

Swedish policies for the disabled.  
What do we know about the effects?\*

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**Abstract**

This paper discusses Swedish policies for the disabled from a labour market perspective. Focus is on the question of whether and how recent reforms within the sickness and disability insurances have improved the labour market prospects for persons with reduced work capacity. The over-all conclusion is that the Government should be commended for tackling a difficult problem with its reforms to sickness insurance. But it must also be criticised for being overly hasty and remiss in its implementation of the reforms and its treatment of people on long-term sick leave.

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# 1 Introduction

The purpose of this paper is to provide a description of the Swedish policies for disabled and their effects on labour market. The policies include sickness insurance, disability insurance, and special employment policies for the disabled. Most part of the paper concerns the first two, since it is on this area many reforms have taken place during the last five years.

Ever since its term of office started in autumn 2006, the Swedish Government has carried out a number of labour market reforms that all aim at stimulating labour supply and overcome exclusion. These include reforms of the unemployment insurance, active labour market policies, labour taxation as well as sickness and disability insurance. The Government also established a Fiscal Policy Council in 2007. The mission of the Council is to provide an independent evaluation of the Swedish Government's fiscal policy. Besides assessment of the fiscal policy, both long- and short-term, the Council has done comprehensive evaluation of the labour market reforms carried out by the Government. This paper is to a large extent based on the analysis and the conclusions in the 2010 report by the Fiscal Policy Council in 2010. As a member of the council, I was responsible for the chapter on sickness insurance.

Most of the reforms were announced in the 2008 Budget Bill and implemented from 2008 and onwards. Thus, the discussion of their effects must be based mostly on earlier research on similar measures and economic theory. This paper discusses two main issues:

- How much of the reduction in the number of sick days can be attributed to the Government's reforms?
- What effects are the reforms expected to have in the long run?

To begin with, in Chapter 2, I shortly describe developments in usage of sickness insurance (SI) and disability insurance (DI) over the last few decades. This is followed in Chapter 3 by a description of the institutional setting with a focus on the Government's reforms since 2006, and a discussion of the expected effects of these reforms. I also discuss how the reforms have been implemented. A few more issues merit attention. The assessment of a person's capacity to work and the transition from sick leave to unemployment is one such issue,

discussed in Chapter 4. Chapter 5 deals with the continued increase in use of disability insurance among young people which is another important issue. Chapter 6 shortly describes the active labour market programmes directed at disabled and what we know about their effectiveness. Finally, Chapter 7 concludes with an overall assessment of the Government's reforms.

## 2 Usage of sickness and disability insurances

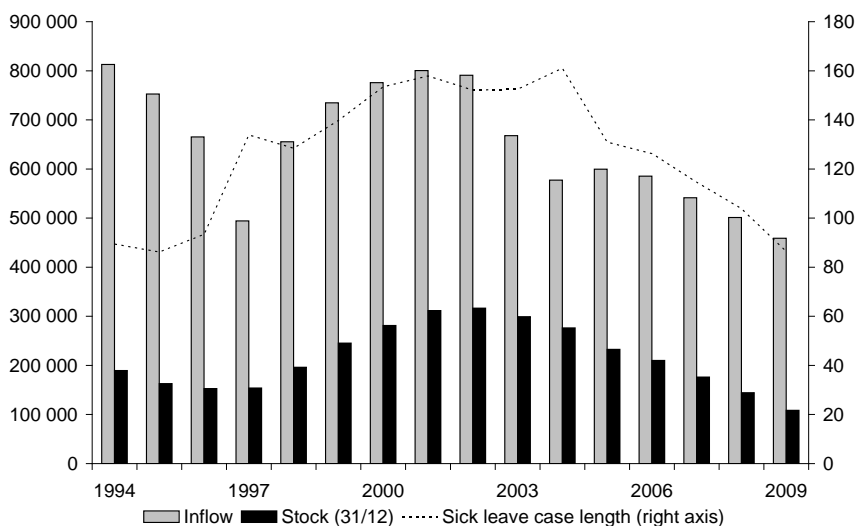
Figure 1 shows how sickness absence has evolved since 1994. Only cases that lasted at least 15 days are included since the statistics for brief illnesses covered by the employer are deficient. The number of cases lasting at least 15 days declined until 1997 but increased sharply thereafter until 2002. In 2003 the trend turned downwards. By 2008 the inflow was back to the same level as in 1997. After 2003, sick leaves have also become shorter and the outflow accordingly greater. All in all, because of the reduced inflow and the increased outflow, the stock, and therefore the number of people who are on sick leave at any given point in time, has decreased since 2003.

Internationally, Sweden is now at a normal European level after having substantially exceeded the EU average through the 1990s and up to 2003. Norway and the Netherlands have also experienced high levels of sickness absence. The Netherlands succeeded in getting sickness absences down already in the early 2000s, while Norway still has a high level. The Dutch case is interesting, as major reforms of sickness insurance have been implemented there. Employers have been made responsible for a large part of the cost of sickness absence and disability insurance. Even though the empirical research on the relationship between the reduced sickness absence and the reforms in the Netherlands is limited, the experience there provides some support for the importance of strengthening employers' incentives to contribute to a prompt return to work.

Figure 2 shows a clear cyclical pattern for sickness absence in Sweden: it has been high in good times and low in bad times. The pattern was broken around 2005 when sickness absence continued to fall while employment turned upwards. There are still no unambiguous research results on the reasons for the trend break. A possible explanation is that the Swedish Social Insurance Agency's efforts against fraud and overuse have helped change attitudes to sick

leave.<sup>1</sup> Since most of the Government's reforms came into force in 2008, the break in the cyclical pattern cannot be attributed to these reforms. Both employment and sickness absence have declined in 2009. It is, however, too early to say whether this means a return to the old cyclical pattern.

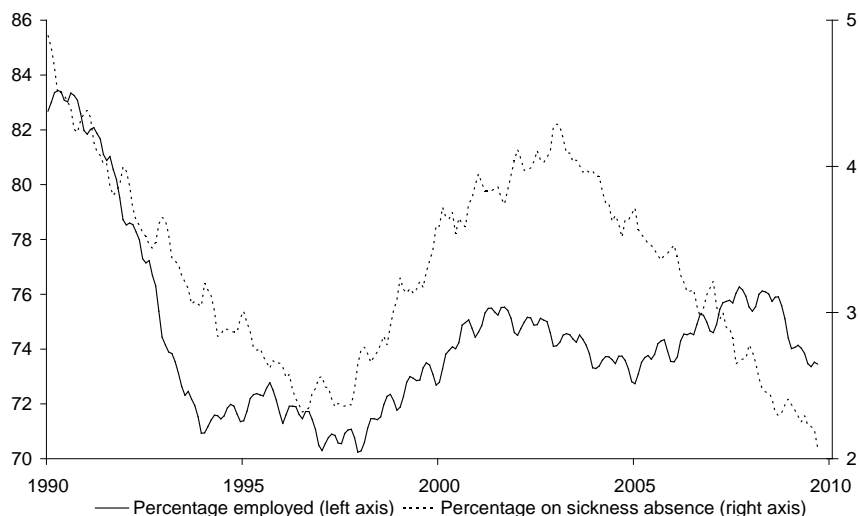
**Figure 1 Sick leave developments**



*Note:* Inflow and stock are measured on the left axis, average length on the right axis.  
*Source:* Social Insurance Agency.

<sup>1</sup> See, for example, Dagens Socialförsäkring (Social Insurance Today) (2009).

**Figure 2 Employment rate and sickness absence, per cent of the population and of the employed respectively**



*Note:* Sickness absence measured as the number of people absent the entire week measured in the Labour Force Survey (LFS) as a per cent of the number employed. The per cent employed refers to the number employed as a per cent of the population. Both series are four-month moving averages.  
*Source:* Statistics Sweden's Labour Force Surveys (LFS).

The regional dispersion of sickness absence has also declined considerably since 2003. One way of measuring sickness absence used by the Social Insurance Agency is the sickness benefit component of the sickness rate.<sup>2</sup> The sickness benefit component gives the average number of sickness benefit days per insured and year. In August 2011, the sickness benefit component of the sickness rate was 6.6 days. The County of Jämtland had the highest rate at 8.4, while the lowest number of days was in the County of Skåne, with 6.1. The difference between the highest and the lowest value was thus 2.3 days. In 2003 the average for all of Sweden was 15.9 and the difference between the highest and the lowest value for the sickness benefit component of the sickness rate was 10.2 days.<sup>3</sup>

Figure 3 shows developments in DI for the past 15 years until 2008. The number of people newly awarded DI increased from 1998

<sup>2</sup> The sickness rate measures the number of days with sickness benefits, sickness or activity compensation, or rehabilitation cash benefits per insured in one year.

<sup>3</sup> Social Insurance Agency (2010).

to 2002 for all age groups. New awards were particularly high in 2002 before a reform within DI that changed the eligibility criteria and the compensation level. The high number of new awards was probably due to the coming reform: the old system was seen as more generous than the new and thus there was considerable pressure to award DI to as many as possible before the reform. Since 2004 the number of new awards has fallen sharply. This is not so, however, for the age group 16-29. The inflow into DI has continued to increase for this group until quite recently (not shown in the figure).<sup>4</sup>

The conclusion from this section is that the decrease in sick leave and DI began long before the current Government took office. Thus the decline cannot be solely attributed to the reforms announced and implemented since autumn 2006.

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<sup>4</sup> I return to this issue in Chapter 5.

**Figure 3 Newly awarded disability insurance 1994-2008**



Source: Social Insurance Agency.

## 3 Effects of the Government's reforms

The reforms in the sickness and disability insurance can, somewhat simplified, be divided into measures aimed at (i) strengthening the incentives to work and (ii) increasing the opportunities to work. Some of the reforms, for example, the rehabilitation chain, contain elements of both.

### 3.1 The rehabilitation chain

The biggest change in the sickness insurance rules is the introduction of a *rehabilitation chain* with fixed time limits specifying when work capacity is to be assessed in accordance with various criteria. In short, the rehabilitation chain means that the sick leave period looks as follows:<sup>5</sup>

- The replacement rate in the first year (364 days) is 80 per cent of the qualifying income up to a ceiling of 7.5 base amounts.<sup>6</sup> The beginning of the sick leave period is the same as it was previously

<sup>5</sup> See Govt. Bill 2007/08:136 and Hägglund and Skogman Thoursie (2010) for a more detailed description of the chain.

<sup>6</sup> In 2011, a price-indexed base rate is equivalent to SEK 42 800 (Euro 4 760 in November 2011).

in so far as the employer after the initial qualifying day pays sick pay for the first 14 days. If the sick leave goes on longer than seven days, a doctor's certificate is required.

- On days 15-90 the insured is entitled to sickness benefit if unable to carry out current or other temporary assignments at his or her place of employment.
- On days 91-180, the assessment will additionally take work capacity into consideration in relation to other assignments at the place of employment.
- From day 181, if there are no *special grounds or it is not unreasonable*, the right to sickness benefit will be assessed vis-à-vis the regular labour market as a whole. If such grounds exist, the insured can continue on sick leave up to day 365 when he or she may apply for the *extended sickness benefit*. The extended sickness benefit is paid for up to 550 more days with a benefit equivalent to 75 per cent of one's previous income. There are also exceptions that make it possible to continue to collect 80 per cent of the benefit with the *continued sickness benefit*. The requirement for this benefit is that one is seriously ill and the illness has a serious impact on one's general state of health.
- Those who are still on sick leave after 914 days (2 ½ years) under the new rules will be transferred to unemployment insurance and the Public Employment Service's introduction programme. In some cases, however, it is possible to continue to get the extended sickness benefit.<sup>7</sup> This possibility thus implies a further relaxation of the time limit for sickness insurance.<sup>8</sup>

Before the rehabilitation chain was introduced, the Social Insurance Agency would assess work capacity in accordance with similar criteria within the framework for the step-by-step model. The new rehabilitation chain consists primarily of fixed time limits that specify when the work capacity assessments are to be carried out and the

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<sup>7</sup> A further extended sickness benefit can be awarded if the person meets some of the following three criteria: (i) the person is hospitalised or being cared for at home and cannot come to the Public Employment Service; (ii) the person has a distorted concept of reality which presents an obstacle to assimilating information; or (iii) participation in the introduction programme risks aggravating the illness. In such cases, the extended sickness benefit is awarded indefinitely, i.e. without any specified time limit.

<sup>8</sup> A person having the right to the *continued sickness benefit* with an 80 per cent replacement rate also has the right to the sickness benefit for an unlimited time.



reduction in compensation that takes place after one year.<sup>9</sup> There is now also an upper limit of 2½ years, but with some exceptions. The rules have been tightened in two respects. The first has to do with the time limit of six months at the end of which the assessment now concerns the labour market as a whole. It is in practice an expansion of the concept of work. Previously the work capacity of the person on sick leave would be assessed in relation to a normal job within the framework for the step-by-step model. There was no exact time specified for when this would take place. Under the rules system, a possible transition to disability benefits should be assessed after one year at the latest. There thus was an *indirect* time limit of no more than one year for assessing work capacity. In practice, this assessment often took place much later or never.

The second tightening of the rules concerns the right to disability benefits (the correct name of the benefit is sickness compensation). The possibility of getting temporary disability benefits has been eliminated. For the insured to be entitled to disability benefits, his or her work capacity is to be *permanently* impaired. Before the reform was introduced, *lasting* impairment of work capacity was required. To put it simply, a permanent impairment in accordance with the law's intent is to be interpreted as 'permanent' while a lasting impairment would be interpreted as 'long'.

Thus far, there is only *one* evaluation of the rehabilitation chain.<sup>10</sup> It indicates that the chain helps shorten sick leave times since more sick cases end at the fixed times after 90 and 180 days. Otherwise, there is limited empirical research literature about the different elements in the rehabilitation chain: compensation that declines over time and fixed checkpoints for reconciliation and verification.

Several empirical studies in both Sweden and abroad show that the compensation level affects the use of the sickness insurance system,<sup>11</sup> but there are no studies of the effects of a decreasing compensation profile apart from the above-named evaluation. Some conclusions can be drawn from a study by Johansson and Palme

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<sup>9</sup> The steps specified in the rehabilitation chain only affect people who are employed when the sick case starts. The unemployed's work capacity is, for example, to be assessed in relation to the regular labour market as early as day two of the sick leave.

<sup>10</sup> Hägglund (2010).

<sup>11</sup> Johansson and Palme (2002 and 2005), Hesselius and Persson (2007), Larsson (2006) and Henrekson and Persson (2004) are Swedish studies. Krueger and Meyer (2002) and Barby et al. (2002) are overviews of the international literature.

(2005), which finds that compensation that increases with time leads to longer sick leaves. A declining profile should, by analogy, lead to shorter sick leaves. Parallels may possibly also be drawn from the literature on unemployment insurance which shows that a decreasing compensation profile results in a greater outflow from unemployment to work.<sup>12</sup> Time limits at three, six and twelve months create natural control points. Swedish studies of review meetings and the requirement for a doctor's certificate have shown that control plays an important role in the probability of bringing a sick case to a close.<sup>13</sup>

There should be a good chance that the rehabilitation chain will make the system more uniform and help to reduce the inexplicably large variations in sickness absence that have been observed both geographically and over time but which now appear to be decreasing. Legal certainty in sickness insurance can thus be expected to increase.

### 3.2 Other reforms

In addition to the rehabilitation chain, stronger incentives to work have been introduced in the form of *sliding deduction*. With this incentive, individuals awarded permanent sickness compensation before 1 July 2008 are offered the opportunity to work up to a specified threshold while retaining their compensation from the sickness insurance. Incentives have also targeted employers via *new start jobs*. Both these measures increase the opportunities for people on sick leave to return to work. Sliding deduction involves reduced marginal effects.<sup>14</sup> Empirical support indicating that this type of financial incentive increases the labour supply comes mostly from studies of the *Earned Income Tax Credit* in the United States.<sup>15</sup> New start jobs function primarily by increasing the demand for labour – they reduce the cost to the employer of hiring a person with low (expected) productivity. Studies of earlier measures of a similar nature (subsidised employment) in Sweden have shown that this type

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<sup>12</sup> See, for example, Carling et al. (1996).

<sup>13</sup> See, for example, Hesselius et al. (2005) and Lindahl (2008) respectively.

<sup>14</sup> See, for example, Moffitt (2003).

<sup>15</sup> Surveys of existing research are found e.g. in Blundell (2006), Meyer (2008), Immervoll and Pearson (2009), and OECD (2009a).

of measure has a positive effect on the target group's probability of finding work.<sup>16</sup>

But whether the stimuli are sufficiently strong is questionable. Only just fewer than two per cent of the target group, thus people with permanent sickness compensation awarded before 1 July 2008, have applied for a sliding deduction. New start jobs have indeed attracted substantially more participants: the average stock in 2009 was more than 19 000 people, but the overwhelming majority consisted of long-term unemployed registered with the Public Employment Service. Only a small number are people who were previously on sick leave or disability benefits.<sup>17</sup> According to a report by Demoskop at the request of the Social Insurance Agency, the main reason that people on sick leave give against using the support is concern that the Social Insurance Agency will withdraw or reduce their benefits.<sup>18</sup> Another issue is whether there are jobs available in the labour market for this group which, owing to its history of illness, may be expected to have low work capacity and productivity. The limited use made of new start jobs among people previously on sick leave may also be due to the small demand that exists for this type of labour, regardless of employers' wage costs.

To increase the opportunities to return to work, the Government has introduced the *rehabilitation guarantee*. It concerns people on sick leave or at risk of this as a result of long-standing problems with pain or psychological problems such as anxiety, depression or stress. The guarantee is to offer rehabilitation measures in the form of cognitive behavioural therapy and multimodal training where various support skills are combined. Even though medical research provides some support for this as an effective treatment,<sup>19</sup> the expected effects are uncertain. Relatively few studies have analysed the labour market outcome of both these and other rehabilitation measures.

The Government has also taken institutional initiatives intended to make the sick leave process more effective. These include investment in *occupational health services*, stimuli for *increased cooperation* between actors in the sick leave process and *private alternatives to the Public Employment Service* and *medical insurance decision support tools for*

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<sup>16</sup> See for example Fiscal Policy Council (2010).

<sup>17</sup> In March 2010, there were about 1 500 people with special new start jobs (for people previously on sick leave or disability benefits).

<sup>18</sup> Demoskop (2009).

<sup>19</sup> See Waddell and Burton (2004) and its references.

*doctors*. Both the medical insurance decision-support systems and the expansion of the occupational health services should have good chances of improving the sick leave process even though the research in this area is limited. The pilot project with private actors has not yet been evaluated. But the Government, together with the Public Employment Service, has designed the assessment in such a way that the chances of a successful evaluation are good. Thus, for example, people who are offered a chance to participate in the pilot project are selected at random.

From a research perspective, there is reason to be undecided in face of the Government's expressed ambition to establish early interventions in sickness cases. While interventions in the form of assessments and controls are supported in the research, the situation with regard to (early) rehabilitation measures is more complicated. As pointed out, there is insufficient research in the area of rehabilitation. The main difficulty is to identify at an early stage those people in need of more extensive support. *Profiling* and *targeting* are methods that have produced positive results in labour market policy. These methods involve trying with the help of statistical techniques to identify the people in greatest need of measures and then the measures that are most appropriate. I would like to see these methods tried in sickness insurance as well.<sup>20</sup>

Some early measures based on the interaction between different actors have also been shown to prolong instead of shorten sick leaves.<sup>21</sup> There is a risk that early interventions will be cost ineffective for society if these cannot target the right people in an effective way.

Using the same argument, reforms aimed at encouraging the expansion of local interactive measures must be viewed with some scepticism. In recent years, SEK 1-1.5 billion has been invested in locally adapted action programmes even though impact studies are by and large lacking in this area. Here research of an experimental nature would be desirable to come to grips with the comparability problems that otherwise may arise because programme participants may be different from those who do not participate in the programmes.

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<sup>20</sup> See Fiscal Policy Council (2009), Section 5.2.6, for a discussion on *profiling* and *targeting* in labour market policy.

<sup>21</sup> Lindahl (2008).

Finally, the earned income tax credit may have had an impact on time spent on sick leave. The fundamental idea of the earned income tax credit is to create stronger incentives to work. As those on sick leave are not entitled to the credit, it entails an increase in the income from working relative to compensation for sick leave of more than 14 days. According to rough estimates in Johansson (2010), the earned income tax credit may have shortened sick leave by up to three days, or by 6.8 per cent. The Ministry of Finance has, with the help of a micro simulation model, estimated that the Government's income tax cuts will reduce sick leaves by 7.6 per cent and usage of DI by 1.1 per cent in the long run.<sup>22</sup>

To my opinion, the Government's reforms have helped reduce sickness absence and may provide further contributions in the future as well. The decline actually began before the current Government took office, but the reforms that have been implemented have probably helped the trend continue and strengthen. But it is impossible to form a definite opinion of how large the effects are. One disadvantage may be that the gate to DI has become very narrow because work capacity in principle must be proved to be permanently reduced for a person to qualify for DI.

### 3.3 Implementation of the reforms

When the rehabilitation chain and several of the other reforms were announced in autumn 2008, the bodies consulted were critical and wanted to see more analyses and clarification.<sup>23</sup> Of particular concern was the assessment of work capacity in relation to the regular labour market. The Government chose to pay little attention to the consultation responses and implemented the reforms very rapidly. This has led to a number of problems.

The Social Insurance Agency has had difficulty interpreting the new rules. Its interpretations have on several occasions conflicted with the Government's expressed intentions. The details, as well as the exceptions, have increased even more since the Government has had to come out with clarifications. This has further complicated the application of the new rules. Given the complexity of the

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<sup>22</sup> Micro simulation means that detailed information on the individual and household level is used to estimate the effects, for example, of tax reforms. See Ministry of Finance (2009).

<sup>23</sup> Ministry of Social Affairs (2008).

considerations needed when applying the rules, and the importance the insurance has for individuals, closer cooperation with the Social Insurance Agency on the design and application of the rules would have been desirable.

It is also questionable whether the Public Employment Service and municipal services were adequately prepared to take care of the people who will no longer get their means of support from the sickness insurance system. For example, the details about the upper limit for the right to sickness benefits were presented as late as October 2009. Consequently, the Social Insurance Agency, and the Public Employment Service had little time to prepare the measures and instruct their officials.<sup>24</sup> A large group of people on sick leave also had to wait until the last minute for notification of what compensation they would get as jobseekers. In the October 2009 Government Bill, the Government still intended that these jobseekers would be covered by ordinary activity support. But it proved difficult to produce the basis for estimating the size of the activity support quickly enough. As late as December 2009, instructions came that the compensation would instead be based on the qualifying income. Another problem was that the compensation – contrary to expressed intentions – also proved to have decreased for approximately half of the group that had transferred to the Public Employment Service.

The concern caused by the introduction of the rehabilitation chain has put pressure on the Government not only to clarify the aims of the reforms, but also in some cases to withdraw proposals and review the consequences. The Government has from the very beginning had to back away from several changes it had announced. The amended rules concerning pension rights for people with sickness and activity compensation and the reduction rule for supplementary insurance are two examples. Now the list can be supplemented with the exceptions that make sick leave possible beyond the upper limit of 2½ years, the exception to avoid unfairness in an assessment in relation to the regular labour market and new rules for the continued sickness benefit.

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<sup>24</sup> Govt. Bill 2009/10:45.

## 4 Transition from sickness absence to unemployment

### 4.1 Transition in the first year

According to the new rules for the rehabilitation chain, the work capacity of the person on sick leave is first assessed in relation to his or her own job, then after a maximum of three months in relation to other work with the same employer and last, after six months, in relation to the regular labour market as a whole. Should the person on sick leave on the occasion of the last named assessment be judged to have a work capacity in the labour market, his or her right to sickness benefits ceases and the person is transferred to the Public Employment Service. The new rules have been in effect since 1 July 2008.

Table 1 shows the status on 30 September for the years 2007-2009 for people who began a sickness case during the first quarter of the same year. Sickness cases, which have accordingly lasted 6-9 months, concern individuals who were employed at the start of their sickness case. The probability of going from sick leave to unemployment has increased considerably, from 1.7 to 2.2 per cent, i.e. by about 30 per cent, since the new rules were introduced.<sup>25</sup> The economic downturn may have contributed to the increase, but the percentage who got jobs also increased from 2008 to 2009.

**Table 1 Reason for closing sickness absence cases begun in the first quarter of the year, per cent**

	2007	2008	2009 (new rules)
Work	84.4	86.8	88.9
Unemployment	1.7	1.7	2.2
DI compensation	0.4	0.5	0.1
Ongoing cases (30 September)	13.4	11.1	8.8

*Source:* Hägglund and Skogman Thoursie (2010).

The greatest change has been in the transition to DI compensation from 0.4-0.5 per cent to 0.1 per cent. This is probably

<sup>25</sup> Since the sample for 2008 refer to the first quarter, this group did not come under the new rules until 1 January 2009. This is due to transitional arrangements.

related to the new stricter criteria for impaired work capacity when assessing the right to DI compensation. The declining percentage of current cases reflects the reduction in the length of sickness periods.

Table 2 shows that people who were previously on sick leave got more active measures after their transfer to unemployment. This trend applies to everyone regardless of the length of the sick leave before the transfer to unemployment, i.e. for a larger group than the population in Table 1. Active measures may entail both regular programme activities and measures within the framework for the joint action plan of the Social Insurance Agency and the Public Employment Service.<sup>26</sup> Most are still registered as openly unemployed, but an increasing share is able promptly to take part in a programme or joint action.<sup>27</sup>

The Public Employment Service is more active in cases where the individual has had a longer period of sickness absence than in other cases. So, for example, the percentage in joint action measures is 3 per cent for individuals who have been on sick leave for less than six months and 36 per cent for individuals who have been on sickness absence for two or more years.<sup>28</sup>

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<sup>26</sup> In the joint action plan, there is first a survey that aims to assess the work capacity of the jobseeker/insured. Thereafter the rehabilitation continues with work assessment, education and adjustments to increase work capacity and find employment. Activities in the joint action plan are preceded by an assessment made by a preparatory group consisting of officials from the Social Insurance Agency and the Public Employment Service that the individual is fit for these measures.

<sup>27</sup> The patterns in Tables 1 and 2 seem to be stable when 2010 is included, based on own calculations using statistics from Social Insurance Agency.

<sup>28</sup> Hägglund and Skogman Thoursie (2010).



**Table 2 Status of those previously on sick leave after transfer to the Public Employment Service, per cent**

Status at the Public Employment Service	2008	2009	Difference
Open unemployment	67.7	60.7	-10.3
Joint Action	10.4	17.1	+64.4
Programme	3.5	4.1	+17.1
Work	18.4	18.0	-2.2

*Source:* Hägglund and Skogman Thoursie (2010).

The labour market prospects for people whose benefits expire after 180 days of sick leave look relatively bright. The Social Insurance Agency has had a survey conducted of all people whose sickness benefit came to an end in January 2009 after having lasted at least 180 days. The survey covers all the reasons for the expiry of the sickness benefit and is thus not conditional on people transferring to the Public Employment Service. About 70 per cent of these people had jobs five months later; 67 per cent were employed and 4 per cent were self-employed.<sup>29</sup> Only 11 per cent were still unemployed or in labour market programmes and 5 per cent had gone back on sick leave (2 per cent with sickness benefit, 3 per cent without). There is little difference between the survey results and how many in the survey population worked before they went on sick leave: then 91 per cent were employed and 5 per cent ran their own business.

#### 4.2 People whose benefits have expired

Slightly more than 54 000 people reached the upper limit for either the sickness benefit (2½ years), or temporary sickness compensation in 2010. According to the new rules, those of them who were judged to have work capacity were referred to the Public Employment Service activities and compensation in the form of activity support.

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<sup>29</sup> Social Insurance Agency (2009)

**Table 3 Outcome for individuals who reached the upper limit in the sickness insurance during 2010, number of people and per cent**

No of persons who	Stock	Quarter of 2010			
	2009/10	first	Second	Third	Fourth
Reached upper limit	17 643	7 936	10 161	9 032	9 410
<i>of which:</i>					
Stayed in SI/DI	3 425	2 241	2 705	2 261	2 275
Returned to SI/DI	8 121	2 718	3 222	2 532	1 875
Stayers and returners	65 %	62 %	58 %	53 %	44 %
Registered with PES	12 607	4 856	6 418	5 886	6 276
Registered with PES and not returned to SI/DI	5 076	2 355	3 396	3 471	4 462
<i>of which:</i>					
In employment	34 %	30 %	24 %	20 %	16 %
In open unemployment	9 %	8 %	9 %	6 %	5 %
In program with activity support	38 %	38 %	45 %	52 %	57 %
In program without activity support	6 %	10 %	10 %	12 %	16 %
Left PES for other reason than employment	12 %	14 %	11 %	9 %	6 %

*Source:* Social Insurance Agency (2011).

*Note:* The outcome is measured May 31, 2011, for everybody.

Ever since the beginning of 2010, the Social Insurance Agency has in various reports and press releases continuously followed waves of people whose benefits expire. Table 3 summarizes the outcomes for all those who reached the upper limit during 2010. The first wave is the largest, consisting of people who reached the upper limit exactly at the turn of the year 2009/2010. In other words, it includes the entire stock of long-term sick. The four succeeding waves are people who reached the limit during the first (excluding the stock of January, 2010), second, third, and four quarter of 2010.

A majority of all waves, between 61 and 71 per cent, registered with the Public Employment Service. About 10 per cent of all waves did neither stay in the SI or DI nor registered with the Public Employment Service. Most of the stayers qualified for DI, while some hundreds of individuals per wave were awarded further SI benefits. For the returners it is the opposite: only a small portion of them received DI after having returned. Most of them stayed outside for three months (which is the minimum required time outside SI) and qualified then for a new period with SI benefits.

As shown in Table 3, the time limit is not fully binding. Further SI benefits may be awarded (and thus the person gets to be a stayer in

SI) in connection with the exceptions that the Government announced as late as December 2009.<sup>30</sup> Briefly, the exceptions concern two matters. First, a new *concept of fairness* was introduced. It says that people with serious illnesses will *never* be assessed in relation to the regular labour market.<sup>31</sup> Second, the rules were changed for what is called the continued sickness benefit (i.e. a sickness benefit equivalent to 80 per cent of the sickness benefit base income after twelve months) with the expressed aim that everyone with cancer would be given the right to the continued sickness benefit.<sup>32</sup>

The National Board of Health and Welfare has been given the task of defining the concept ‘serious illness’.<sup>33</sup> The list of criteria for illnesses that will be considered serious which the National Board of Health and Welfare draws up may indeed facilitate application of the law but it may also have drawbacks. Such a list of criteria signals that certain illnesses should lead to continued sickness benefit regardless of a person’s general state of health and implies that people with an uncommon diagnosis that is not on the National Board of Health and Welfare list, but which seriously affects their general health, are excluded from the continued sickness benefit.

Of all people who registered with the Public Employment Service only 11-15 per cent had found a job by May 31, 2011. Most of the registered return to SI or DI, and quite a few were still in a program. Somewhat worryingly, the share of program participants without compensation corresponding to unemployment benefits – activity support – increases by wave, indicating a weaker foothold on the labour market in latter waves.

My conclusion is that the prospects for the activation rate for the short-term sick and their chances of finding work quickly after they have left the sickness insurance system look quite promising, as shown in Table 1. But the treatment of those whose benefits expire after a long period of sick leave or temporary disability benefits has been inadequate with many instances of late information and changes. This group has a very weak position in the labour market.

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<sup>30</sup> Govt. Bill 2009/10:45.

<sup>31</sup> What ‘never’ means is up to the Social Insurance Agency to interpret. It is not clear whether the exception applies to one who is declared completely or sufficiently healthy and how the assessment is made.

<sup>32</sup> The term for serious effect on general health was removed and the word ‘serious illness’ replaced the wording ‘exceptional grounds’.

<sup>33</sup> The 2010 budget letter of the National Board of Health and Welfare.

It presumably would have been a good idea to grant an amnesty to those on sick leave and temporary disability benefits who were already in the system on 1 July 2008, when the new rules were introduced, and let the new time limits apply only to the new inflow. A justification for this could have been that those who had already been on sick leave (a long time) before the new rules came into effect had not been affected by them nor had access to the increased possibilities for rehabilitation measures at the beginning of their sick leave. Proceeding in this way would have also made it possible to try out the new rules on a smaller scale.

## 5 Young people on DI

As reported above, young people aged 16-29 are the only group in which usage of DI has increased until quite recently.<sup>34</sup> A number of other OECD countries have also experienced an increase in the number of young DI recipients, but the increase is greatest in Sweden (OECD 2009b). The increase in Sweden is primarily related to psychiatric diagnoses.<sup>35</sup>

Hägglund and Skogman Thoursie (2010) present an interesting hypothesis that the increase in usage of disability benefits among young people is related to the school reforms of the 1990s. Under the 1991 upper secondary school reform, vocational programmes were extended to three years and the last year mainly consists of theoretical studies. Another reform changed the relative grading system to an objectives-based system, which probably made it more difficult to get a school-leaving certificate.

Earlier research has shown that (i) the percentage of students who do not have an approved certificate from both compulsory school and upper secondary school increased during the second half of the 1990s; (ii) both of the above-named reforms have been significant factors in the increase;<sup>36</sup> (iii) people with incomplete upper secondary studies are overrepresented among the unemployed; and (iv) young people who were granted disability benefits in the 2000s have a long history of unemployment and sick leave.

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<sup>34</sup> See Figure 3.

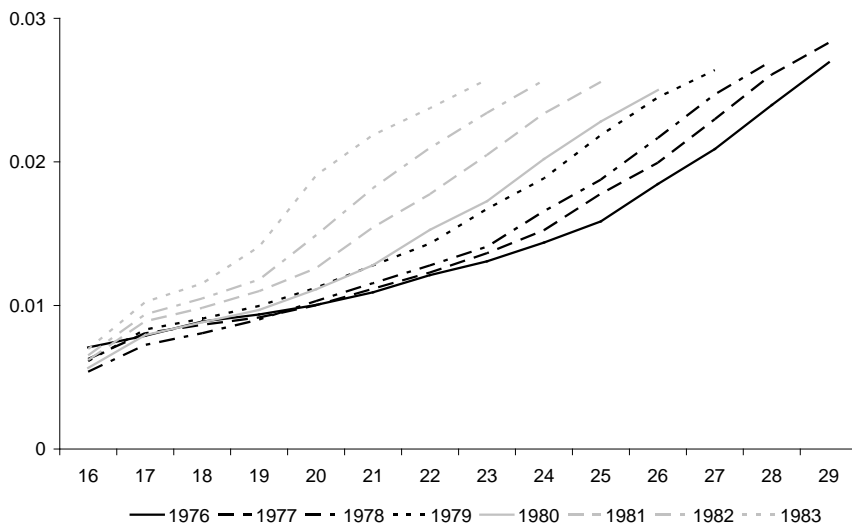
<sup>35</sup> See Social Insurance Agency (2007).

<sup>36</sup> Hall (2009) studies the effects of abolishing the two-year upper secondary school and Björklund et al. (2010) analyses the effects of the introduction of an objectives-based grading system.

The extended vocational programme in the upper secondary school applied mainly to individuals born in 1976 and after. These young people would be expected to finish upper secondary school in the mid-1990s. The grading system reform in upper secondary school affected people born from 1978 onwards. They may be assumed to have left school two years later than the first group. The compulsory school grading reform concerned individuals born from 1982 onwards. They may be assumed to have completed upper secondary school in the early 2000s. The process leading up to disability benefits is often long with repeated periods of sick leave and unemployment. It is unlikely that people without school-leaving certificates and with difficulties getting established in the labour market would retire immediately. This also makes it difficult to directly relate the changes in the school system to the rise in disability benefits, but the cohorts affected by the school reforms were aged 20-29 in the early 2000s, that is to say, when the number of young DI recipients increased sharply.

Based on Hägglund and Skogman Thoursie's hypothesis, an increase in the probability of DI at a given age can be expected for each cohort from 1976 onwards. This is also precisely what Figure 4 shows. There is obviously a great need for studies of the possible relationship between the rise in DI usage among young people and the school reforms.

**Figure 4 The percentage of DI awards at different ages in different birth cohorts**



*Note:* The years refer to the year of birth.

*Source:* Hägglund and Skogman Thoursie (2010).

Further potential explanations for the increasing number of young DI recipients are a general increase of psycho-social disabilities among young people in Sweden; that these young people need DI benefits to complete school; changes in doctor's routines to make diagnoses; changes in the labour market; and changes in norms and attitudes. More research is needed before one can draw any definite conclusions.

## 6 Employment programmes for the disabled

Most advanced countries provide special employment programmes for the disabled. The three most common types of programmes are subsidized, sheltered, and supported employment. In subsidized employment, part or the entire employer cost for the worker is compensated by the Government. Often, the subsidy is phased out over time. This is the most common type of programme in Sweden. Sheltered employment takes place in protected environments, such as state-owned companies or work-shops, or special businesses.

These employment programmes are directed to jobseekers registered with the Public Employment Service (PES), and classified as disabled to work by the PES. This does not necessarily require a history with sickness benefits, even though a large share of the group does have it. At present, there are approximately 170 000 registered jobseekers with some degree of disability, corresponding to 24 per cent of all registered (employed and unemployed). Slightly less than half of them take part in special programmes targeted at disabled.

The largest special program is Wage Subsidy (for disabled), which implies subsidized employment at the regular labour market, both private and public. Aside from some exceptions, the normal maximum subsidy is 80 % of the wage cost and the maximum period is four years. In 2010, 46 700 persons received Wage Subsidy. In addition, some disabled persons received regular wage subsidies, directed to long-term unemployed who do not necessarily have to be disabled.

The three sheltered employment programmes, Samhall, Sheltered Work, and Public Sheltered Work, had around 37 000 participants during 2010. Samhall is a state-owned limited company with almost solely disabled employees.<sup>37</sup> At least 40 % of new employees must be persons with intellectual disabilities, mental illness or multiple disabilities. The wage corresponds to approximately 85 % of average wage at the regular labour market. Sheltered Work is an alternative to Samhall, where the employer receives a subsidy according to the rules for Wage Subsidy. Public Sheltered Work is provided by local and government authorities, and the state church. The target group consists of persons with a weak connection to the regular labour market: unemployed with socio-medical impairments or long-term psychological disabilities, who have not worked for a long time or ever. Participation in these programmes is unlimited in time, but there is an explicit ambition that participants will gain better work capacity and find regular employment.

Supported Employment is a rather small-scale programme that aims at preparing regular employment for persons with reduced work capacity during a maximum period of 6 months. Additional support can be provided for 12 months. The participant receives a

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<sup>37</sup> Workers at Samhall are in general not registered with PES and thus not included in the group of 170 000 disabled registered.

rehabilitation benefit and is provided a job coach, paid by the Employment Service, at an ordinary workplace.

Vocational rehabilitation is provided to unemployed or to employed persons who are not able to return to the previous employment for health reasons. The maximum period is six months, and the participants receive compensation corresponding to unemployment benefits. In 2010, on average 11 000 persons received vocational rehabilitation, with a clear upward trend which is explained by the reforms within SI.

Evidence on the effects of these programmes in Sweden is surprisingly scarce. It is not obvious, though, how success in this context should be measured. Subsidies as well as supported employment aim at preparing the jobseeker for ordinary work, but in practice many participants never reach that goal.<sup>38</sup> Instead, subsidies are succeeded by new subsidies or other programmes. Sheltered employment is more acknowledged as a success measure in itself, with no time limits for participation. For many participants with severe disabilities, capacity and energy to continue working might be challenging enough. Thus, relevant measures of successful outcome should probably include continuous employment (both regular and subsidised) as well as measures of health and work capacity.

A further important issue to analyse is the selection into the programmes – are they directed to the truly disabled? Existing research from Sweden indicates that recruitment into sheltered employment is associated with some cream skimming (Melkersson, 1999a, Skedinger and Widerstedt, 2007). Moreover, results in Johansson and Skedinger (2009) suggest that the Swedish system implies incentives to exaggerate disability among jobseekers. By defining an unemployed person as disabled the Public Employment Service (PES) can assign the person into special programs for disabled and thus achieve quantitative targets regarding the placements of individuals into subsidized jobs. Johansson and Skedinger combine data from PES and Labour Force Surveys (LFS) to see how much the groups of disabled overlap in these two data sets. In general, they do, but approximately 3 per cent of the combined sample consists of individuals who were classified as disabled by the PES but who did not consider themselves as disabled

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<sup>38</sup> To my knowledge, Melkersson (1999b) is the only micro-econometric study of the determinants of unemployment duration among disabled workers in Sweden.



when answering the LFS. In a comparative study of Sweden and Finland, Hartman and Hytti (2008) show that the share of disabled among registered unemployed is significantly higher in Sweden than in Finland. The share of program participants among disabled is almost five times as large in Sweden as compared to Finland.

## 7 Conclusions

The Government with its reforms to sickness insurance should be commended for tackling a difficult problem. All the political parties were already aware of the problem for several years before the current Government took office and were also agreed on the need for reforms. The emphasis on a time-limited sickness insurance came from many quarters, for example, the Swedish Trade Union Confederation.<sup>39</sup> There is support in the research indicating that the reforms can be expected to increase both the incentives and the opportunities to work. The rehabilitation chain appears to have had a substantial impact. The transfer to the Public Employment Service appears to be functioning relatively smoothly during the first year of sick leave. It goes without saying that the large problems that existed in the sickness insurance cannot be addressed without making mistakes. But in my opinion the mistakes have been too many. The Government should be criticised for implementing the reforms too hastily and in some respects carelessly and for its treatment of those on long-term sick leave whose benefits had expired.

It presumably would have been wise to distinguish between *stock* and *flow* in sick leave. This could have involved granting amnesty to the stock of people on sick leave that were already in the system on 1 July 2008 when the rules were changed and letting the new rules apply only to the new inflow. That would have made it possible to try out the new rules on a smaller scale.

It is unfortunate that the implementation of the reforms has been flawed in several respects. The Government has had to back away from some of the reform proposals. In other cases, the content has been changed or exceptions introduced at a late stage. It is important that proposals are so well prepared and supported before they are

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<sup>39</sup> Swedish Trade Union Confederation (2007).

presented in a bill that there is no need to change or withdraw them. This is particularly true of such sensitive issues as reductions in the generosity of the social security systems.

I also want to raise some issues that should be further analysed. The usage of disability benefits among young people has increased until recently, and it is too early to say that the trend is broken. More detailed analyses of the reasons behind the increase are needed. Possible links to school reforms that made it more difficult to complete a school-leaving certificate and increased the theoretical element in education need to be examined. From this perspective, the Government's focus on more practical upper secondary programmes is a positive development.

For older people, it is possible that disability benefits are too seldom granted. I would like to caution that the criteria for disability benefits may have become too strict. The requirement for *permanently impaired work capacity* is quite severe.

Finally, more research is needed on the selection into and effectiveness of special employment programmes targeted at disabled.

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