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I Z A
World of Labor
Evidence-based policy making

Privatizing sick pay: Does it work?

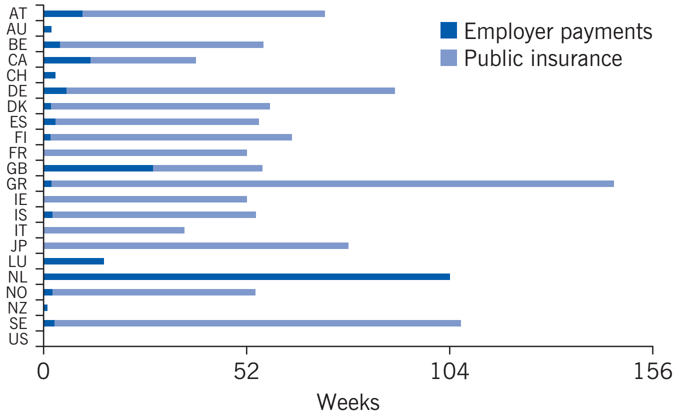
Employer provision of sickness/disability benefits reduces take-up but may also have unintended effects

Keywords: sickness, disability insurance, employer incentives, privatization

ELEVATOR PITCH

Public schemes for sickness benefits and disability insurance are often criticized for the lack of incentive they provide for preventive and reintegration activities by employers. To stimulate the interest of employers in engaging with these schemes, several modes of privatization could be considered, including the provision of sickness benefits by employers, "experience rating" of disability insurance costs, employer self-insurance, or insurance by private insurance providers. These types of employer incentives seem to lower sickness rates, but they also come at the risk of increased under-reporting and less employment opportunities for workers with disabilities or bad health conditions. Policymakers should be aware of this trade-off.

Mandatory employer sick pay and public insurance of sick pay across countries



Source: [1].

KEY FINDINGS

Pros

- Financial incentives may contribute to preventive activities of employers, causing less worker absence and, subsequently, less disability enrollment.
- Financial incentives may trigger employers to increase reintegration activities for sick-listed workers and workers with disability insurance benefits, particularly at the start of benefit receipt.
- Workers with bad health conditions can be better protected against layoffs if subsequent disability benefit costs are paid for by employers.

Cons

- Employer incentives to curb sickness and disability enrollment may cause under-reporting of disability cases, particularly if employers decide to discourage claims by lawsuits.
- Employer incentives of sick pay and disability benefits costs may decrease the number of hirings of new workers, particularly for vulnerable workers with health or disability issues.
- The consequences of incentive systems such as "experience rating" may be difficult to grasp, particularly for smaller employers, while they are facing potentially large financial risks.

AUTHOR'S MAIN MESSAGE

Employer incentives in disability insurance are limited in most countries, yet they can contribute positively to the prevention and reintegration of sick-listed workers and workers with disabilities. Employers do have opportunities to reduce the consequences of impairments, as they have the discretion to implement work adaptations such as flexible working hours, assistive technologies, or vocational rehabilitation. A key question for policymakers is how incentives to curb sickness and disability insurance enrollment should be targeted to decrease the risk of sickness and disability without transferring large financial risks to the employer. Employers should also be kept accurately informed, so as to increase their awareness and effectiveness of the incentives.

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