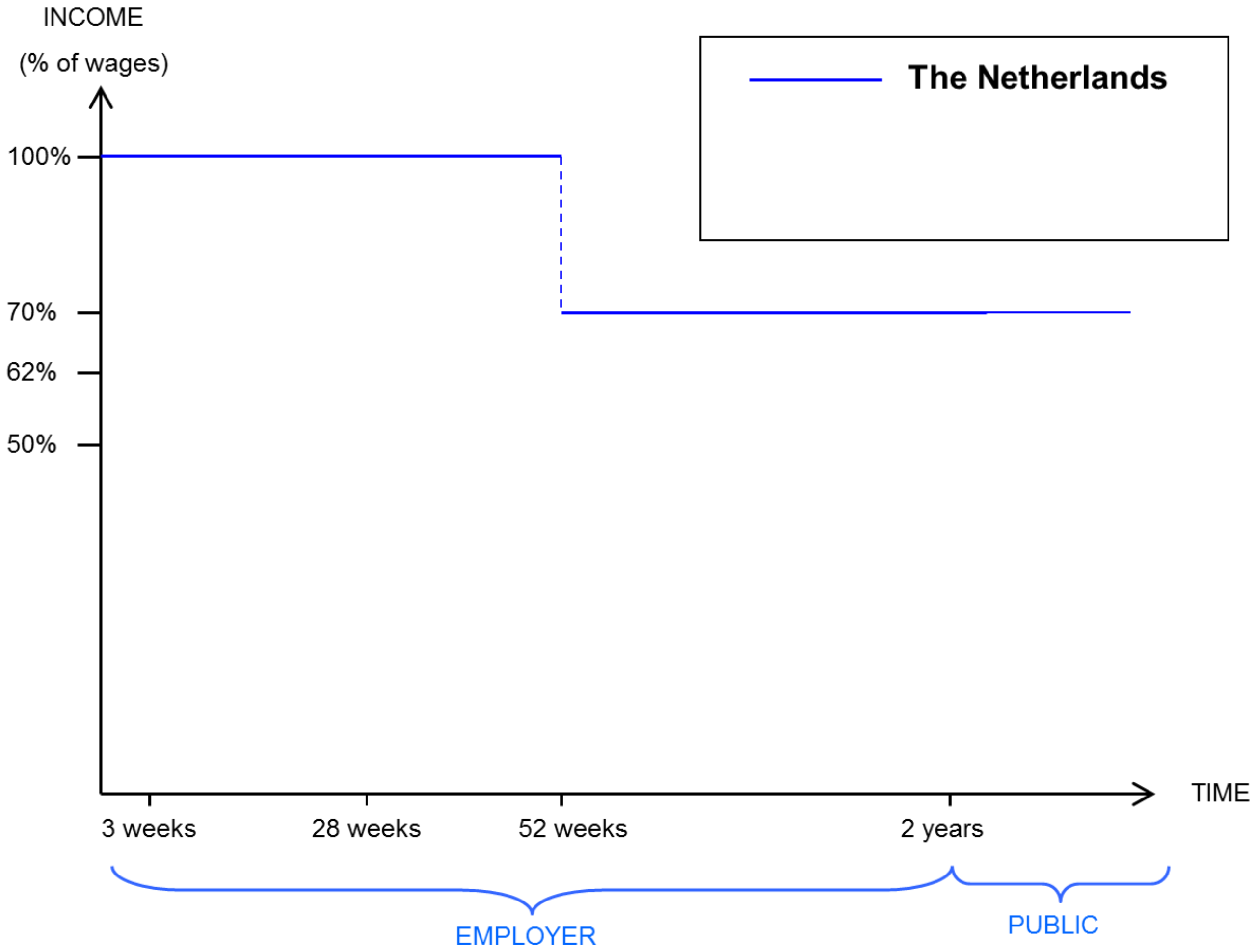
- After 28 weeks employees are entitled to **state** benefits.

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

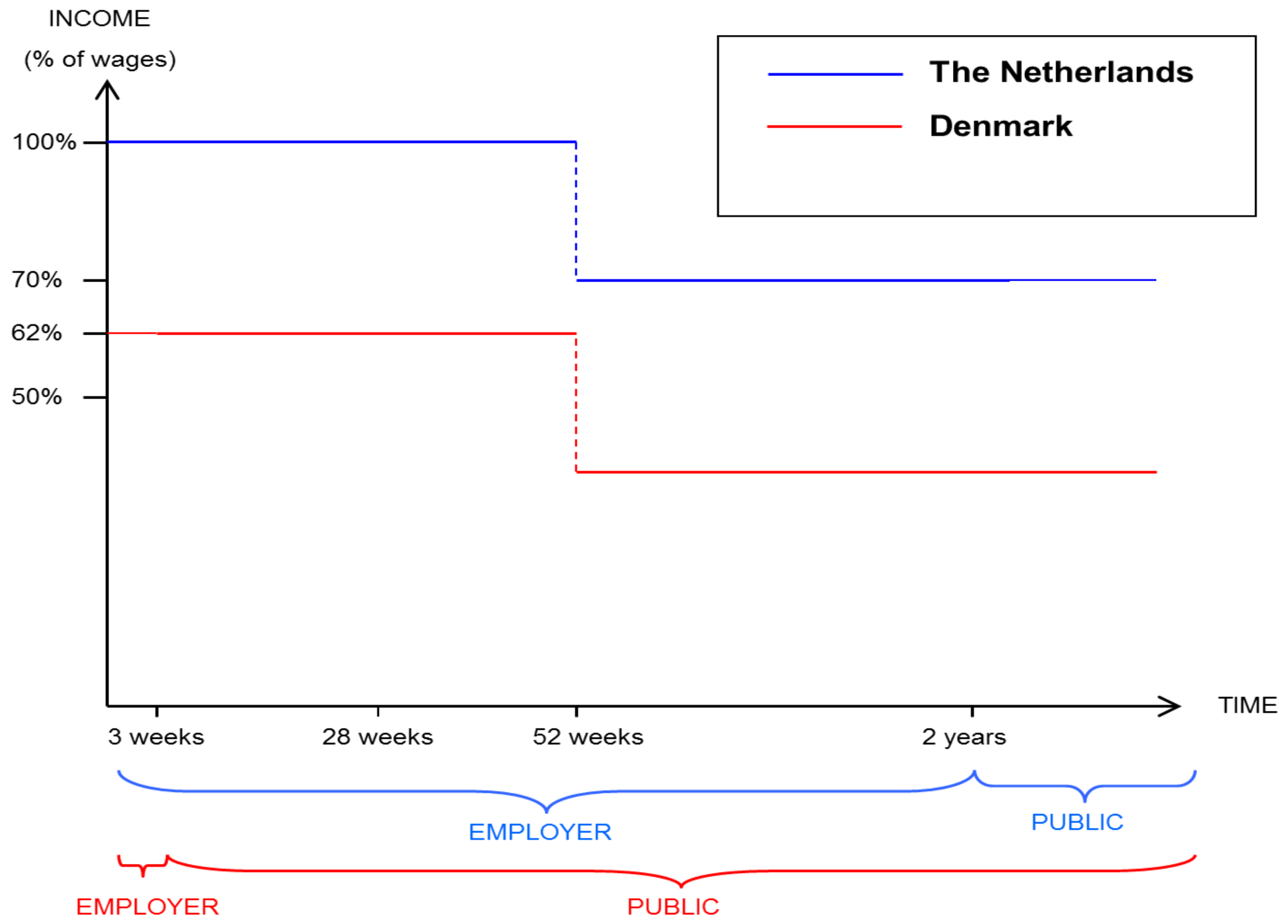
Timelines for sick pay in three countries



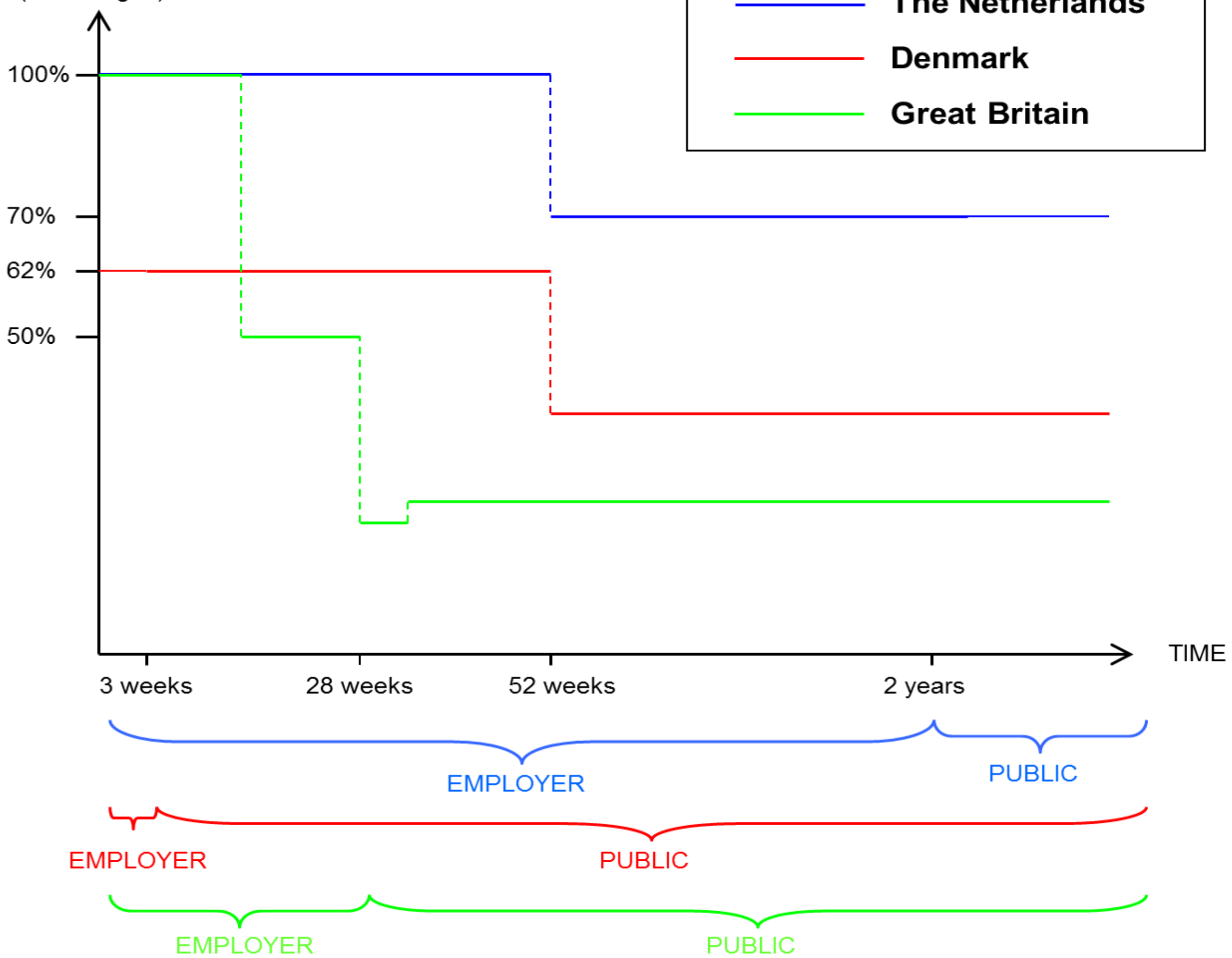
Timelines for sick pay in three countries



Timelines for sick pay in three countries



Timelines for sick pay in three countries



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