

UNEMPLOYMENT TRAPS FOR PEOPLE WITH DISABILITIES OR LONG-TERM HEALTH PROBLEMS

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1. Abstract

This paper sums up the conclusions of a research project detailing the obstacles and employment traps encountered by people with an occupational disability at various steps towards the labour market. Tax benefit simulations were used to calculate the disposable income of typical households, both on benefits and with paid jobs, after deduction of day care costs and taxes. This resulted in the added or reduced income from work after a situation of dependence on benefits. For all calculations, the study examined the effects on the income received from a low-paid or minimum wage job and in that context, it made several assumptions with respect to the level of social benefits, i.e. minimum/maximum level, and the labour regime, i.e. full-time or part-time. Five different benefit schemes were involved in the simulations: primary incapacity for work; disability; disability allowances, including both income replacing grants and integration allowances, and unemployment and income support. The study also made an inventory of the limitations and obstacles posed by legislation and social benefits practices.

In general, the 2009 results showed no lower financial yield after resumption of work following dependence on benefits, provided that the work could be resumed at a wage level equivalent to that on which the benefit was based. Full-time resumption of low-paid work after maximum sickness and disability benefits did show a loss of income. For other types of situations, such as small part-time jobs at one third of a full-time job and single parent status, the additional yield from work or work resumption is only marginal. In practice, the rule of accumulation pertaining to the system of permitted labour under the sickness and disability benefits, is applied to half-time jobs only. This rule results in an income drop *after* the permitted activity followed by full-time employment. The net disposable household income for full-time work is only slightly affected by the welfare benefits enjoyed before resuming work. However, due to the rules of accumulation of welfare benefits and labour income, for part-time employment the level of the net disposable income depends on the benefits enjoyed before the employment or resumption of employment. The system and the level of the benefits are the determinant factors in this respect.

In addition to these conclusions based on income simulations, interviews with field experts also showed a number of bottlenecks with respect to legislation and daily practices. There is a lack of synchronisation between the different systems of benefits and allowances. First of all, various income concepts are being applied haphazardly in the assessment of certain rights, making it difficult to estimate the financial consequences of employment, both for the individuals involved and for the counselling services. Secondly, the individual social benefit systems apply different rules for exemption of income. In the case of work resumption, part-time and otherwise, this can range from a fixed exemption of the professional income regardless of that income and the hours of employment, to a system that does include the hours of employment, or one that applies a variable exemption in accordance with the level of the professional income (in income brackets). In the third place, the incapacity and disability benefit scheme shows limited flexibility in terms of working hours under permitted labour. In practice one often has to make the step from half-time employment including social benefits, to full-time employment without benefits. The tax benefit simulations further indicate that this also involves a financial setback. In the fourth place, the allocation of tasks and responsibilities is less than optimal. Medical advisers assess the individual's fitness for the labour market against a medical background. At the same time, the Flemish Service for Employment and Vocational Training (VDAB) has the task to provide guidance and support to everyone who registers as a jobseeker. Meanwhile, communication on the issue of activation or reactivation between VDAB, the National Institute for Sickness and Invalidity Insurance (RIZIV) and the advising physicians is practically non-existent. And finally, access to the activation systems and employment supporting measures depends on an individual's current or past social benefits or status. Some measures require a low educational level; other situations apply the current functional level. Furthermore, access to sickness and disability insurance is highly binary: one is declared either disabled or healthy; there is nothing in between. As a result, not all individuals with an occupational disability can profit from additional advantages.

Key words:

Occupationally disabled, disadvantaged groups, labour market, activation

2. Objectives

The objective of this study was to display the obstacles and activity traps experienced by the occupationally disabled in the different steps towards the labour market. Based on tax benefit simulations, the financial consequences of the step towards paid work were laid out for various household types and benefit schemes. The study investigated the differences between the social benefits when part of the allowance is combined with partial work resumption. For a wide range of household types, this showed the welfare benefits that can have an activating effect based on their financial stimulus. Based on twenty interviews with experts from various organisations actively involved in this subject matter and on an analysis of the relevant legislation, the second part of the study made an inventory about the obstacles that individuals with an occupational disability may experience in their approach of the labour market as a result of that legislation and practical implementation. This created an image of how difficult the road towards the labour market is for people with an occupational disability and it provided a partial explanation for the low employment rate among those people.

Clarification of key concepts

VDAB is the Dutch abbreviation of Flemish Service for labour mediation and Vocational Training (the Flemish public employment service). RIZIV is the National Institute for Sickness and Invalidity Insurance (the Belgian public disability insurance). Medical advisers are the controlling authority with respect to disability, and they are also in charge of assigning the system of work resumption, i.e. permitted labour. The sickness and disability benefit follows the insurance principle and consists of primary incapacity for work (2 periods of 6 months) which then changes into the disability benefit. The income support and income replacing grants are welfare benefits. The income replacing grant is specifically intended for disabled people and can be combined with an integration grant, whose level depends on the degree of self-sufficiency.

The term 'occupationally disabled' refers to all individuals who, based on their health and/or mental condition, are able and also prepared to work and who at least have an indication of an occupational disability, in accordance with the VDAB list of indications. Unemployment traps are defined as follows: "each rule or regulation that discourages or limits people to take the step towards the labour market, including all the procedures and measures that, either individually or combined, as a result of their content, complexity, customer-unfriendliness or stigmatising character, have a negative effect on the economy or fail to sufficiently encourage it. This also includes the regulations that in the step towards work, have a negative effect on the income situation of the individual involved." (Flanders' Social and Economic Council Committee for Diversity, Advice dated 3 March 2004).

3. Methods and data

The study used standard simulations based on STASIM, a static simulation model developed and made available at the Herman Deleeck Centre for Social Policy, to calculate the added or reduced income from work after a situation of dependence on benefits. Five different benefits schemes were involved in the simulations: primary incapacity for work; disability; disability allowances, unemployment and income support. The study also included an inventory of the limitations and obstacles posed by legislation and welfare benefits practices, which was based on legislation, analyses and texts from semi-governmental bodies, user groups and intermediary organisations, as well as about twenty conversations with field experts.

Methodological explanation

The financial inactivity trap is traditionally approached with the help of standard simulations, calculating the net income given a situation of work or unemployment for a large number of typical households and from specific starting points. For individuals with an occupational disability, the simulation compares five different schemes: unemployment, social assistance, primary incapacity for work, disability, income replacement and/or integration grants. The comparison must take account of the level of the initial benefit, the relevant system of accumulation of benefits and income from labour, and derivative rights such as child allowance. These calculations are based on STASIM (Static Simulation Model). Tax benefit simulation techniques have the advantage of providing insight into the relationship between and accumulation of different arrangements. Their limitation is in the theoretical nature of the calculations. The choice of household types and wage levels raises questions about how representative the types really are and about the actual impact of unemployment traps on labour supply and therefore, about the behavioural effect. In the end, this is still an empirical matter. Standard simulations start from a number of assumptions that must be taken into account in the interpretation of the results. The calculations do include child day care costs, but they ignore any mobility costs involved in employment. The simulations include the full fiscal calculation for the results, as well as holiday allowance, etc. They are based on the inter-professional minimum wages applied in the private sector and for some analyses, use a multiple of these minimum wages.

Part two made use of legislation, analyses and texts from semi-governmental bodies, user groups and intermediary services and of interviews with field experts. Several parties were approached with a questionnaire: insurance companies, RIZIV, VDAB, interest groups, public representatives and administrations. Elaborate interpretation, illustration and calculations of all the information gathered proved impossible within the time frame of the project. Certain bottlenecks will occur only in extraordinary circumstances; others will be felt or experienced in a much broader sense. The listing created does not intend to provide a distinction between them and therefore, the study renders only a tentative and exploratory diagnosis.

4. Findings

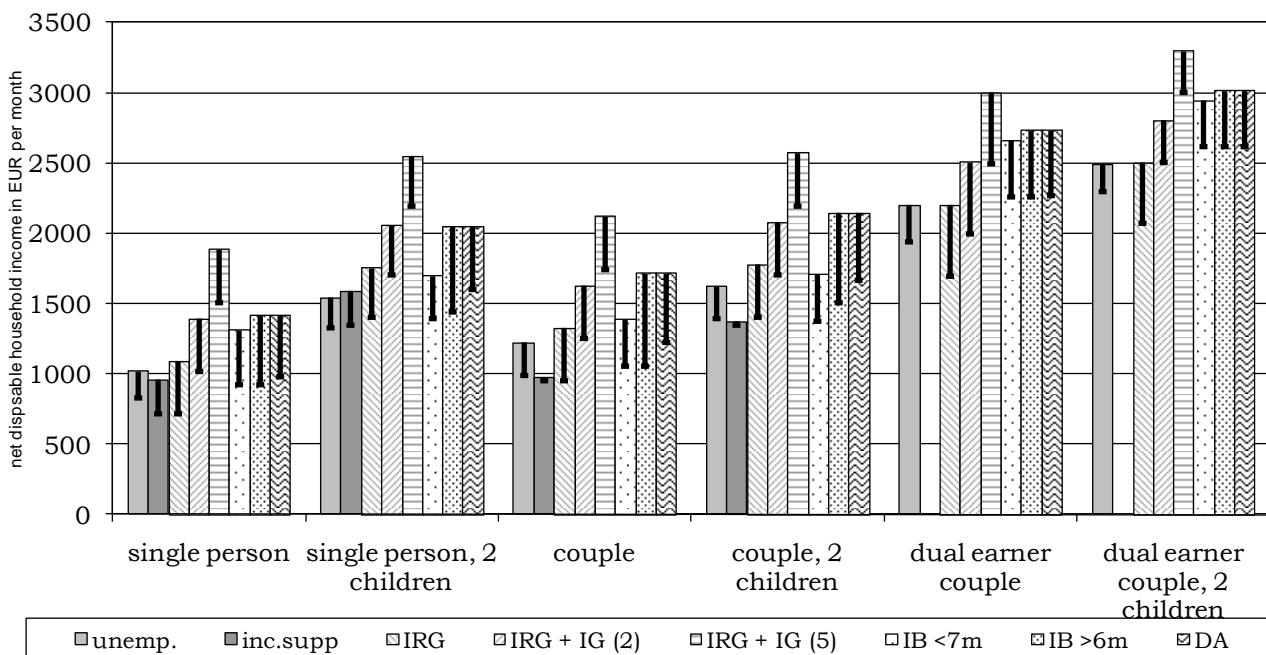
4.1 Financial activity traps

In general, the 2009 results showed no drop in income after resumption of work following dependence on benefits, provided that work could be resumed at a wage level equivalent to that on which the benefit was based. However, anyone who must resume work at a minimum wage level after having enjoyed maximum (occupational) disability benefits and who cannot enjoy accumulation of benefits in the scope of permitted labour, is usually confronted with a drop in net disposable household income as compared to the income enjoyed from benefits. For the accumulation system of sickness and disability insurance - the permitted labour -, the inactivity trap analysis performed by Larmuseau and Lelie in 2001 suggested to work with a fixed exemption of wages followed by a percentage exemption. This route was followed during the reformation of the scheme and then applied a system of income brackets, which clearly produced positive results for the unemployment traps in those schemes. For other types of situations the added income yield of work or work resumption remains very limited. This was mainly found to be true for smaller part-time jobs at one third of full-time employment, and for single parents.

The net disposable household income for full-time work is only slightly affected by the social benefits enjoyed before resuming work. However, in the case of part-time employment, the benefits and the status enjoyed before employment or re-employment do have a significant effect on the net disposable income from work (see figure 1). Figure 1 shows the disposable household income from part-time work at a minimum wage after - minimum - benefits for the different household types. The base of the vertical line in each bar represents the disposable income before employment, hence at the time of the benefits. The structure of the accumulation scheme in the different benefit systems clearly plays an important role. This may range from a fixed exemption of the professional income regardless of that income or the duration of the employment (income support), to a system that does include the duration of employment (unemployment), or one that applies a variable exemption in accordance with the level of the professional income (in brackets, in the case of sickness and disability insurance and for disability grants).

Figure 1

Net disposable household income for part-time employment (50%) at minimum wage after minimum allowance, January 1st 2009



Note: DC-Dependent Children; unemp.=unemployment; inc.supp.=social assistance ; IRG=Income Replacing Grant; IG(x)=Integration Grant in category x (the higher the grant, the lower the individual's degree of self-support); IB=Incapacity Benefit; DA=Disability Allowance.

The method of including the partner's income into the equation also varies across the systems. Within income replacement and integration grants, the income from a different source, i.e. income from labour as opposed to replacement income, is considered in different ways for the application of the accumulation rules. Another factor is to which degree an individual's working past continues to have an effect when employment is resumed. This mainly relates to the tension between the minimum and maximum benefits: the greater the tension, the larger the difference between extreme levels of income at which accumulation with benefits is allowed.

Drops in income after a period of permitted activity under the incapacity and disability insurance scheme merit special attention. Only in extraordinary situations, particularly in the case of a new job in sheltered employment, can full-time employment be combined with keeping part of the incapacity and disability benefit. Accumulation is impossible in all other situations, i.e. already existing sheltered employment or employment in the normal economic circuit. The advantageous accumulation rule in the system of permitted labour, which in practice is usually applied up to the level of half-time employment, thus causes a drop in income upon discontinuation of the permitted activity followed by full-time employment. This does not encourage the individuals involved in voluntarily taking up more hours of work.

4.2 Employment traps in legislation and implementation practice

In addition to these conclusions based on income simulations, interviews with field experts produced a number of bottlenecks with respect to legislation and daily practice. Some of them have already been addressed in the advice drawn up by Flanders' Social and Economic Council SERV (The SERV-committee for Diversity – Advice of 3 March 2004) on the employment traps for the occupationally disabled. There is a lack of synchronisation between the different systems of benefits and allowances. First of all, various income concepts are being applied haphazardly in the assessment of certain rights, making it difficult to estimate the financial consequences of employment, both for the individuals involved and for the counselling services. Secondly, the individual social benefit systems apply different rules for income exemptions. In the case of work resumption, either part-time or otherwise, this can vary from a fixed exemption of the professional income regardless of that income and the duration of employment, to a system that does include the duration of employment, or one that applies a variable exemption in accordance with the level of the professional income (in brackets).

Thirdly, the incapacity and disability insurance scheme shows limited flexibility in terms of working hours under permitted labour. In practice one has to make the step from half-time employment including social benefits, to full-time employment without benefits. This is a huge step both from a physical and mental point of view. Furthermore, the tax benefit simulations already indicated that this also involves a financial setback. In the fourth place, the allocation of tasks and responsibilities is less than optimal. *Medical advisers* assess the individual's fitness for the labour market against a medical background. At the same time, the Flemish Service for Employment and Vocational Training VDAB has the task to provide guidance and support to everyone who registers as a jobseeker. Meanwhile, communication on the issue of activation or reactivation between VDAB, RIZIV and the *Medical advisers* is practically non-existent. And finally, access to the activation systems and employment supporting measures depends on an individual's current or past welfare benefits or status. Some measures require a low educational level; other situations apply the current functional level. Furthermore, access to incapacity and disability insurance is highly binary: one is declared either disabled or healthy; there is nothing in between. Due to the lack of different levels, the occupationally disabled also end up in the other social security and allowance systems. Consequently, not all individuals with an occupational disability can profit from activation of the social benefit that offers additional advantages in comparison with the general systems for unemployed people without an occupational disability.

Furthermore, the study established ambiguities in the interpretation of the legislation, which also leads to inconsistent practices. Legislation on permitted allowed labour was one of the examples thereof. In practice, both the evaluation of the disability itself and the allowed work resumption percentage are implemented in different ways. Education, vocational training and retraining are other fields that are unclear as regards the rights and obligations, such as asking permission, reporting, etc., of people under incapacity and disability insurance.

A last group of conclusions concerns the administrative procedures and delays. All systems, as well as the acquisition of specific social benefits, require filling out applications and forms, imposing a heavy administrative burden on the households. In addition, all systems create insecurity, in the event of a relapse, about the benefit, the evaluation of the incapacity to work and the duration of decision-making. The lengthy decision-making process can form an important obstacle for embarking on refresher courses. For self-employed people it can lead to problems when the decision regarding permanent part-time resumption of work fails to come forth while the term for temporary part-time work resumption expires.

5. Conclusions and policy implications

Despite recent policy changes, which include new competences attributed to VDAB with respect to guidance of individuals with an occupational disability, adaptation of regulations for the self-employed, and temporary retention of the increased child allowance after resumption of work, several bottlenecks persist that form an obstruction in the employment or employment resumption of people with an occupational disability. Some of the bottlenecks were solved, but a few known problems remain. The inventory carried out for the study and which focused on the financial consequences of employment, raises two additional key issues. One is the drop in income after permitted labour under the incapacity and disability insurance scheme. The accumulation of a part-time income from employment and a benefit in the scope of permitted labour, results in a higher income than could be earned in a full-time job. Hence anyone who takes up a full-time job after part-time employment in combination with incapacity and disability benefits will be faced with a drop in their net income. A second bottleneck is the unequal treatment of people with an occupational disability in the different benefit systems. Besides the differences in access to the individual activation schemes, this also involves the net income from employment or re-employment, particularly in the case of part-time jobs. The net income depends on past status and previously enjoyed benefits.

The conclusions from this research pose a number of policy challenges. Development, enhancement and synchronisation of the different benefit systems must be addressed with respect to activation, options for accumulation with an income from employment and the applied income concepts. Activation and employment supporting measures should enjoy maximum access by decreasing the focus on the benefit situation in favour of the activation concept and the current competences of people with an occupational disability. The system of permitted labour under the incapacity and disability insurance scheme must be applied more flexibly. This can be realised via a gradual development of working hours, while paying particular attention to avoiding drops in income and a high guarantee in the case of relapse.

The set of VDAB instruments including guidance, coaching, training and support of activation provides an important impulse for the debate on employment and re-employment. This expertise can be put to use in several benefit systems in order to achieve a higher level of participation in retraining courses and activations. Communication between VDAB and its partners on the one hand and RIZIV, insurance institutions and advising physicians on the other, can create a multidisciplinary approach; one that produces advantages for all the actors involved: It would bring the VDAB medical support of services; the medical advisers would gain expertise about the labour market, job content and job requirements, as well as about the training programmes on offer; and for the person with an occupational disability it would imply a multidisciplinary approach of the case. It would also open the way to clarify the existing differences in interpretation of the legislation, including options, rights and obligations, and to create unambiguous directives and information for the medical advisers and for the people with an occupational disability.

Concrete policy suggestions must be backed by empirical data about the accumulation of benefits and incomes from employment, the characteristics of employment after incapacity for work or disability and the routes towards employment or re-employment, and relapse. Today, this kind of information is largely lacking.

Full reference of study report(s) and or paper(s) and other key publications of the study summarised here

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