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Privatization of the absenteeism scheme: Experiences from the Netherlands

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Privatization of the absenteeism scheme: Experiences from the Netherlands

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Abstract: High sickness absenteeism and its high spending on disability benefits are major problems for Norway. This report shows how the Netherlands have addressed a problem in the past which is similar to the Norwegian problem. In 1980 the Netherlands experienced a peak in their sickness absenteeism rate of as much as 10%. These developments are likely to be related to the provision of disability benefits by the government. From 1994 until 1996, the law that regulated sickness absenteeism was privatized in a stepwise manner; the financial responsibility for sick employees was moved from the government to the employers. In 2002 a law was introduced that would stimulate sick people getting back to work. This Gatekeeper Improvement Act obliged employees and employers to actively work together in designing and executing a reintegration plan for the sick employee. With the privatization there was also the option for employers to insure themselves against this new-born risk. After the partial privatization in 1994 less than 10% of the employers insured themselves against this risk, compared to 80% after the full privatization in 1996. Without any further refinements of the privatization some groups would end up in a difficult position because they had no employer to reckon on. For these people the government retained their financial responsibility in case of sickness. Employers went along with these measures without too much fuss since they realized they could actually earn money by lowering their sickness absenteeism rate, and this they learnt step by step, as the measures were taken step by step.

Keywords: Absenteeism, disability, reintegration, privatization

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Privatization of the absenteeism scheme: Experiences from the Netherlands[1]

Introduction

One of the major problems for Norway is its high sickness absenteeism and its high spending on disability benefits. Spending on sickness and disability is about twice the average for the OECD countries (Organization for Economic Cooperation and Development [OECD], 2006). The most common route towards receiving disability benefits is via long-term sick leave, showing an intimate link between sickness and disability (OECD, 2006). Norway's high sickness absenteeism might be explained by the fact that benefits are generous (100% of earnings) and that it is paid by the government for the largest part (ibid.). In general, only the first 16 days of sick leave are paid for by the employer (ibid.).

The Norwegian situation is comparable with that of the Netherlands around the 1980s, when employees also received generous paid sick leave of 80% of earnings. At that time, the Netherlands were also coping with a high rate of sickness absenteeism of about 10% (see figure 1). At the same time, spending on disability benefits was excessively high, and more stringent measures were taken to reduce the inflow into the disability benefit scheme by making disability benefits less attractive. After these measures, not only was the growth of spending on disability benefits reduced, the Netherlands also experienced a drop in the rate of sickness absenteeism. However, as expenditures on disability benefits were still high, more measures were taken. By privatizing the absenteeism schemes step by step in 1994, 1996, and 2004, the government improved incentives for employers to reduce the sickness absenteeism in their firm. Moreover, with the installation of the Gatekeeper improvement Act in 2002, rules regarding the reintegration process of sick employees became much stricter.

With these measures, the government aimed at reducing sickness absenteeism and hence, to reduce the inflow into disability benefit schemes. It has been successful in the sense it was able to overcome potential political and employer resistance.

The aim of this report is to show how the Netherlands have addressed a problem in the past which is similar to the problem Norway is currently facing. If Norway is considering the possibility to privatize its scheme of sickness absenteeism, it might draw lessons from the Netherlands' recent history.

The remainder of this report is organized as follows. First, we elaborate on the process of change since 1980, with a focus on the changes between 1994 and 2004. Next, we will describe the role of private insurance after the privatization. As was to be suspected, there would be a problem of adverse selection for certain groups of "high-risk" persons. In the Netherlands, this issue was

[1] The authors would like to thank Knut Røed and Simen Markussen for their valuable comments and advice.

addressed by retaining financial responsibility for these groups, as well as certain other groups. After that, a brief review of the (lack of) literature will be provided, after which a conclusion is given. The appendix gives a chronological and detailed overview of the developments in absenteeism and disability institutions since 1905 for the Netherlands.

Figure 1: Sickness absenteeism and disability inflow in the Netherlands, 1950-2010

Source: Statistics Netherlands (2010); Koning (2012).

The process of change

Figure 1 shows the development of the sickness absenteeism rate in the Netherlands over the period 1950-2010, as well as the inflow into disability benefit schemes from 1969 onwards. There is a peak in sickness absenteeism around 1980, with a sickness absenteeism rate of about 10%. The developments in sickness absenteeism at that time are likely to be related to the provision of disability benefits by the government. Sickness benefits were provided for a maximum of a year (extended to two years after 2004). As soon as a person had been receiving sickness benefits for a year (or two years after 2004) and could still not resume his or her job, that person was entitled to disability benefits. Between 1967 and 1980, the Dutch government provided very generous benefits to those who were disabled for at least 15% by making these people receive up to 80% of the wage they lost as a result of their disability, without a wage limit. In practice, even people who were disabled for only 15% got benefits of 80% of their wage, just as people who were fully (100%) disabled. This had become a habit because at that time people believed that due to excess labor supply, people who were partially disabled would

not be able to find employment for their remaining earning capacity. By the way the percentage of disability was defined it was only possible to claim benefits for income that could no longer be earned as a result of disability. It was thus impossible to claim benefits such that the total income, wage plus disability benefits, exceeded the person's previous wage. To be eligible for such benefits people had to have been on sick leave for 52 weeks before they could enter such a benefit scheme. In that sense one may suspect that these generous disability benefits have had a positive impact on the sickness absenteeism rate at that time. The arrangement attracted a large inflow of recipients and as a result expenditure on disability benefits became problematic.

Therefore, some serious measures were taken to reduce the inflow of people into the disability benefit scheme between 1979 and 1985. Among the measures were that benefits were effectively lowered to 70% in 1985, and that it was also made impossible to award people a full benefit if they were not fully disabled. Simultaneous with these measures, the sickness absenteeism rate started to fall, down to 6.6% in 1988. Overall, it seems that the rapid increase of the absenteeism rate up until 1980 and the quick drop afterwards is caused by political measures aimed at reducing the number of people receiving disability benefits, not at reducing the sickness absenteeism rate.

There was another period that is interesting not for its dramatic decrease in the absenteeism rate, but rather for the measures that were taken during that period. From 1994 until 1996, the law that regulated sickness absenteeism was privatized in a stepwise manner; the financial responsibility for sick employees was moved from the government to the employers. As a start, in 1994 small firms were obliged to pay for the first two weeks of sickness absenteeism and large firms for the first six weeks. This sick pay had to be at least 70% of the employee's last earned earnings. In practice however, collective labor agreements made average sick pay equal to 100% of the last earned income. In 1996 all firms were obliged to pay for the first 52 weeks of absenteeism, regardless their size. These policy changes were accompanied by a drop in the sickness absenteeism rate from 6.2% in 1993 to 4.9% in 1994 and 4.3% in 1996; almost 0.9 percentage points. As before the privatization there was a maximum daily wage over which sick pay could be received. In 1996 this was 292.17 Dutch guilders. In 2004 the wage payment obligation period was even extended to 104 weeks. Employees enter a new spell of sickness if they have not been on sick leave in the last four weeks. If a person has returned to work after sickness, but becomes sick after 3 weeks, then this absenteeism is added to the length of the previous spell. Before the extension to 104 weeks the typical replacement ratio of earnings was 100%, although the minimum was set at 70%. After this extension the obligatory minimum was set at 170% to be divided over the two years. Typically this division entailed 100% of previous earnings in the first year of sickness, and 70% in the second year. This last extension of the wage payment obligation period was accompanied by a drop in the absenteeism rate from 4.8% in 2003 to 4.3% in 2004. The decrease in absenteeism following the 1994, 1996, and 2004 privatization steps could be an indication that employer incentives towards the reduction of sickness absenteeism had improved.

Another measure aimed at reducing sickness absenteeism was one of tougher control mechanisms. In 2002, a law was introduced that would stimulate sick people getting back to work. It would shorten the length of their absenteeism and thereby prevent that they would end up receiving disability benefits, for which employees were eligible after 52 weeks of sickness (after 104 weeks following the statutory change in 2004).[1] This so-called Gatekeeper Improvement Act obliged employees and employers to actively work together in designing and executing a reintegration plan for the sick employee. Sanctions could be levied on those who do did not cooperate well enough. Sanctions for the employee include dismissal, the employer withholding pay, denial or reduction of disability benefits. The employer could be punished by being obliged to pay out wages for longer than the 52 weeks (or 104 weeks after 2004). Normally sickness after 52 weeks (104 weeks after 2004) is covered by the government by means of disability benefits.

Private insurance

With the first step towards privatization in 1994 there was also the option for employers to insure themselves against this new-born risk. However, less than 10% of the employers insured themselves against the risk to be obliged to provide up to two or six weeks of sick pay to their sick employees (Van Sonsbeek and Schepers, 2001). After the full privatization in 1996, 80% of the employers had insured themselves against this risk (ibid.). They were mostly the small firms that opted for insurance; 85% of employers with less than 50 employees chose for insurance, as opposed to only 25% of employers with more than 100 employees (ibid.). Most of those insured chose for a deductible of two weeks at the maximum (ibid.). What is remarkable about this fact is that with full privatization in 1996 firms bore less risk than they did under the partial privatization in 1994 (ibid.). This could be a partial explanation for the fact that the reforms were not blocked by the employers.

After the full privatization of the Sickness Law in 1996, the average premium was at 2.5% of wage payments (Van Sonsbeek and Schepers, 2001). Experience rating was not yet applied back then as insurance companies lacked knowledge about the sickness absenteeism history of the firms that insured themselves (ibid.). The differentiation in the insurance premium was rather based on firm size, firm sector, and the amount firms chose as their deductible. Currently, the premium differentiation is done using experience rating, using the absenteeism history of the firm (ibid.). It is also interesting to note that insurance under the public system before the privatization was more expensive than in 1996, after the privatization of the Sickness Law (ibid.). After 1998, the insurance premiums increased to such an extent that being insured under the publicly financed scheme was less expensive than being insured in 1998 (ibid.) from 2.5% in 1998 to 3.5% in 2005 (Veerman and Molenaar-Cox, 2006). However, this could be explained by the fact that especially the bad risks chose to insure thereby

[1] There is a slight upwards increase in the rate of absenteeism of the official statistics in 2003 and 2004, because the employees with long-term absence of above one year were included in the statistics from 2003 onwards.

driving up the insurance premium, and that insurance companies had set premiums too low in 1996 because of a lack of knowledge about the absenteeism history of the firms (Van Sonsbeek and Schepers, 2001). Another explanation could be that firms opted for higher deductibles or that they had worse absenteeism rates, the latter which is in accordance with the increase in absenteeism rate in 1998 (see figure 1).

Sickness absenteeism insurance packages come in various forms. Packages differ in the deductible, the length of the benefit payment period, whether or not the (obligatory) services of a Health and Safety Executive are included. Also they differ in offering support during the reintegration process, prevention services, absenteeism registration services, the way they deal with sickness caused by a third party, and the length of the insurance contract. All this plays a role in determining the premium of the insurance package. Other aspects that play a role in the premium determination include the average age of the employees, the absenteeism history, and firm sector.

Adverse selection and workers without an employer

With the full privatization of the Sickness Law in 1996, employers became fully financially responsible for their sick employees. That is, employers were obliged to provide sick pay for their sick employees instead of the government. Without any further refinements however, this implied that some groups would end up in a difficult position; for which the generic term “safety netters” is used. Therefore, for two groups of people the government retained their financial responsibility in case of sickness (De Jong, Schrijvershof, and Veerman, 2008).

The first is the group of women who become sick as a result of pregnancy, disabled who become sick within 5 years after reintegration into the workplace, and the small group of organ donors (ibid.). These groups would be “high-risk” groups for employers to hire; for these groups employers would expect to pay more sick pay, and therefore adverse selection would arise in the absence of adequate insurance mechanisms. It is difficult to design an insurance mechanism that would “solve” this issue. To prevent this adverse selection to become a problem for this group, the government retained financial responsibility for them. Nevertheless, the employer is still obliged to make an effort for these people’s reintegration.

The other group is that of those workers who have no employer to reckon on (De Jong, Schrijvershof, and Veerman, 2008). Among these people are the sick unemployed people, workers of whom the employment contract expires during their period of sickness absenteeism (among which flex workers), and some rest group with people like musicians and homeworkers (ibid.). For this group it is not adverse selection that is a problem, but the fact that they have no employer to provide them with sick pay in case they become ill. Since these people do not have an employer (anymore), the Social Benefits Administration is responsible for helping these sick people reintegrate in the workplace.

The population of safety netters is responsible for a relatively large share of the expenditures on disability benefits. In 2006 35% of new disability benefit recipients were former safety netters (Van

der Hoek, Baal, Van der Hoek, Van der Linger, Meij, Simons, and Tolsma, 2008). This is a relatively large share as safety netters only represent 13% of the sick who can apply for disability benefits (ibid.). Among the population of safety netters, the sick unemployed and workers whose employment contract ends during their sickness form the groups with the highest risk to end up receiving disability benefits (ibid.).

The determination of the safety netters leaves out people with other medical conditions which are easily observable, like obesity. Employers may tend to avoid hiring such people, even though by law they are not allowed to discriminate on medical grounds. The extent to which this constitutes a serious problem is yet to be determined.

Literature

Both the privatization of the Sickness Law and the Gatekeeper Improvement Act are remarkable in the sense that they sounded promising, and in that both were politically accepted despite the far-reaching consequences for employers. The question still to be answered is whether they have also been remarkable in the results they yielded. Did the privatization lower the sickness absenteeism rate? Did the Gatekeeper Improvement Act lower the sickness absenteeism rate? There is not much literature about these questions. Nevertheless, this section will provide a short review of what is currently available.

Lindner and Veerman (2003) find a significant negative relationship between sickness absenteeism and the privatization of the Sickness Law. Overall they do not find a significant relation between sickness absenteeism and the Gatekeeper Improvement Act (ibid.). However, their methods are not elaborated on. Their reported R-quared values of 0.99 and 1.00 should make us careful in trusting their methods and results.

An experiment by Bolhaar, De Jong, Van der Klaauw, and Lindeboom (2004) showed how more intensive monitoring and evaluating the reintegration efforts had a very significant negative effect on the sickness absenteeism of thirteen weeks or more.

Meurs, Van Ruremonde, and Schouten (1993; as cited in Van den Brink and Bergsma, 1999) argued that the first step towards privatization in 1994 has caused the sickness absenteeism rate to drop, but that this was not the case for the step towards full privatization of the Sickness Law in 1996.

Conclusion

The question that remains is what we can learn from this Dutch approach to reducing absenteeism. It seems as if the measures taken to reduce sickness absenteeism had the ultimate goal of reducing the amount of people receiving disability benefits. That left reducing sickness absenteeism merely being a way to reduce the inflow of people into the disability benefit scheme. However, this does not mean that these measures cannot be used as examples of how to reduce the sickness absenteeism in itself. In particular, should countries who are struggling to get their sickness absenteeism rate down, follow the

Dutch example? Literature on the effects of the privatization of the Sickness Law and the Gatekeeper Improvement Act is scarce, and perhaps not as thorough as we wish. The material that is available however suggests that the measures taken have a negative effect on the sickness absenteeism rate. Despite the (lack of) evidence, the idea of making employers (more) financially responsible for the sickness absenteeism in their firm sounds like an incentive that would help control the sickness absenteeism rate. The same holds for a measure like the Gatekeeper Improvement Act, which levied more strict rules on employers and employees regarding the reintegration of the sick employee to the workplace. Getting political support for such measures can be rather difficult however, as these quite tough both financially and administratively. It seems as if in the Netherlands the problem of the large amount of disability benefit recipients and its cost have made these measures politically feasible. Moreover, employers went along without too much fuss since they realized they could actually earn money by lowering their sickness absenteeism rate, and this they learnt step by step, as the measures were taken step by step. First there was the partial privatization, where employers bore a risk of only two or six weeks, then this became 52 weeks two years later, and then in 2004 this became 104 weeks. In between, the Gatekeeper Improvement Act was implemented to make sure employers helped reduce the long-term sickness absenteeism by making strict rules about the reintegration process of the employees.

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Appendix A: Developments in absenteeism and disability institutions since 1905

1905: First parliamentary attention for sickness absenteeism law

In 1905 the parliamentary treatment of a possible sickness law, that would deal with sickness absenteeism, started off.

1903: The Law for Accidents[1]

In 1903 the Law for Accidents (Ongevallenwet [OW] in Dutch) was installed. The idea was only to compensate those who had become disabled as a result of industrial accident. First this law was only applicable to employees of very dangerous companies. It provided the disabled with an income, dependent on the level of disability, equal to a maximum of 70% of their previous wage, up to a certain maximum. This only started after the second day of the disability. The premia were paid entirely by the employer, and they were dependent on the risk category of the company.

1919: The Law for Invalidity[1]

In 1919 the Law for Invalidity (Invaliditeitswet [IW] in Dutch) was installed. People were entitled to a so-called invalidity pension when they were handicapped for at least 2/3. The amount of benefit payments depended mostly on the premium already paid, and not directly on previous income.

1921: OW

In 1921, the Law for Accidents was made applicable to all companies (Petersen and Van den Bosch, 1983).

1930: Sickness law[1]

In 1930, 25 years after the first parliamentary attention, the Sickness Law (Ziektewet [ZW] in Dutch) was installed. It is a social insurance arrangement for the private sector that prevents heavy income loss as a consequence of sickness. At that time, from the third day of sick leave, an employee was entitled to 80% of his wage, up to a certain maximum, at that moment ƒ3,000,-. These benefits lasted for 26 weeks at the maximum. It was executed by the company associations and the labour councils. The company associations had the authority to also pay out benefits for the first two days of sickness, and to increase the benefit percentage, be it with ministerial approval.

The Ziektewet was financed through premia. Employees had to pay 1 percentage point of the premium at the maximum; the rest was paid by the employer. The premia were dependent on the risk of sickness absenteeism of the business sector, so there was some premium differentiation at that time.

[1]Based on Petersen and Van den Bosch, 1983.

1943: ZW

In 1943, the benefit percentage for the first six days of benefits was temporarily decreased from 80% to 50% of the wage (Petersen and Van den Bosch, 1983).

1947: ZW

The length of the benefit payments in case of sickness is extended from 26 weeks to 52 weeks (Petersen and Van den Bosch, 1983).

1947: First parliamentary attention for the possibility of a law that would replace IW and OW

Around 1947, there was the first parliamentary attention for replacing the IW and OW with a new law (Petersen and Van den Bosch, 1983). The major reason for this was that the levels of IW and OW benefits were far too low because they were not adjusted to the increased price level (ibid.).

1963: IW

In 1963 the minimum level of being handicapped in order to be eligible for an invalidity pension was reduced to 55% (Petersen and Van den Bosch, 1983).

1966: IW

In 1966 this was even further reduced to 45% (Petersen and Van den Bosch, 1983).

1967: The law for disability

The law for disability (Wet op de arbeidsongeschiktheid [WAO] in Dutch) was introduced in 1967. From now on all disability that lasted longer than 52 weeks, regardless of its cause, would be covered by the WAO (Petersen and Van den Bosch, 1983). The WAO was open for people who were disabled for at least 15% (ibid.). Disability is differently defined in the WAO than in the ZW. In the ZW, disability is a medical phenomenon where the person of interest is in such a medical situation that he or she is not able to perform his or her job (Noordam, 2002, p. 152). Under the WAO, a person is disabled when he or she has a diminished earning capacity as a consequence of his medical condition (ibid.). Under the WAO it was decided not to use a wage limit for the determination of the benefits (Petersen and Van den Bosch, 1983).

Premium differentiation at that time was non-existent as it was considered to be inequitable, because employers and employees were not thought to be able to influence a worker's disability risk (Aarts, De Jong, and Van der Veen, 2002). Based on the idea that every person should have the right to self-fulfilment, benefits were generous. Not surprisingly, this coincided with a long period of economic prosperity (Aarts, De Jong, and Van der Veen, 2002).

Premia were thus uniform, and paid the employee and the employer (Petersen and Van den Bosch, 1983). Benefits were 80% of the wage, without a wage limit and the benefits being independent of the duration of premium payment (ibid.). Also, there was no maximum period of time that people could receive benefits; as long as they were disabled for at least 15% and below the age of 65 they were eligible for such benefits (ibid.).

1967: ZW

With the decision to not use a wage limit with the determination of benefits, the wage limit used for the ZW was abandoned too (Petersen and Van den Bosch).

1975: Research commission on disability benefits expenditures

In 1975 a commission was installed with the task to investigate the causes of the disturbingly increasing expenditures on disability benefits (Aarts, De Jong, and Van der Veen, 2002).

1976: General Disability Law

A general disability law (Algemene Arbeidsongeschiktheidswet [AAW] in Dutch) was introduced in 1976. With the WAO all employees were insured against disability, with AAW added to that all people in the working-age category were insured against disability (Aarts, De Jong, and Van der Veen, 2002). The idea behind this was that everybody should have the right to equal opportunities (Aarts, De Jong, and Van der Veen, 2002). Particularly the AAW, but also the installation of the commission in 1975, mark a turning point of the policy with respect to the disabled; all policy initiatives were directed at controlling the number of people in the WAO and AAW, and the costs associated with this (Aarts, De Jong, and Van der Veen, 2002).

1979: WAO

In 1979 the first policy measure was taken to reduce unintended use of the WAO. The gatekeeper of the law was no longer allowed to take into account the reduced labour market possibilities a partially disabled person has for his remaining earning capacity, only in case it was obvious that the worker was discriminated based on his partial disability (p. 10). This measure was supposed to end the habit to give every person (also the people who were only 15% disabled) full disability benefits (equal to 80% of previous wage). This had become a habit because people believed that due to excess labour supply, people who were partially disabled would not be able to find employment for their remaining earning capacity. Already here, the net benefit payments were lowered by levying diverse social premia (Aarts, De Jong, and Van der Veen, 2002).

1985: WAO

In 1985 the gross benefits were formally lowered from a maximum of 80% of previous wage to 70% (Aarts, De Jong, and Van der Veen, 2002).

1987: System revision of social security

In 1987 there was a system revision of social security. This was supposed to end some of the then existent inequitable matters, such as unequal rights between men and women. Also this system revision was intended to make the overall system cheaper. This was a great necessity, as expenditures on the disability insurances in particular had already in 1980 become larger than 4% of GDP, which was double that of 1975 (Aarts, De Jong, and Van der Veen, 2002).

The measures that were taken since 1979 decreased the net purchasing power of the average WAO entrant by 25% in the seven years that followed (Aarts and De Jong, 1992, p.48).

March 1992: Reducing the disability volume (Lubbers II)

The law to reduce the disability volume (Wet Terugdringing Arbeidsongeschiktheidsvolume [TAV]) was introduced to improve the financial incentives for employers to reduce sickness absenteeism. Two major measures were installed with the introduction of this law. The first was a fine or bonus for employers, the so-called "bonus/malus" arrangement. Employers received a fine for those employees who ended up receiving disablement insurance (DI) benefits under the law "Wet op de arbeidsongeschiktheid" (WAO) (Aarts et al., 2002, p. 14), which happened after 52 weeks of sickness. This fine was equal to half a year of the employee's pay (Noordam, 1992, p. 97) For those companies where the disability risk is particularly high, the fine can be adjusted downwards (ibid.). Moreover, the total fine an employer has to pay in a year is bound to a certain maximum; 5% of total wages paid (ibid.). A bonus was paid to employers who employed a disabled person (ibid.). This bonus was initially equal to wages of half a year, as long as the employee had a contract for a year or longer (ibid.). Later this was changed to 25% of the disabled employee's wage, for a maximum of four years (Noordam, 1996, p. 154). The second measure was the differentiation of the premia for the Ziektewet employers were obliged to pay. Firms with an absenteeism level above the average, had to pay a higher premium, firms with an absenteeism rate below the average, had a smaller premium to pay (Nikkels-Agema, 2005, p. 21).

1 August 1993: Reducing the appeal to disability arrangements (Lubbers II)

The law to reduce the appeal to disability arrangements (Wet Terugdringing Beroep op de Arbeidsongeschiktheidsregelingen [TBA]) schemes introduced several measures. One was setting stricter criteria for receiving disablement insurance (Wet op de arbeidsongeschiktheid [WAO] in Dutch) benefits, and reinspection of those people that were already receiving such benefits. Another,

more important measure was the so-called “WAO-gap” (WAO-gat), reducing the DI benefits for a person over time. This meant that, dependent on age, the benefits could be reduced to an amount between 70 percent of the statutory minimum wage and 70 percent of the person’s last earned income. Many employers insured their employees against this gap via private insurance companies (Nikkels-Agema, 2005, p. 22).

1 January 1994: Reducing absenteeism (Lubbers II)
The law to reduce sickness absenteeism (Wet Terugdringing Ziekteverzuim [TZ]) partially privatized the Ziektewet. It obliged small firms to pay the first two weeks of sickness absenteeism of their employees; for large companies this was six weeks. Hereby the employers’ excess was increased to make them behave more responsible with regard to the absenteeism in their company.
Small firms are firms that pay out less than 15 times the average salary of its employees, to its employees in total. So there is no hard rule regarding the number of employees here. As a rule of thumb we can say that small firms are firms that employ less than 15 people (Noordam, 2004, p. 69).

1 July 1995: Change in the law TAV (Kok I)
The malus of the bonus/malus arrangement as installed in the law TAV in 1992 is abolished (Nikkels-Agema, 2005, p. 21).

1 March 1996: Complete privatization of the Ziektewet (Kok I)
After the TZ partially privatized the Ziektewet in 1994, the law of expansion of the continued wage payment obligation (Wet Uitbreiding Loondoorbetalingsplicht Bij Ziekte [WULBZ]) finished where TV left off and privatized the Ziektewet completely in 1996. From that moment on, employers were fully responsible for the payment of wages during the first (at most) 52 weeks of sickness absenteeism of their employees. Regarding the duration of the continued-wage-payment obligation, hereby the law no longer distinguishes between small and large firms. Employers now had the option to individually insure themselves with a private insurance company (Statistics Netherlands [CBS], 27 April 1999). The question here is to what extent the WULBZ combined with the insurance option brought about a greater incentive than did the TZ. It is not expected that this insurance option will cut out the new incentive to reduce absenteeism, as the private insurance company is likely to charge a premium that will depend on the disability risk (De Jong, 2010, p. 9). In 1995, companies insured only 8% of their risk via a private insurance (Molenaar-Cox and Veerman, 2006, p. 27). In 1997, the year after the WULBZ was installed; this had increased to a stunning 81% (ibid.).

Since the privatization of the ZW however, only the so-called ‘safety-net people’ (vangnetters in Dutch) are eligible for actually receiving those benefit payments (ibid.) Those are the people who do

not have an employer to reckon on and some other particular groups of people (ibid.). There are different types of safety-net people:

1. One type is an employee who does not have a private employment contract nor is employed by the state (ibid.). Self-employed people do not belong to this type.
2. People who have been insured shortly before they have become sick, but are no longer insured for the Ziektewet. The definition of 'shortly' here differs per case.
3. Another type is workers whose employment contract ends during his first 104 weeks (52 weeks for the period before January 2004), during which they have a right to continued wage payments (ibid.). One can think of temporary workers whose temporary employment agency has ended the non-operational status of the temporary worker because of that person's sickness (ibid.). Another example are workers with a temporary contract, whose contract ends during his or her sickness (ibid.). But also workers with a permanent contract, whose employment contract comes to an end during his or her sickness (ibid.).
4. A person who is unemployed and becomes sick during this unemployment period.
5. A person who is sick or disabled as a consequence of being an organ donor.
6. A female person who is disabled as a consequence of being or having been pregnant, or as a consequence of having given birth. Since 2001, the right to pregnancy benefits is arranged by the law Law Labour and Care (Wet Arbeid en Zorg [WAZO] in Dutch). The right to Ziektewet benefits is only applicable for the period before and after the period in which a woman has a right to pregnancy benefits on the base of the WAZO.
7. A person who was disabled directly before entering a new employment contract. During the first 5 years of this contract, the person has a right to sickness benefits on base of the Ziektewet. The benefits need to be paid from the first day of his or her sickness on.

Those people who are not so-called 'safety-net people', must turn to their employers for their monthly pay in case they get sick.

The Ziektewet is executed by the 'Uitvoeringsinstituut Werknemersverzekeringen' [UWV]. Before 1996, the ZW had its own premium that needed to be paid (Noordam, 2004, p. 308). With the installation of the WULBZ in 1996, there was no longer a separate premium for the ZW (Noordam, 2004, p. 367). Since the installation of the WULBZ, the ZW is financed from the premia paid based on the unemployment law (Werkloosheidswet [WW] in Dutch), which to that end have been raised. The premia for the WW are obligatory (Noordam, 2002, p. 364). There are two WW funds that are financed through WW premia.

- One is the "Tideover-allowance Fund" (Wachtgeldfonds in Dutch). This premia for this fund must be paid entirely by the employer. The first six months of an employee's unemployment is paid for through this fund. But more relevant to our case here, this fund pays for the above mentioned first three categories of safety net people, from day three of

their sickness on up until a maximum of 104 weeks (this was 52 weeks before the WVBLZ was installed) (Noordam, 2004, p. 123).

- The other fund is the "General Unemployment Fund" (Algemeen Werkloosheidsfonds in Dutch), where both employer and employee are obliged to pay part of the premium. This fund pays all the benefits that are due beyond the first six months of an employee's unemployment. But in case of sickness, it pays for the the safety net people of the last five categories. The division between employer and employee is determined by ministerial arrangement. However, as Noordam (2002, p. 362) argues, in practice the employer is the one responsible for paying the part of the employee. The employer has the right to withhold the employee's share of the premia that must be paid in order to pay this for the employee. However, if the employer is negligent in this part and does not pay the share of the employee, this cannot later on be taken out of the employee, and hence it remains the responsibility and the risk for the employer. In case a person is self-employed however, the entire premium burden for the General Unemployment Fund falls upon him- or herself.

1 January 1998: The PEMBA-complex (Kok I)

The law Premium Differentiation and Market Functioning for Disability (wet Premiedifferentiatie En Marktwerking bij Arbeidsongeschiktheid [Pemba]) introduced two options (Klosse and Noordam, 2010, p. 169). Either employers could buy insurance against the disability of their employees, where the premia employers paid for the WAO were differentiated according to the disability risk of their firm, or the employer could choose to bear the risk of a disabled employee on its own (ibid.). The premium differentiation was designed such that employers had to pay higher premia the more of their employees ended up in the WAO. This holds for employees up until the fifth year after their WAO entrance. With the introduction of Pemba, the AAW seized to exist (Klosse and Noordam, 2010, p. 169). Employees still fell under the WAO, but now the self-employed and the people who had gotten handicapped at a young age needed a different solution since they were no longer protected from income loss by the AAW (ibid.).

For the non-employees (e.g. the self-employed) the "WAZ" (Wet Arbeidsongeschiktheidsverzekering Zelfstandigen) came into existence.
For the people who had become disabled at a young age it was the "Wajong" (Wet arbeidsongeschiktheidsvoorziening jonggehandicapten) that was installed to protect them against income loss (Klosse and Noordam, 2010, p. 169).

Together these laws were called the "Pemba-complex" (from "Memorie van toelichting of Wet Einde Toegang verzekering WAZ")

1 January 1998: A new law for the young handicapped

In January 1998, the "Law disability security for the young handicapped" (Wet arbeidsongeschikhetidsvoorziening jonggehandicapten [Wajong] in Dutch) was installed. The target group of this law are the young handicapped people. There are two categories of people who can be classified as young handicapped. The first category consists of those people who have become disabled before their seventeenth birthday. The other category is that of people that become disabled after their seventeenth birthday, and who have been studying for at least six months in the year before they became disabled. For this second category the age limit is set to 29, so only people who got disabled before the age of 30 are eligible for the benefits. Additionally, in order for people of either category to be eligible for Wajong benefits, they must have been disabled for at least 52 weeks since they have become disabled, and must still be disabled. People who are less than 25% disabled or who already receive pregnancy benefits based on the WAZO, are not eligible for Wajong benefits. The amount of benefits increases with the level of disability, from 21% of the minimum wage in case a person is 25% disabled to 70% in case a person is disabled for 80% or over. The Wajong is not financed through premia but paid for from general resources of the government.

1 January 1998: A new law of disability insurance for the self-employed

From January 1998 onwards, people were insured for the disability insurance law of the self-employed (Wet arbeidongeschiktheidsverzekering zelfstandigen [WAZ] in Dutch) if they were; self-employed, working in their partner's own company, or are a professional. This insurance was obligatory. Self-employed here means a person who earns a profit from one's own company. A professional is anybody who earns income from currently performed labour other than having an employment contract, which can also be when the person earns income for a body in which he or she has a substantial interest.

The self-employed, as defined in the law WAZ, do not belong to one of the seven categories as described under the heading "Sickness Law" and hence are not entitled to ZW benefits. Since they also do not have an employer being responsible for them, the risk of losing their income during sickness is totally born by themselves, for a maximum of 52 weeks. In case a woman is self-employed and becomes pregnant, she will be entitled to pregnancy benefits just like any other employee based on WAZO. After 52 weeks, self-employed people who are still sick and thus disabled for at least 25% in the sense of performing labour, are entitled to WAZ benefits. The right to WAZ benefits starts 52 weeks after the person has become disabled. This amount of weeks did *not* increase to 104 weeks when the WVBLZ was installed in January 2004. The amount of benefits depends on the level of disability, and the profits earned. Based on the WAZ the insured is entitled to up to 70% of his income from profits, from now on referred to as the base. The base is set to a maximum equal to the minimum

wage. Thus, the most a disabled self-employed person can get is 70% of the minimum wage. The WAZ was installed January the first in 1998, and abandoned in August 2004.
The WAZ was paid from the "Disability Fund for the Self-employed" (Arbeidsongeschiktheidsfonds zelfstandigen in Dutch).

1 January 2001: Expansion of the ZW to the public sector
Until 2001, the obligatory ZW insurance was only applied to the private sector (Noordam, 2004). From 2001 onwards, it is applied to both the private and the public sector (ibid.).

1 April 2002: Smoothing the reintegration process (Kok II)
From April first the Gatekeeper Improvement Act [GIA] (Wet Verbetering Poortwachter [WVP] in Dutch) was introduced (Klosse and Noordam, 2010, p. 304). The aim of this act was to prevent workers to end up in the more permanent disability insurance, by smoothing the reintegration process during their sickness period (Groothoff, Krol, and Post, 2006, p. 109). The burden of this reintegration process weighs heavily on the employer, as he is obliged to write an integration plan, and also put in effort to put the sick employee back to work, be it at the employer's company or at another company (Van de Braak, 2007). To that end, the employer has to make sure the workplace is properly designed, and that the job is or will be designed such that the employee can resume his work (ibid.).
Already since the introduction of the Working Conditions Law (Arbeidsomstandighedenwet [Arbowet] in Dutch), employers were obliged to make use of a HSE [HSE] ("arbodienst" in Dutch) for the support of their sick employees (Barentsen and Fleuren-van Walsum, 2002). As of 2002 the employer is also required to use the services of the HSE when it comes to putting together the file of the sick employee, making and evaluating the reintegration plan and writing the reintegration report (ibid.). The employer is required to report all sickness absenteeism to the HSE (ibid.). The HSE then should judge whether or not the employee is at risk of being long-term absent (ibid.). In that case, the HSE has to provide a problem analysis about the sick employee **six weeks after an employee has reported sick** (Groothoff et. al, 2006, p. 109). As a certified and professional organization, the arbodienst should report in this analysis what the capabilities and restrictions are of the employee (ibid.). Also, it should pay attention to what extent the employee will be able to resume his work or perhaps even other suitable work (ibid.). Then the arbodienst should provide an estimation regarding the spell of absenteeism and an advice how to bring the employee back to the workplace (ibid.). **Two weeks after the finalization of the problem analysis**, the problem analysis needs to be followed by a reintegration plan, which includes both the goal and the means by which this goal is to be realized (ibid.). This reintegration plan should be designed with effort from both the employer and the employee (ibid.). It should at least contain the following:

- The steps that need to be taken in order to let the sick employee participate in the company (Barentsen and Fleuren-van Walsum, 2002). Then it should also contain how that participation

serves the overall goal of reintegration (ibid.). Finally then, it should state the deadlines in which the goals can be reached.

- Agreements about when these activities are evauluated by the employee and employer (ibid.). These evaluations should take place periodically (ibid.).
- The name of the person who will ensure the contact between the employee, employer and the HSE (ibid.). Often, this is a person from the HSE (ibid.). Often the HSE treats confidential medical information, that may not be provided to the employer in detail (ibid.). Therefore it makes sense to assign this task to a person who has access to most of the information (ibid.). Nevertheless, the responsibility of the reintegration of the sick employee is with the employer (ibid.).

Although much of the action towards reintegration must be taken by the employer, there are also important obligations to the employee. For one, he or she has to cooperate with the employer to reintegrate (Van de Braak, 2007). For example, he or she has to follow the prescriptions of the employer for reintegration (ibid.). Moreover, the employee must also participate in all the documentation about the reintegration process (ibid.). Furthermore, the employee must accept all suitable work offered by the employer (ibid.). Refusal is only tolerable with sound reasons (ibid.).

During the actual reintegration process, the different parties need to document all steps taken towards reintegration (Groothoff et. al, 2006, p. 109). This file then serves as the basis for the reintegration report that the employee needs to hand in to the Social Benefits Administration (in Dutch known as Uitvoeringsinstituut voor Werknemersverzekeringen [UWV]) if he or she wants to receive DI benefits after the first 52 weeks of sickness absenteeism (ibid.). Before April 2002, only a plan of reintegration was necessary. Having received the reintegration report, the UWV determines whether or not both employer and employee have put in enough effort in the reintegration process and base their decision whether or not to grant the employee with disability benefits on this evaluation (ibid.).
In the case that reintegration is expected to occur soon after the ‘deadline’ of 52 weeks, employer and employee together can request an extension of the continued wage payment of the employee by the employer after these 52 weeks. The idea here is that the employee can avoid the disability stigma (Klosse and Noordam, 2010, p. 201).
There are several sanctions that can be imposed on employer and/or employee in case one of the two or both have not made enough efforts towards reintegration. If the UWV considers that the employee has put in too little effort to reintegrate into the labour process, DI benefits could be temporarily or permanently denied (Kronenburg-Willems, Nas, Nikkels-Agema, and Smitskam, 2004). As an alternative, DI benefits could be reduced by as much as 30% during a fixed period of time, at a maximum of 16 weeks (Van de Braak, 2007). Would the UWV consider the employer to be negligent in this respect, the consequence could be that the employer is obliged to continue pay to the employee

up until one year extra, depending on the time it takes for the employer to meet the reintegration obligations (Noordam, 2002, p. 182). Moreover, in case the employee does not cooperate properly with the employer to reintegrate, the employer can withhold pay (ibid.) or even fire the employee (Noordam, 2002, p. 192).

Not only does the employer have possibilities to sanction the employee, it is also the case the other way around. Because the reintegration obligations of the employer are more and more specified in the labour contracts, employees are in a position of going to court in case the employer does not comply with the GIA (Van de Braak, 2007). One can think of the situation where the employer does not make enough effort to provide suitable work and a suitable workplace in order to get the employee back to work.

The exact procedure of the GIA in 2002 is described in the figure 3.1.

Table A.1: GIA procedure in 2002.

Week	Obligation description	Obligation for	RULE/INC	Sanction
1st week	report sickness	A	INC	WP
6th week	problem analysis + reintegration advice	A+C	INC/RULE	WP (only for A)
8th week	plan of procedure	A+B	INC	WP/BR/NW/DIS
every 6 weeks	evaluation plan of procedure	A+B+C	INC	WP/BR/NW/DIS
13th week	declaration of illness to UWV	A	INC	WP
34th week	UWV informs employee	D	RULE	
37th week	reintegration report based on reintegration file	A	INC	WP
from 39th week	DI benefits assessment + reintegration report	B	INC	NB/WP

Table A.2: Abbreviations for tables A.1 and A.4

A: Employer	WP: Wage Payment
B: Employee	BR: Benefit Reduction
C: Health and Safety Executive	NB: No Benefit
D: UWV	NW: No Wage
	DIS: Dismissal

1 January 2003: Distinguishing between small and large firms (Balkenende I)

The differentiation of the premium that small firms need to pay for the WAO will not be based on the

disability risk of the individual company, but on the disability risk of the sector of which the company is part. Whether or not a firm is classified as a small firm or not depends on the total wage bill of the firm, as described in table 1.

Table A.3: Criteria for assessing firm size per year

Year for which premium is due:	Small firms are firms with total wage bill equal to or less than:
2003	ƒ1.325.000 in 2001
2004	€625.000 in 2002
2005	€642.500 in 2003
2006	€650.000 in 2004
2007	€675.000 in 2005
2008	€682.500 in 2006
2009	€705.000 in 2007
2010	€730.000 in 2008
2011	€747.500 in 2009

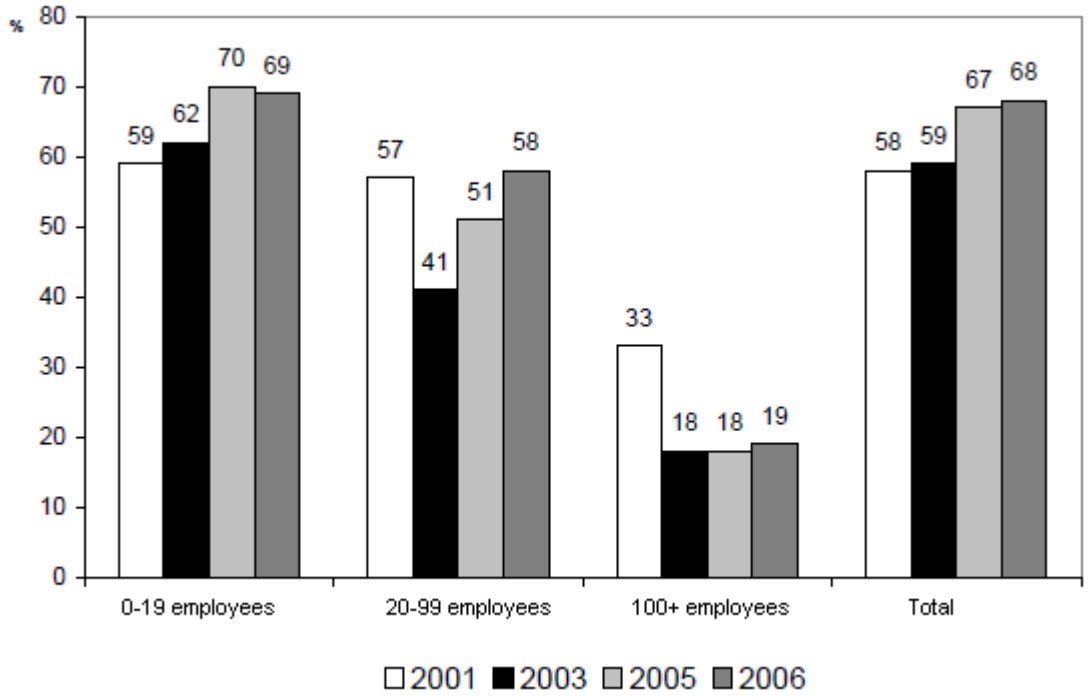
However, for the year 2003 it was not yet possible to determine the risk per sector (Dik, 2005). Therefore it was decided that for that year, there would not be differentiation for the small firms (ibid.), just the uniform premium.

1 January 2004: Extending the period of continued wage payment obligation (Balkenende II)
According to a new law; WVBLZ (Wet verlenging loondoorbetalingsplicht bij ziekte), employers are fully responsible for the payment of wages during the first (at most) 104 weeks of sickness absenteeism of their employees. Before 2004 this was half, namely 52 weeks under WULBZ. By law, a sick employee has the right to 70% of total wages, up to a certain maximum. On December 5 2004, some of the most prominent employers and employees associations came to the agreement that in total, not more than 170% of total wages of 2 years.

Molenaar-Cox and Veerman (2006, p. 28) again, just as with the WULBZ, show data on the development of the insurance rates of companies with a private insurance for this risk. This time

however, they build on a different source that appears to have different measurement. Therefore the numbers they present for the period before and for the period after 2000 are not comparable (Molenaar-Cox and Veerman, 2006, p. 28). Nevertheless they claim, the development within these periods can be considered reliable (ibid.). We see that in 2003, before the WVLBZ was installed, companies insured 59% of their risk with a private insurance company (ibid.). In 2005, the year after the WVLBZ was installed; this was 67% (ibid.). Hence we observe an increase.
For this transition there is also information on such percentages for different categories of size. This is summarized in figure 1.

Figure A.2: Insurance rates (%) for 2001-2006 according to size categories.



Source: MarketConcern, Arbodiensten- en Zorg- en inkomensverzekeringsmonitor as in Molenaar-Cox and Veerman (2006, p. 30).

By extending the period of the continued wage payment obligation, the procedure of the GIA also changed.

Table A.4: GIA procedure in 2004.

Week	Obligation description	Obligation for	RULE/INC	Sanction
1st week	report sickness	A	INC	WP
6th week	problem analysis + reintegration advice	A+C	INC/RULE	WP (only for A)
8th week	plan of procedure	A+B	INC	WP/BR/NW/DIS
every 6 weeks	evaluation plan of procedure	A+B+C	INC	WP/BR/NW/DIS
13th week	declaration of illness to UWV	A	INC	WP
47th week	extensive evaluation first year of illness	A+B+C	INC/RULE	WP/BR/NW/DIS
89th week	UWV informs employee	D	RULE	
91th week	reintegration report based on reintegration file	A	INC	WP
from 91th week	DI benefits assessment + reintegration report	B	INC	NB/WP

1 August 2004: Abandoning the obligatory disability insurance for the self-employed (Balkenende II)
From this point on the WAZ for the self-employed is closed for new cases. This was because the self-employed considered the obligatory insurance too expensive (Klosse and Noordam, 2010, p. 170). Moreover, they thought the risk of losing income was an aspect inherent to being self-employed (ibid.). Additionally, they considered this risk to be perfectly insurable on the private insurance market, and hence there was no longer a strong argument in favour of this WAZ.

29 December 2005: WAO is replaced by a new law
From December 29 2005 onwards, the WAO was replaced by the WIA. Basically, the WIA made entry in to disability benefits more difficult; only people with a disability level of 35% or over were eligible for disability benefits under the WIA. It also divides the disabled into two groups of people. One group consist of people that have a disability level of 80% or over ad are not expected to recover. They get benefits equal to 70% of their monthly salary. The other group consists of people for whom possibilities for reintegration, be it not in their old position, still exist. For this group the amount of benefits depends on the amount they are still earning with their remaining earning capacity. The benefits for this group are structured such that it is stimulated that people exploit their entire remaining earning capacity.

Disability Law ("Wet op de arbeidsongeschiktheidsverzekering" [WAO] in Dutch before December 29 2005, after that "Wet werk en inkomen naar arbeidsvermogen" [WIA] in Dutch)

First, the WAO provides wage loss benefits (Noordam, 2002, p. 160). The duration of these benefits depend on the age of the disabled person; the older the person is, the longer does he or she have the right to the wage loss benefits (ibid.). After the duration of the wage loss benefits a person has a right to follow-up benefits if he or she is then still disabled according to the WAO (ibid.). These follow-up benefits are paid as long as the person is still disabled and no older than 65, the retirement age in the Netherlands (ibid.). The amount of wage loss benefit payments depend on the daily wage, just as in the ZW, and of the level of disability, up to a maximum of 70% of the daily wage (Noordam, 2002, p. 162). The amount of follow-up benefits also depends on the level of disability, and also on the follow-up daily wage (ibid.). The follow-up daily wage is the minimum wage increased by the percentage of difference between the daily wage and the minimum wage (ibid.).

Appendix B: Other relevant institutions

Working Conditions Law

The Working Conditions Law of 1998 (Arbeidsomstandighedenwet [Arbowet] in Dutch) is basically a public law framework that determines how the working conditions in a company should be arranged (Noordam, 2002, p. 176). Both employees and employers are responsible for a working environment where people can be safe, healthy, and where the wellbeing of the workers is guaranteed (ibid.). The employer however is the one that has the most obligations to deal with in order to ensure that the working conditions are as they should be (ibid.). Examples of these obligations are that they let their workers have a occupational health check once in a while, that they prevent incidents from happening, but also that they prevent sickness absenteeism (ibid.). Moreover, if an employee is sick, the employer has certain obligations in helping the employee in the reintegration process (ibid.). It is this obligation where the employer is obliged to acquire assistance of an external expert service that is related to the company, a so-called "arbodients" (ibid.). This arbodienst needs to be certified, in order to ensure that the service meets the necessary quality standards (Noordam, 2002, p. 177). Besides helping the employer to assist the employee in his or her reintegration process, the arbodienst can also be hired to monitor whether employees who reported sick, are truly sick (Noordam, 2002, p. 176). This is however not obligatory, the employer is allowed to do that kind of monitoring himself (ibid.). Helping the sick employee to return back to work remains the obligation of the employer until it is determined that the employee can not reintegrate within that particular company (ibid.). In case that occurs, the responsibility for assisting the employee in getting back to work shifts to the UWV (ibid.). The The Labour Inspection Service monitors whether or not the employer meets his responsibilities in the absenteeism assistance (ibid.).

Getting fired during disability

In the Netherlands, people cannot simply get fired because they are disabled. A person can get fired when he or she is disabled for 2 years or more (Rijksoverheid, 2011). Basically only then an employee can get fired. There are some exceptions however. One exception is that when the employer has already requested permission by the UWV to fire a certain employee before he or she got disabled, it is possible that this request is granted when the employee has already gotten sick Rijksoverheid, 2011). In such a case the employee can get fired (ibid.). Moreover, it can be that a collective labour agreement, which is applicable to the particular employee, specifies that the employee can get fired when he or she is disabled for less than 2 years (ibid.). Additionally, when a person is not putting enough effort in his or her own reintegration, an employer can fire an employee (ibid.). Finally, when a person reports sick regularly which has too much of a negative impact on the company, an employer's request to fire that employee can be granted (ibid). This is for example the case when as a cosequence of the frequent absenteeism of the employee, his or her colleges get a unreasonably high work load, or when the production process is jeopardized (ibid.).

Pregnant employees

A woman is entitled to paid maternity leave. Before December 2001, this was only arranged through the ZW, so a woman was not on official leave, but had to report sick, and thereby become entitled to sick pay. From December 2001 onwards, a woman is entitled to 16 weeks of maternity leave according to the Law Labour and Care (Wet op arbeid en zorg [WAZO] in Dutch). More specifically, the woman is entitled to maternity leave from six weeks before the day after the day she is expected to give birth to her child. It starts at the latest four weeks before the day after the day she is expected to deliver. During this maternity leave the woman has a right to 100% payment of her daily wage, be it up to a certain maximum as determined by the Ziektewet. It is financed from the General Unemployment Fund, from which the ZW is also partially funded. In addition, if she becomes disabled as a consequence of being or having been pregnant, or as a consequence of having given birth, she has a right to benefits according to the ZW (Noordam, 2004, p. 139) but only in a period when she is not entitled to pregnancy benefits based on the WAZO. These benefits also equal to 100% of her daily wage, again bound to a certain maximum, and start from day one of her pregnancy. Because these benefits are based on the ZW, the maximum uninterrupted period a woman can receive those benefits is 104 weeks. In congruence with the changes in the ZW, before 2004 when the WVBLZ was installed, this period was 52 weeks.

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