

Making Work Pay for People with Disabilities – a Review of the International Evidence

Background paper to Report of the ‘Make Work Pay’ group

1. Introduction

This paper was prepared to inform the deliberations of the Working Group on making work pay for people with disabilities¹. It reviews what measures are in place in other advanced economies to ‘make work pay’ for people with disabilities, and what benefits are withdrawn as earnings rise. It compares these with corresponding provisions in Ireland. It also examines the empirical evidence from other jurisdictions on what impact improvements in incentives to work have had on the employment of people with disabilities.

The paper was developed under the auspices of the Research Subgroup of the Working Group on Making Work Pay for People with Disabilities.²

In examining provisions in other countries, the main focus was on other advanced economies, including EU and EEA member states, and other OECD members such as the US, Canada, Australia and New Zealand. This material was sourced from official online sources including the MISSOC database; from contacts made through Irish embassies and via the Council of Europe; from the work of the Academic Network of Experts in Disability; and from work by the National Disability Authority.

2. International policy background

2.1 Focus on raising employment of people with disabilities

Around the world, countries are undertaking multifaceted approaches towards raising employment rates of people with disabilities. This has been given an impetus by the adoption of the UN Convention on the Rights of Persons with Disabilities (2006). Participating states are committed under its Article 27 to safeguard and promote the realisation of the right to work of people with disabilities.

In 2010, the European Union’s employment strategy set a target of 75% of adults aged 20-64 in employment by 2020. Achieving this target will involve increasing the employment rate of both unemployed and economically inactive people, including people with disabilities, and the European

¹ Ensuring people with disabilities are supported to achieve their employment ambitions is one of the most significant labour market and social policy challenges for policymakers today. The Irish Government’s 10 year *Comprehensive Employment Strategy for People with Disabilities* was launched in October 2015. The Make Work Pay Interdepartmental Group was established to address Strategic Priority iii, “Make work pay”. The group’s work involved a review of international and national research evidence, analysis of the population of people with disabilities in Ireland, and consultation with key stakeholders to identify the financial and related barriers to work for people with disabilities.

² The paper was prepared by Eithne Fitzgerald, Chair of the subgroup, with inputs from members of the subgroup.

Disability Strategy includes actions to address the employment gap between people with disabilities and others.

Measures designed to make work pay are for many countries an element of their overall disability employment strategies. The World Report on Disability (WHO, 2011), underlined the importance of making sure it pays to work. The OECD acknowledges the importance of improving financial incentives to work as a component of a more comprehensive employment strategy.³

2.2 Balancing incentives to work with adequate social protection

The OECD has commented on the importance of balancing the pursuit of incentives to work with providing adequate social protection.⁴ They note that the primary purpose of disability payments is to prevent poverty risks and large financial losses for people with disabilities, while at the same time governments should avoid creating poverty traps, what OECD refer to the 'income adequacy/work incentives dilemma'.⁵ They recognise that while lower out-of-work benefits would improve the gap between labour incomes and welfare payments, it would be at the cost of an increased risk of poverty for those families and individuals who are not working. They note that governments have increasingly introduced in-work benefits, in order to address disincentives without harming the degree of social protection. Such measures included introduction of tax credits for people with disabilities in employment, disability pensions payable to people with partial incapacity to work, and increases in the amount of earnings disregarded to qualify for a disability payments.

2.3 Focus on benefit levels or pathways into work

The OECD developed a framework to analyse different countries' social protection systems, depending on how much they focus on the generosity of benefits, and how much they focus on supporting benefit claimants to enter employment.

The OECD use the label **compensation** to describe the generosity of the welfare system. This is measured by looking at indicators such as the generosity of benefit levels; benefit duration; degree of incapacity required for full benefit; and monitoring of sickness or disability.

The term **integration** is used to measure the focus on supporting people into employment.⁶ This is captured by indicators like the timing of rehabilitation interventions (early or late); benefit sanctions; the scale of work incentives (such as options to combine work and benefit receipt); the scale of supported employment programmes; and the quality and coverage of anti-discrimination legislation.

Each dimension is measured through a series of ten indicators, scored on a scale from 0 to 5, with the maximum score on any dimension being 50.⁷

Table 1 shows how Ireland compared in 2007 with the OECD average.

Table 1: Ireland and the OECD: Measures of Compensation and Integration. 2007

³ OECD (2015) Employment Outlook, Ch. 3

⁴ OECD (1994) Jobs Strategy. Paris: OECD

⁵ Sickness Disability and Work, vol. 3 – report for Denmark, Finland, Ireland, and Netherlands (2008) p. 160

⁶ The framework was developed in OECD (2003) *Transforming Disability into Ability*, and applied to the time period 1990 to 2007 in OECD (2010) *Sickness Disability and Work - Breaking the Barriers*, pp. 77-102. No later analyses have been performed.

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	Compensation	Integration
OECD average	25.8	24.9
Ireland	26	17

Source: *Sickness Disability and Work - Breaking the Barriers*, pp. 99-102

These data showed that Ireland's compensation score was very close to the OECD average, however it had a significantly lower focus on integration, being fifth lowest of the 28 countries reviewed. Although Ireland's integration score had increased from its 1990 level, in 2007 it was fifth lowest on this dimension of 28 OECD countries reviewed.

The difference between the compensation and the integration scores can be taken as a measure of a country's policy orientation. Over the period from 1990 to 2007, most OECD countries have seen an increasing shift towards an integration orientation. However, in 2007, Ireland remained among the OECD countries with the weakest orientation towards integration of people with disabilities into employment, in fourth position from the bottom of 28 countries. It should be noted that policy changes in the period since 2007, such as the introduction of the Partial Capacity Benefit scheme, and the availability of the Intreo service to support people with disabilities, may have improved Ireland's focus towards integration.

Nevertheless, the framework suggests that Ireland has lessons to learn from other jurisdictions in how they support disability welfare recipients to enter employment.

3. Measures in other countries to 'make work pay'

This section presents measures in place in other highly developed economies to help ensure it pays people with disabilities to work.

3.1 Principal types of 'make work pay' supports for people with disabilities

The principal types of incentives for individuals with disabilities to work fall into two broad categories – monetary incentives, and benefits-in-kind. In addition, to address fears about leaving the security of a welfare payment for a job that may not work out, a number of jurisdictions offer a form of automatic return to benefits if employment does not work out.

Monetary incentives

- Partial disability benefits for people assessed as having a partial capacity to work
- Disregards of certain earnings from employment
- Tax credits on earned income for people with disabilities
- Transitional payments
- Payments or tax reliefs to address specific costs associated with a disability

Benefits-in-kind

- Entitlements to health care
- Entitlements to assistive technology
- Transport supports

Assurance against risk of taking a job

- Automatic right to return to benefits if employment doesn't work out

3.2 Financial supports

3.2.1 Disability payments for people with partial capacity to work:

Many jurisdictions operate partial disability payment schemes for people whose capacity to work has been reduced by their disability but who still retain a residual capacity to work - Ireland's Partial Capacity Benefit scheme comes into this category. These schemes recognise a continuum of capacity to work rather than assuming people have either full capacity to work or none. Countries with reduced-rate pensions for partial incapacity to work include Germany, Finland, Netherlands, Norway, Portugal, Poland, Spain and Switzerland. Such schemes generally enable individuals to combine some earnings from work with a partial disability pension, and can therefore facilitate ongoing attachment to the labour force compared to systems which recognise only complete and total incapacity.

The OECD has drawn attention to changes in a number of countries' partial capacity schemes, designed to promote greater participation in employment of this group, but concluded it was too early to draw any firm conclusions about whether a more proactive approach was yet yielding results.⁸

3.2.2 Permitted earnings while drawing welfare payments

Table 2 below shows that for EU and EEA member states (bar Malta) and some OECD countries, it is possible to combine a disability welfare payment with earnings. In some countries (e.g. Croatia, Portugal), only those on a partial disability pension may combine earnings with a disability payment. Estonia and Lithuania disregard any additional earnings, and some countries (Portugal, Luxembourg) disregard work income up to the level of prior earnings. The income disregarded where it is a simple cash amount can range from about €72 a week (Norway) to €170-180 (Finland, Iceland), but many countries use complex formulas and tapers where it is not straightforward to express in cash terms the level of earnings that is disregarded.

In some countries, having earnings may result in a reassessment of the person's disability status. This can happen where eligibility for a full or partial disability pension is tied to a percentage rating of degree of disability. Spain and the Netherlands assess a percentage disability rating as the ratio of earning potential following onset of disability to pre-onset earnings. In Slovenia, the ratio used is potential working hours post-onset to pre-onset working hours.

There is limited information readily available on what proportion of long-term disability pensioners actually have earnings. In Australia, 8% of invalidity pension recipients have some earnings, but only 5% have earnings over \$125 Aus (about €90) a week. Evidence from research studies shows a tendency to bunching just below the thresholds where incentives to work would worsen.

Ireland's Partial Capacity Benefit scheme, and our earnings disregard for Disability Allowance, fit into an overall pattern in developed countries of facilitating the combination of disability welfare payment with some earnings. The basic amount of earnings disregarded is reasonably on a par with other countries, being higher than in Germany or Norway, but a bit below the UK, Finland and Iceland, but the different tapering arrangements mean that direct international comparisons are not straightforward.

In Ireland, it is estimated that about 10% of Disability Allowance recipients avail of the earnings disregard, with many clustering just below the €120 exemption limit. There has been a low take-up of the tapered disregard of 50% of earnings between €120 and €350 a week.

⁸ OECD (2006) New ways of addressing partial work capacity.

Table 2: Earnings disregards in long-term incapacity schemes, selected countries

Country	Can earn	Earnings per week disregarded	Notes
Australia	Yes	No ready information	Can work maximum of 15 hours a week
Austria	Yes	€96	Benefits taper in steps of 30%, 40% 50%
Belgium	Yes	Amount of daily pension	
Croatia	On partial pension	No ready information	
Denmark	Yes	No ready information	
Estonia	Yes	All earnings	
Finland	Yes	€172	Full (earnings-related) pension suspended if earnings over 40% of pensionable salary. Partial pension suspended if earnings over 60% of salary. All subject to disregard of €746 a month of earnings
France	Yes	Up to half previous income	Pension plus earnings may not exceed
Germany	Yes	€104	Reduced if exceeds fixed ceiling, stops if it exceeds upper ceiling
Greece	Yes	No ready information	Can't earn more than if no disability
Hungary	Yes	€123	Maximum 20 hours a week (rehab benefit). Disability benefit terminated if earnings in 3 consecutive months exceed 150% of minimum wage
Iceland	Yes	c.€179	Reduced if income from earnings + benefits exceeds income prior to incapacity
Ireland	Yes	€120 a week, on Disability Allowance	50% taper on earnings between €120 and €350. No monetary earnings limit on Partial Capacity Benefit
Italy	Yes	No ready information	Disability allowance only. No earnings permitted on Disability pension
Latvia	Yes	No ready information	
Liechtenstein	Yes	No ready information	Invalidity pension + earnings can't be more than 67% of prior income
Lithuania	Yes	All earnings	No restrictions
Luxembourg	Yes	No ready information	Invalidity pension reduced where sum of earnings + pension are greater than pre-onset earnings
Malta	No	-	
Netherlands	Yes	No ready information	However, benefit category/capacity may be revised
Norway	Yes	c.€72	
Poland	Yes	Up to 70% of average national wage	Taper between 70% and 130% of national average wage. No pension if earnings over 130% of national average
Portugal	Partial invalidity	Up to 100% of prior earnings	
Romania	Yes	Earnings for up to 1/2 of standard week	Only Category 3 Invalidity pensioners can earn
Slovakia	Yes	No ready information	
Slovenia	Yes	No ready information	
Spain	Yes	No ready information	
Sweden	Yes	No ready information	On certain payments including disability allowance
Switzerland	Yes	No ready information	With first and second pillars only
UK	Yes	c.€141	

Country	Can earn	Earnings per week disregarded	Notes
US	Yes	No earnings limit for 9 month trial period.	€232 'substantial gainful activity' limit

Sources: Cousins et al (2015) Comparative systems of assessment of illness or disability for the purpose of adult social welfare payments (NDA); MISSOC 2016. Sums converted to euro equivalents at July 2016 rates

3.2.3 Tax credits on earned income for people with disabilities

Generic supports to low income working individuals and families, such as earned income tax credits (in the UK, US, Belgium, Canada, Denmark, France, the Netherlands and Sweden, among others) or Ireland's Family Income Supplement, may be particularly valuable to people with disabilities who have restricted earning capacity. However, in many jurisdictions generic in-work benefits are particularly focused on families with dependent children.⁹ However, a significant proportion of those on the disability rolls, as is the case in Ireland, do not have dependent children. So people with disabilities without dependent children miss out on these schemes.¹⁰

In addition to generic earned income tax credits, both Canada and the UK augment these with additional specific tax credits for people with disabilities who are at work.

In **Canada** there is a Working Income Tax Benefit for very low income families (adjusted family net income under c. €10,800). There is a small additional disability supplement, where the maximum family income can be up to €12,800. The rules are complicated, but the typical benefit is small. For someone with earnings over €1,900, but where the overall family income is below €10,800, the supplement is worth €300 a year.

In the **UK** the Working Tax Credit for low income earners generally applies to people who work at least 16 hours a week, and with earnings in the region of under €17,500 (single) to €24,000 (couple) a year. There is a Disability Supplement to Working Tax Credit – this is up to £2,970 (approximately €3,500) for disabled people who are in work, and an extra £1,275 (about €1,500) for severely disabled people in employment.

3.2.4 Transitional payments

Some countries offer time-limited supports, to help the transition process, to people with a disability who take a job, or they offer specific benefits during a rehabilitation or retraining period. Examples of such schemes are given below.

In **Poland** a cash benefit is paid by the Social Insurance Institution to disabled people who are receiving retraining. The benefit is paid to a disabled person who is already entitled to receive a disability pension and who participates in a retraining programme. The benefit can be paid for a maximum of 36 months.

In **Norway** disabled individuals can benefit from a work assessment benefit. This is a short-term benefit paid to people receiving vocational training, waiting for, or already involved in, labour market measures, waiting for permanent incapacity benefit, or in the process of setting up an activity plan for return to work, and related employment measures.

⁹ The US Earned Income Tax Credit is limited to families with dependent children, as is Ireland's Family Income Supplement, which is a cash equivalent to a working tax credit scheme.

¹⁰ Goodman, N., Morris, M. & Brucker, D.L. (2013) Use of the Earned Income Tax Credit among people with disabilities. Completed as part of the Employment Policy and Measurement RRTC funded by NIDRR. This study showed that average annual benefit for people without disabilities was about \$2,000 compared to about \$1,300 for those with disabilities. The explanation was that people with disabilities have lower earned income, and are less likely to have children.

3.2.5 Assistance towards costs of disability

People with disabilities often face additional costs of living compared to the population at large. Examples may be additional costs of transport, additional medical costs, provision of assistive technology or home adaptations, costs of care support, or extra everyday living costs for food, clothing or heating. The cost of disability can vary very substantially from one individual to another, depending on type and severity of disability, personal circumstances such as living with family, and the extent to which costs are met through state-funded services or schemes. So an 'average' cost of disability is not a meaningful concept.

Countries can assist with these costs in different ways, such as provision of services in kind, additional tax reliefs, or direct payments. Tax reliefs are more common than direct cash payments. Income tax reliefs are only valuable to those whose incomes are sufficiently high to reach the tax net, and are not negatively affected by increasing one's earnings. On the other hand, where support with costs of disability is means-tested, that can affect whether it pays to work.

a. Income tax reliefs

Below are some examples of income tax reliefs in European countries for people with disabilities.¹¹

In **Austria** disabled people can receive a flat-rate deduction that varies from €75 (25%-34% disability) to €726 (95% or more disability). There is also an allowance for use of an adapted car, or for special diets. The cost of disability aids such as purchase of wheelchairs, hearing aids, or home adaptations, are also tax-deductible.

In **Greece** disabled individuals who have been classified as 80% or more disabled do not have to pay tax on incomes, benefits and disability pensions. Individuals with lesser degrees of disability (at least 67%) have a sum of €2,400 reduced from their taxable income.

In **Hungary** disabled individuals receive a tax reduction of 5% of the legal minimum wage per month.

In **Latvia** disabled people have the right to additional annual non-taxable income.

In the **Netherlands** a tax credit is provided to people with disabilities or chronic illnesses. This amounts to either €150 or €350 for persons older than 65, and either €300 or €500 for persons under 65.

In **Norway** individuals can qualify for tax reductions due to illness, age or disability, related to extra costs or limited earning / working capacity.

In **Spain** disabled people benefit from a tax-free deduction of €3,264 from their annual income. This amount increases to €7,242 for individuals who require a personal assistant or have a disability degree of 65% or higher.

b. Concessionary tax rates on disability expenditures

Many EU countries offer concessionary VAT rate on disability equipment, such as Belgium, Estonia, France, Germany, Italy, Latvia, Portugal, Romania, Slovakia and Spain. In the UK, certain disability equipment, and home adaptations for people with disabilities are exempt from VAT.

¹¹ Waddington (2010) Disability Benefits and Entitlements in European Countries: Mutual Recognition and Exportability of Benefits. A synthesis of evidence provided by ANED country reports and additional sources <http://www.disability-europe.net/content/aned/media/ANED%202010%20Task%207%20-%20Disability%20Benefits%20and%20Entitlements%20-%20Report%20-%20FINAL%20%282%29.pdf>

c. Cash payments for costs of disability

While a wide selection of countries offer additional tax reliefs related to disability, only a small number of countries have cash payments in respect of extra living costs with a disability. New Zealand, Sweden and the UK have cash payments related to costs of disability while Estonia has cash benefits linked to additional employment-related costs. The scale of these payments depends on whether the individual is considered to be in a lower, medium or high support bracket. The approximate equivalent weekly value in euros are New Zealand (up to €37 a week), Sweden (€33-€63 a week) and the UK (€27–€174 a week). Sweden's Disability Living Allowance may be paid to someone who needs assistance for more than two hours a day, or needs assistance to go to work, or has disability-related costs of over €1,400 a year. The UK's Personal Independence Payment has two strands, a transport element (worth around €27 a week for those with lower needs, and about €70 a week for those with most restricted mobility), and a care element, which has three bands that range in value from €27 a week to those with lowest eligible needs, to about €100 a week for the terminally ill.¹²

The New Zealand and Swedish payments are subject to a means test. The New Zealand gross annual income limits are equivalent to about €19,000 for a single person without children, and €28,500 for a couple.

3.3 Supports in kind

3.3.1 Entitlements to health care

Health care systems differ significantly across jurisdictions, as do systems of support for assistive technology. As people with disabilities typically enjoy poorer general health than the population at large, access to free or highly subsidised health care at the point of use is a particularly important consideration.

The **UK's** National Health Service and the **Danish** system offer healthcare free at the point of use to the population generally. Many European countries, such as **Finland, France, Germany,** and **Luxembourg**, as well as **Canada**, operate social health insurance schemes. The insurance benefits enjoyed by the working population are generally extended to those who are receiving disability pensions and other social security payments. So in these countries, access to healthcare is not affected by employment status and is not a barrier to taking a job or return to work.

While there may be some user charges under these systems, these are often nominal in scale.¹³ Out-of-pocket contributions amount to 7% of total health care financing in France and 10% in the UK, compared to 17% in Ireland.¹⁴

In **Greece** medically-certified disabled people receive free medical care. In some countries disabled people can benefit from health insurance at a reduced rate. For example, Slovakia does this for people whose capacity to work has been reduced by 40% or more as a result of a disability. In other countries, disabled people may qualify for reduced fees for medical treatment (Iceland), or free forms of specific kinds of treatment (home visit by a family doctor in Latvia).

¹² UK basic disability pensions are at a low rate, and the value of Employment Support Allowance plus maximum Personal Independence Payment is less than or equal to Ireland's Disability Allowance rate, except for the terminally ill where the combined value is higher

¹³ Missoc (2014) Cost-sharing for health and long-term care benefits-in-kind.

http://www.missoc.org/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2014/MISSOC%20Analysis%202014_EN.pdf

¹⁴ OECD Health at a glance 2015, Chart 9.8

In the **US**, people who are out of work on a disability payment can access Medicare or Medicaid giving them access to health care cover. Under the US Disability Insurance scheme, those returning to work can retain Medicare entitlement for almost nine years. However there is evidence that in the US the reluctance of older disabled people to come off disability benefits is intrinsically linked to fear of loss of health benefits.¹⁵

3.3.2 Medication

Denmark, Greece, Hungary, Iceland, Latvia, Lithuania and Spain provide assistance to people with disabilities to cover part or all of the cost of medication. In Spain, free medicines are limited to those on a disability pension.

3.3.3 Assistive technology

In the **UK**, disability aids provided via the NHS are free of charge and not subject to a means test, however aids provided via the local authorities may be subject to a locally-determined means test. In the **Netherlands**, assistive technology is free of charge, however contributions may be required in certain cases. Denmark, Norway, Italy and Germany do not appear to means-test access to assistive technology. In the **Czech Republic** and **Poland**, subsidies are provided to cover part of the cost of rehabilitation aids or orthopaedic and assistive devices. These benefits can take the form of cash payments to the disabled person, and aim to cover part, but not all, of the cost of the aid. In addition, as shown in 3.2.5 above, many countries offer concessionary rates of VAT on such items.

3.3.4 Transport supports

The cost of transport to work is part of the wedge between income when out of work and disposable income when in work. For many people with disabilities, for example wheelchair users, or people with vision impairments who can't drive themselves to work, travel-to-work costs may be higher than the average.

Transport supports for people with disabilities in different countries take many forms as Table 3 shows. Most transport schemes in other jurisdictions are not means-tested nor confined to people on welfare, with the exception of the support scheme in British Columbia, which is for those on a welfare payment only. This is where the Irish system differs significantly from comparator countries.

Table 3: Forms of transport assistance to people with disabilities in different countries

	Car purchase subsidy	VAT/Car tax relief	Mobility cash payment	Free or discount travel on public transport	Specialist transport	Car park charge exemption	Taxi fare subsidy
EEA							
Austria	✓	✓	✓	✓		✓	
Czech Rep.	✓			✓			
Denmark	✓	✓	✓	✓			
Estonia				✓			
Finland				✓			
France	✓			✓			
Germany		✓		✓			
Greece		✓	✓	✓			

¹⁵ Autor and Duggan (2007). Distinguishing Income from Substitution Effects in Disability Insurance. American Economic Review 97 (2): 119–24.

	Car purchase subsidy	VAT/Car tax relief	Mobility cash payment	Free or discount travel on public transport	Specialist transport	Car park charge exemption	Taxi fare subsidy
Hungary	✓				✓	✓	
Iceland	✓	✓		✓			✓
Ireland	✓	✓	✓*	✓	✓	✓	
Latvia	✓	✓	✓	✓			
Lithuania	✓			✓			
Malta		✓					
Netherlands				✓	✓		
Norway						✓	
Slovenia	✓						
Slovakia	✓			✓			
Spain	✓		✓	✓	✓		✓
Sweden					✓		
UK	✓		✓	✓	✓		✓
Other OECD							
Australia		✓	✓	NSW			✓
B. Columbia			✓	✓			
N Zealand							✓

*Scheme suspended for new entrants – previous holders only

Cash payments towards the cost of transport are provided in Australia, Spain and the UK. The Australian scheme is explicitly linked to transport to work or training. There is no means test for the Australian or Spanish schemes, unlike the legacy Mobility Allowance scheme in Ireland.¹⁶ The comparative value of these schemes in terms of the monthly rates is shown below:

Table 4: Value of cash payments towards meeting transport costs

	UK	Australia	Spain	Ireland
Standard rate	€100	€145	€63	€208
Higher rate	€273	€204		
Recipients as % of population	5.1%	0.2%	3.5%	0.1%

3.4 Right to return to benefits if employment doesn't work out

Here are some examples of automatic reinstatement provisions in other jurisdictions:

In **Canada's** Pension Plan for Disability, former recipients remain eligible for a period of 2 years after leaving Disability Pension, without further application or retesting of eligibility.

In **Sweden** individuals who received a disability pension for at least one year have been able since January 2000 to apply to let the disability pension rest while they try to return to gainful work full-time or part-time. The individual has the right to leave the workforce and go back to the disability pension any time during the first year and after a minor application procedure during the second year.

¹⁶ This scheme is closed to new entrants since 2013, but existing holders continue to receive payments

In **US** Disability Insurance, beneficiaries can undertake a trial work period for a year, without earnings above Substantial Gainful Activity (SGA) level affecting their benefits. In 2016 the monthly SGA thresholds were \$1,820 for a blind person, and \$1,130 a month for others with a disability. If people's subsequent earnings exceed the SGA threshold, there is a three-year period of automatic requalification for DI if their monthly earnings fall below the SGA level. Another provision, called Expedited Reinstatement, allows a person who has had benefits terminated to return to the programme without going through the usual disability application process. Those returning to work can also retain Medicare entitlement for almost nine years.

Finland, Norway and **Denmark** also have provisions to put benefits on hold for someone with a disability during a period of employment.¹⁷

4. Summary of what other countries do, and comparison to Ireland

4.1 Monetary incentives

Combining welfare and earnings the most common approach internationally

Enabling people on disability welfare payments combine benefit receipt and earnings is the most common form of financial incentive to work.

Partial capacity pension schemes

Many countries offer partial disability pensions to those with partial capacity to work. Ireland's Partial Capacity Benefit scheme falls into this category.¹⁸

Many European countries assess the percentage reduced capacity to work in terms of the ratio between post-disability onset earnings potential, and some measure of typical earnings prior to onset of disability.

Provisions in Ireland

Ireland's Partial Capacity Benefit scheme operates tiered rates for those assessed with moderate, severe or profound incapacity to work, however level of capacity is not assessed based on measurement of potential money earnings.

Earnings disregards

Virtually all OECD countries reviewed disregard at least a minimum level of earnings while still enabling people qualify for disability payments. Many countries however only disregard such earnings for those on partial disability pensions, and they limit access to a full-rate disability pensions to those without any earnings at all. Some countries express the disregard in terms of previous earnings, others use average earnings, and in these cases it is difficult to compare the level of disregard internationally. For those countries which express the disregard as a cash amount, the value ranges from about €72 a week in Norway to about €175 in Finland and Iceland.

Provisions in Ireland

Ireland's Invalidity Pension scheme is confined to those who **cannot work**, so any earnings would constitute a disqualification. Ireland's Partial Capacity Benefit scheme, once the level of incapacity has been established, disregards all subsequent earnings. The means test for Ireland's Disability Allowance disregards the first €120 of earnings, and 50% of earnings between €120 and €350. The minimum disregard of €120 is about middle of the range seen in other jurisdictions.

¹⁷ OECD (2010) Sickness, Disability and Work – Breaking the Barriers, p. 85.

¹⁸ This section references schemes in Ireland that are similar to those found in other jurisdictions – further details of such provisions in Ireland are set out in Chapter 3.

Earned income tax credits for those on low incomes

- General tax credits

Some countries (e.g. Canada, US, UK) offer earned income tax credits to low income individuals or to families generally.

Provisions in Ireland

Ireland's Family Income Supplement is the closest equivalent to earned income tax credit schemes for low earners, and like a number of such tax credit schemes, it is limited to families with children.

- Disability supplements to earned income tax credits

The UK and Canada both offer higher earned income tax credits to people with a disability.¹⁹ In Canada the supplementary credit is worth about €300 extra a year. In the UK the Disability Supplement to the Working Tax Credit may be worth either about €4,000 or €5,700 a year, depending on the severity of impairment.

Provisions in Ireland

Ireland does not operate any equivalent additional tax credits on earned income for people with a disability.

Transitional payments

Some countries offer time-limited supports to people with a disability who take a job, to help the transition process, or offer specific benefits during a rehabilitation or retraining period.

Provisions in Ireland

There is no generic 'transition payment' for employees with disabilities who take up work. In Ireland, a Back to Work Allowance scheme operates for people on welfare payments, including disability payments, who are setting up as self-employed. People in Rehabilitation Training (a form of life-skills training programme for people with significant disability operated by the HSE and mainly offered to school-leavers) get €31.50 a week in addition to Disability Allowance while they are on the programme.

Financial assistance with costs of disability

Many countries offer enhanced tax allowances to people with disabilities or with certain kinds of disability (e.g. blindness), or provide for tax relief or tax refunds on purchases of disability aids or other necessary expenses occasioned by a disability.

Direct cash assistance towards the cost of disability is relatively uncommon. New Zealand, the UK and Sweden have measures in this area. The New Zealand payment is worth up to €37 a week, the Swedish payment between €37 and €63 a week. The UK payment is in two sub-categories, and is tiered. The total may range from €27 a week to a maximum of €174. However, as the UK's standard disability payments are significantly below those in Ireland, the combination of the UK's disability welfare payment and a Disability Living Allowance generally do not exceed the value of Ireland's basic disability welfare payments.²⁰

Provisions in Ireland

Ireland offers a range of tax reliefs related to disability which are broadly similar to those in other jurisdictions.

¹⁹ Tax credits, for people with taxable incomes, reduce the amount of tax paid by the amount of the credit.

²⁰ Except in the case of someone who is terminally ill and gets the top Disability Living Allowance rate in respect of care.

Ireland does not have a Cost of Disability payment as such. The Carer Support Grant (€1,700 a year, or €33 a week) and various schemes of support in kind provide some assistance with specific costs related to disability.²¹

4.2 Assistance in kind

Health care entitlements

It is unusual internationally for people with disabilities to lose entitlements to medical care if they take up employment. Social health insurance systems that are free or at nominal cost at the point of use (continental EU countries, Canada) and a free National Health Service (UK, Denmark) are the main models in highly developed countries. In the US, free health care (through Medicare or Medicaid) is provided to those on a disability payment, but loss of medical cover on taking up employment is seen as a strongly inhibiting factor.²² In Australia, entitlements to medical care are retained for a year after return to work.

Provisions in Ireland

People in employment would generally be ineligible, on income grounds, for a medical card. A full medical card provides means-tested entitlement, free of charge, to the full range of health services including GP and other primary care services, medications, therapy supports, and assistive technologies. Entitlement to a medical card or a doctor-only card is means-tested, unless the individual is awarded a discretionary medical card. Those on a long-term welfare payment for a continuous period of a year can retain entitlement for a further three years on return to work. For a person on Disability Allowance, earnings of over €120 a week would lead in time to loss of a full medical card.

Entitlements to assistive technology

In many countries, responsibility for personal assistive technology is shared between the health service and municipalities. In the Netherlands, assistive technology is provided free of charge, however there may be co-payments required in certain circumstances. Neither Denmark, Norway, Italy nor Germany appear to operate means tests for assistive technology.²³ In the UK while there is no means test for assistive technology provided via the NHS, individual councils may operate a means test.

Provisions in Ireland

In Ireland, provision of assistive technology for personal use is linked to the medical card, so is effectively means-tested. People with one of 17 named conditions who qualify for the Long-Term Illness Scheme are entitled to medication free of charge, and may be eligible for assistive technology free of charge without a means test.²⁴

Transport supports

Many countries offer assistance with transport costs for people with disabilities which can take the form of free public transport, assistance with buying an adapted vehicle, a cash allowance towards

²¹ For a list of these provisions, see Appendix 1

²² See e.g. Olney (2007) Caught in a social safety net: Perspectives of Social Security disability programs on employment. *Journal of Applied Rehabilitation Counseling*, Vol 38(2), 2007, 5-13

²³ WRC (2012) Research on the provision of assistive technology. Dublin: NDA

²⁴ These are Intellectual disability; Mental illness (for people under 16 only); Diabetes insipidus; Diabetes mellitus; Haemophilia; Cerebral palsy; Phenylketonuria; Epilepsy; Cystic fibrosis; Multiple sclerosis; Spina bifida; Muscular dystrophies; Hydrocephalus; Parkinsonism; Acute leukaemia; and Conditions arising from use of Thalidomide

the extra cost of journeys for people with disabilities, or particularly in Australia, subsidised taxi journeys.

Provisions in Ireland

Ireland has a similar range of schemes to support people with disabilities to get around to those found in other jurisdictions, other than subsidised taxi journeys. Irish schemes include the free travel scheme, the Disabled Drivers and Passengers Scheme (for those with very severe mobility impairments), and the means-tested Mobility Allowance (closed to new entrants). Ireland is however relatively unusual in international terms in the degree to which such assistance is predominantly confined to those on low incomes through either means-testing or being restricted to welfare recipients.

4.3 Right to return to benefits

A number of countries including Canada, the US, Denmark, Finland, Sweden and Norway formally offer an automatic right to return to disability payments for a period if a job does not work out.

Provisions in Ireland

While the Department of Social Protection endeavour to streamline return to benefits if a job doesn't work out, there is no formal automatic right of return in those circumstances.

4.4 Have any countries delivered greater success in incentivising return to work?

There is no stand-out measure in the jurisdictions reviewed to making work pay for people with disabilities. Most highly-developed countries offer reduced-rate disability pensions for people with a partial capacity to work, they disregard some degree of earnings for those on disability payments, and they offer tax reliefs on some costs of disability. Ireland's provisions in this regard are broadly in the mainstream.

In terms of assessing the impact of the different suites of measures, there are considerable difficulties in comparing the performance of different countries in relation to employment of people with disabilities. This is because the statistics of the proportion of people with disabilities at work reflect closely the proportion who reported themselves as having a disability. This varies considerably from country to country due to different cultural norms, even where the same definitions are ostensibly applied.²⁵ So it is hard to tell if apparently high employment rates are due to this measurement issue, or are a genuine reflection of successful policies.

It would also be difficult to isolate whether it was 'make work pay' provisions or other measures which contributed to any individual country's success. However, the evidence to date is that activation measures of any kind are very slow to have an impact on employment levels of people with disabilities.

A paper by the former head of the OECD's Employment, Labour and Social Affairs division reviewed active labour market programmes in seven jurisdictions (Australia, Finland, Ireland, Japan, Norway, Switzerland and the UK), and found that despite differences in the degree of orientation towards active labour market programmes for people with disabilities, there was no discernible difference in outcomes. There was very little success in increasing employment of people with disabilities, irrespective of the approach adopted. He concluded

²⁵ See Appendix 2 for more detail.

“it has proved very difficult to transfer success in activating (unemployment) benefit recipients to other recipients of inactive benefits, notably those in receipt of long-term sickness/disability benefits”²⁶

The National Disability Authority technical paper which underpins the forecasts for the Comprehensive Employment Strategy for People with Disabilities makes the point that it is a long-range endeavour to raise the employment rate of people with disabilities. The greatest impact comes from stemming the flow into ‘non-employment’, with a slow build up with successive cohorts of people with disabilities completing their education/training, and those experiencing onset of disability in adult life.²⁷ It may be that evidence from national-level data of the impact of employment measures, including better work incentives for people with disabilities, is something that will take more time to give a definitive picture.

5. Evidence on responses to incentives to ‘make work pay’

This section of the paper reviews evidence from international quantitative and qualitative studies on the impact of incentives to work on the employment of people with disabilities.²⁸

There are many studies which have analysed the responsiveness of employment rates generally to levels of welfare payments. It is well established that, other things being equal, higher welfare payments tend to be associated with lower rates of disability employment, and vice versa.²⁹ However, as the OECD recognise, it is essential to balance any incentives to work with providing adequate social protection.³⁰ In particular, many people with disabilities are unable to work because of their degree of impairment or their state of health, and others may have a very limited earning capacity for similar reasons. The overriding importance of ensuring that these individuals and families receive an adequate income from social welfare is acknowledged.

In the light of the importance of maintaining welfare rates for people with disabilities, this review of evidence has focused in particular on those studies which have examined how employment has responded to positive financial incentives to work.

5.1 How do non-disabled people respond to work incentives

The response of other groups such as unemployed people and lone parents to work incentives has been more widely studied than the response of people with disabilities. The scale of response from these other groups could offer some guide as to the likely scale of response by people with disabilities to improved incentives to work. However, these studies have found mixed evidence on the scale of response to positive incentives to work.

²⁶ Martin J (2014) Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness. IZA Policy paper no. 84, p. 27 <http://ftp.iza.org/pp84.pdf>

²⁷ NDA (2014). <http://nda.ie/Policy-and-research/Policy-Advice/Policy-Advice-Papers/Technical-paper-on-Employment-Targets.html>

²⁸ The literature search consisted of a Google scholar search using appropriate keywords; a search of bibliographic databases conducted by the NDA library; literature suggestions from the Research Subcommittee and other Irish labour market experts; and follow up of key sources cited in relevant articles. The most recent academic papers confirmed that there is a very limited research literature on how individuals with disabilities respond to positive incentives to work.

²⁹ See for example Gruber (2000); Bell and Smith (2004); French and Song (2014).

³⁰ OECD (1994) Jobs Strategy. Paris: OECD

5.1.1 Reducing ‘marginal effective tax rates’ increases likelihood of exiting unemployment

A paper by the OECD³¹ found that in-work benefits have a positive effect on incentives at low income levels, but as these are withdrawn, they tend to affect the financial returns to work at higher income ranges. The proportion of any additional income that is lost through withdrawal of benefits and increased tax payments is termed the ‘marginal effective tax rate’, and is a measure of the extent to which any additional work is financially rewarding. The OECD found that marginal effective tax rates had moderate effects on employment. Their analysis suggests a fall of 1% in the marginal effective tax rate faced by unemployed individuals increases their probability of exiting unemployment by 0.5%. The evidence on effecting transitions from inactivity to employment was more mixed. Reductions in marginal effective tax rates were also found to encourage transitions from part-time to full-time work or promote moves to higher-paid jobs.

5.1.2 Large changes in incentives needed to make any significant impact on employment

The OECD applied their findings on elasticity of response to calculate the likely aggregate impact on exits to employment. Given a starting probability of moving from unemployment to employment of 45%, a cut of 20% in the marginal effective tax rate could raise the exit rate by about 10%, e.g. from 45% to 49%. The OECD conclude that only in-work benefit programmes that have a sufficiently large impact on financial incentives to work are likely to translate into potentially significant increases in employment rates. When in-work benefit levels are very low, they are unlikely to have much impact on employment outcomes. They also argue that in-work benefits are most effective when the scheme is made widely known to the target group and administrative procedures to receive in-work benefits are not excessively bureaucratic.

5.1.3 Employment impact may be small, or temporary

Bargain (2008) reviewed the effects on employment of four ‘Make Work Pay’ programmes in Belgium, France, Netherlands and UK. The Belgian, Netherlands and UK programmes offered incentives, whose value ranged from €95 to €125 a month, which had positive, but very small, employment effects. One study found that the UK’s Earned Income Tax Credit had raised employment of single parents by 7 percentage points.³² The French Earned Income Tax Credit, worth an extra €50 a month, had a negligible effect on employment.

Another study suggested the employment bounce from improving incentives may be temporary. A study of four US and Canadian programmes, aimed mainly at single parents or low income families showed an initial bounce in employment for programme participants, which amounted to a 14% differential in employment compared to a control group, but this differential had gone to zero five years after joining the programme.³³

5.2 Evidence of response by people with disabilities to whether work pays

There are some qualitative studies, and a relatively small number of quantitative studies that have analysed the extent to which people with disabilities respond to improvements in positive incentives

³¹ OECD (2005) Increasing Financial Incentives to Work: The Role of In-work Benefits. Ch. 3 in OECD Employment Outlook 2005. <http://www.oecd.org/els/emp/36780865.pdf>. This paper looks at generic in-work benefits, not those specifically for people with disabilities

³² Bargain, O (2008) Making work pay – assistance to low-paid workers in Europe (Belgium, France, Netherlands, UK) A research note for the EU. [c.europa.eu/social/BlobServlet?docId=3987&langId=en](http://ec.europa.eu/social/BlobServlet?docId=3987&langId=en)

³³ Michalopoulos (2005) Does Making Work Pay Still Pay? An Update on the Effects of Four Earnings Supplement Programs on Employment, Earnings, and Income. New York: Manpower Demonstration Research Corporation http://www.mdrc.org/sites/default/files/full_78.pdf

to work. Most of the quantitative studies based on individual policy experiments. There are nevertheless some key messages from these findings.

5.2.1 The decision to work depends on many factors – money is only one

Qualitative research shows that there are very many factors that influence decisions by a person with a disability to enter or return to employment, of which the financial return from work is only one. A UK research study on attitudes of people with disabilities to work emphasised factors about the workplace – respondents stated that inclusive workplaces, confidence in disclosing a disability, flexible working arrangements, a supportive line manager, reasonable accommodations, and flexibility to work from home when required would all be important in their decisions on employment.³⁴ A systematic review of findings on return to work after injury found that key influences for people on decisions about working included their current and expected health and its impact on capacity for work; age; family responsibilities; availability of suitable work; practical support into and during work; and the maintenance of income security.³⁵ Another UK study found many disabled people felt unable and had very low expectations of working again; those who could or wished to work wanted to move into fulltime “proper” jobs paying a fair wage, independent of state help; there were many barriers to work including overall lack of jobs, employers’ attitudes, unattractive jobs of low status, low pay.³⁶ One study found some limited evidence from Canada, Sweden and the UK suggesting that light duties and reduced hours were associated with the likelihood of returning to work after time off, and reduction in multiple absences; and that the opportunity to adjust work arrangements on return to reflect the person’s health status increased the likelihood of return to work.³⁷

5.2.2 Work incentives can have a positive impact on employment...

Analysis by the OECD found a statistically significant relationship between numbers on disability payments and work incentives, with better incentives to work being associated with fewer on such payments.³⁸

A Norwegian study which analysed the effect of introducing a tapered disregard of earnings for disability pension recipients, instead of a fixed earnings threshold, to encourage return to work showed increased return to work for those eligible for the concession who were aged under 50s. Pre-2004 pensioners, who were eligible for the new 60c in the €1 taper, increased their return to work by 8.5 percentage points, compared to an increase of 3.4 percentage points for post-2004 pensioners who were ineligible for the concession. The incentive led to a small increase in disposable income of those who benefited, and a reduction in the cost of the programme (Kostøl and Mogstad 2014).

³⁴ Adams and Oldfield (2011). Opening up work: The views of disabled people and people with long-term health conditions,(UK) Equality and Human Rights Commission Research Report No. 77

³⁵ McEachen et al (2006) Systematic review of the qualitative literature on return to work after injury. Scandinavian Journal of Work Environment & Health 2006. 32(4):257–269.

³⁶ Bambra et al (2005) Does 'welfare-to-work' work? A systematic review of the effectiveness of the UK's welfare-to-work programmes for people with a disability or chronic illness. Social Science and Medicine

³⁷ Whitehead M, Burström B, Dahl E, et al. (2009). Helping chronically ill and disabled people into work: what can we learn from international comparative analyses? Final report. Public Health Research Consortium, York. www.york.ac.uk/phrc/papers

³⁸ OECD (2010) Sickness, Disability and Work – Breaking the Barriers, Table 3.2

...but it can be small or even negligible

A Swiss policy experiment, which appeared to offer generous lump sum incentives to reduce dependence on disability welfare payments, attracted only 0.5% of those offered to take it up. Two scales of bonus were tested. The first option tested offered a lump sum of €8,000 to those who reduced the scale of their welfare payment by a quarter, and a lump sum of €32,000 for those who exited welfare altogether for five years. The second option tested offered €16,000 for those who reduced the scale of their welfare payment by a quarter, and €64,000 for those who exited welfare altogether for five years. Bütler et al (2014) reported that only 20 out of a potential 4,000 took up an offer of these significant cash bonuses to move partially or fully off disability welfare payments.³⁹

...and the scale of response is lower for people with disabilities than other groups

Multiple factors, including effects of disabling conditions, health and stamina issues on potential to work and on earning power, contribute to the fact that people with disabilities experience lower employment rates than others. Therefore it would be reasonable to expect that the scale of response to positive incentives to work would be lower for disabled people. While there is limited evidence overall, most of it from individual policy experiments, on the extent to which employment of people with disabilities increases in response to better incentives to work, one study (Fevang et al, 2013, using Norwegian data) indeed found that people on a temporary disability payment scheme were less responsive to financial incentives than unemployed claimants.⁴⁰

While the OECD found a small positive response by unemployed people generally to improvements in 'marginal tax rates' on additional income,⁴¹ one study showed that inter-country differences in replacement rates do not appear to affect outflow rates from disability payments, which are small. Mont (2004) states

"For example, in the countries cited with the smallest outflow rates, the maximum replacement rate for lost earnings due to a disabling condition range from about 35 or 40 percent in the United States (plus medical insurance) to about 70 percent in Sweden. The unresponsiveness of outflow rates to policy parameters, such as replacement rates, is troubling and not well understood. Clearly, other barriers to employment are dominating the ability to leave disability programs"⁴²

5.2.3 Fear of losing benefits

People fear losses more than they value potential gains

Behavioural economics shows that people respond less to economic incentives in the form of potential gains, than they do to potential losses.⁴³ We would expect therefore that the fear of losing current benefits would exert a stronger weight in the decision to enter employment than the equivalent potential gains from having a job.

People with disabilities are reluctant to take risks

The fear of potentially being worse off if things don't work out is a major inhibiting factor on employment of people with disabilities. A number of qualitative studies have documented fear

³⁹ Bütler et al (2014) Financial work incentives for disability benefit recipients – lessons from a randomised field experiment. IZA working paper DP 8715.

⁴⁰ Fevang, Hardoy and Røed (2013). Getting disabled workers back to work – how important are economic incentives? IZA Discussion paper 7137

⁴¹ OECD Employment Outlook 2005, Chapter 3. <http://www.oecd.org/els/emp/36780865.pdf>.

⁴² Mont D (2004) Disability and employment issues. World Bank, Social Protection Discussion Paper Series 413.

⁴³ See for example Tversky and Kahnemann (1981) The Framing of decisions and the psychology of choice. Environmental Impact Assessment, Technology Assessment, and Risk Analysis vol 4, p 107-129.

about loss of benefits – and in the US in particular, potential loss of medical benefits – as a factor that affect return to work decisions of people with disabilities.⁴⁴

One UK study which interviewed people with disabilities about employment incentive measures found that respondents emphasised the importance of maintaining income security and adequacy. Barriers to taking up employment included the risk of losing incapacity benefits altogether, the transition period in moving off incapacity benefits onto earnings, feeling unable to afford work, being unable to sustain paid work, and not understanding the benefits and tax credits systems. In so far as the new measures removed or allayed any such fears, they could be influential. In so far as the measures increased anxieties in any way or failed to allay fears, their influence as incentives to try work were muted.⁴⁵

Potential loss of health benefits affects employment rates

Olney (2007) found people with disabilities who wanted to work said they needed either a full-time job with medical benefits; a part-time job where they could retain welfare entitlements; or a full-time job with enough income to afford medical benefits. Coe and Rupp (2013) found some quantitative evidence that potential loss of access to Medicare/Medicaid affected possible employment, and conversely that increasing access to other health insurance increased the likelihood of earnings among a subset of US disability pensioners.⁴⁶ Ben-Shalom and Mamun (2015) found that those who had Medicare at the time of being awarded a Social Security Disability Insurance Pension were less likely to achieve return to work milestones.

People on welfare respond to increased incentives to work but don't move off benefits

The evidence is that improved incentives to work encourage people with disabilities to combine work and welfare but not to leave the benefit system. An Australian study had similar findings for non-disabled welfare claimants. The introduction of a Working Credit in Australia improved employment participation for those on benefits, but had ambiguous – or possibly zero – effects on exits from the welfare system for those on unemployment or family welfare payments (Wilkins and Leigh 2012).⁴⁷

A policy change introduced in the rest of Canada but not Quebec which introduced an earnings disregard worth about €2,600 a year in euro terms for people on disability pensions allowed researchers to examine its impact by comparing what happened in the rest of Canada following the change compared to Quebec. They found that the earnings disregard did not affect the probability of entering or leaving disability benefits but increased employment of those who stayed on benefit. The proportion of disability claimants with a job increased by about a quarter in the rest of Canada compared to Quebec (Campolieti and Riddell, 2011).⁴⁸

A US randomised controlled trial examined the impact of raising the earnings threshold for disability pensioners by introducing an additional taper. Participants were randomly assigned either to the treatment group (who got the new concession), or a control group (those who did not get the

⁴⁴ For example, Hernandez et al (2007); McQuilken et al (2003); McEachen et al (2006)

⁴⁵ Corden and Sainsbury (2001). Incapacity benefits and Work Incentives. (UK) Department of Social Security Research Report no. 141

⁴⁶ Coe and Rupp (2013) Does access to health insurance influence work effort among disability cash benefit recipients? Government of the US – Social Security Administration

⁴⁷ Wilkins and Leigh (2012). Effects of Temporary In-Work Benefits for Welfare Recipients: Examination of the Australian Working Credit Programme. Fiscal Studies vol. 33, no. 3, pp. 335–369

⁴⁸ Campolieti and Riddell (2011) Disability policy and the labour market: evidence from a natural experiment in Canada 1998-2006. Journal of Public Economics

concession). The results showed that the proportion at work did not increase any more for the treatment group than the control group. Those in the treatment group however increased their earnings, e.g. by working more hours, but kept within the new earnings threshold. Expenditure on welfare payments did not decrease. (Weathers and Hemmeter 2011).

The failure of the Swiss policy experiment (Bütler et al 2014) which had offered significant cash bonuses to induce people to reduce dependence on welfare that suggests that the certainty of a welfare income has a strong hold even where a once-off financial inducement appears sizeable.

Incentives that start too late are unlikely to be effective inducements

In the Netherlands, disability pensions after the first 38 months for those with partial capacity to work are conditional on using at least 50% of residual earning capacity. Koning and Lindeboom (2015) conclude that readiness to work has largely eroded by the stage this incentive to work takes effect.⁴⁹

Potential expiry of time-limited benefits doesn't appear to induce changes in behaviour

In Australia, those who leave Disability Support Pension to take up work retain certain secondary benefits for 12 months. Ryan (2012) examined whether there was a spike in return to welfare just before the 12 month point. The findings were that two thirds of those who return to the Disability Pension do so within six months, and there was no spike discernible at the 12 month point.⁵⁰

Incentives only work if they are known and understood

The OECD has argued that in-work benefits are most effective when the scheme is made widely known to the target group and administrative procedures to receive in-work benefits are not excessively bureaucratic. If people cannot readily work out whether it pays to work, or don't know of specific incentive measures, the incentive to work is unlikely to have any positive outcome on employment. A number of studies suggest that incentives to work are poorly known and understood by people with disabilities.⁵¹ As findings from behavioural economics show, even a relatively small amount of complexity also affects whether people act on potential incentives.⁵²

The UK's Valuing Employment Now strategy for people with intellectual disabilities saw it as a key element to ensure people had accurate information about how much they would take home if they were in a job. Kregel (2012) has demonstrated that information provision is associated with positive employment results.⁵³

The UK introduced a Disability Working Allowance scheme in 1991 to encourage people with disabilities to work. Bambra et al (2005) found that two-thirds of those on the qualifying payments had not heard of the scheme and so could not have been encouraged into work by the benefit.

⁴⁹ Koning and Lindeboom (2015) Rise and fall of disability insurance enrolment in Netherlands. J Economic Perspectives

⁵⁰ Ryan (2012) Do Residual Benefits Induce Disability Support Pension Leavers to Return to Income Support? Government of Australia, Dept of FAHCSIA, Social Policy Research Paper 46

⁵¹ E.g. Bambra et al, 2005; Corden and Sainsbury, 2001.

⁵² Lunn et al (2016). PRICE Lab: An Investigation of Consumers' Capabilities with Complex Products. Dublin: ESRI. This study showed that consumers struggled to make the most favourable choices when they had to take into account more than two or three factors at the same time.

⁵³ Kregel (2012) Work Incentives Planning and Assistance Programme. Journal of Vocational Rehabilitation 36, 3-12.

A study of recipients of a pilot UK scheme of Return to Work Credits showed that the decision to return to work was generally taken before they knew of the scheme. The information gap suggests that the scheme wasn't critical in the decision to return to work, however it made the transition easier (Corden and Nice, 2006).⁵⁴

5.3 Who responds to incentives to work

Both internationally, and in Ireland, younger, better-educated, and those with less severe disabilities are most likely to be at work.⁵⁵ The evidence is that it is people with similar traits who are most likely to respond to improvements in job incentives.

5.3.1 Younger, better-educated most likely to respond to incentives

Von Wachter, Song and Manchester (2011) found for the US that younger, less severely disabled workers are more responsive to economic incentives than older groups.⁵⁶

Ben-Shalom and Mamun (2015), also for the US, found that significant factors in reaching return-to-work milestones were age, education, impairment type and a good local labour market.⁵⁷

A policy change in Norway introduced an earnings taper in Norway for disability pensioners. This was found to have no impact whatever on employment of the over 50s. Response to the financial incentive was highest for men, those with high levels of education, those with more labour market experience, and those in low unemployment areas (Kostøl and Mogstad, 2014).⁵⁸

Earning capacity is a key factor in whether it pays to work

Work is less likely to pay for those whose earning capacity is more limited – those with severer degrees of impairment or with lower levels of education. Low and Pistaferri (2015) using US data found that moderate work limitations reduces the observed wage rate by 6 percentage points, and severe work limitation by 18 percentage points. Those who remain at work despite work limitations have a higher than average permanent income. Among over 35-year olds, those with lower levels of education are 2.5 times more likely than those with 3rd level to go on a disability insurance payment.⁵⁹

5.3.2 The state of the local labour market is important

A number of studies confirm that employment of people with disabilities varies significantly with the state of the local labour market, and that the response to incentives to make work pay is affected by this factor.⁶⁰

⁵⁴ Corden and Nice (2006) Pathways to Work from Incapacity Benefits: A study of experience and use of Return to Work Credit. Department for Work and Pensions Research Report, vol. 353

⁵⁵ Watson, Banks and Lyons (2015) Education and employment experiences of people with a disability in Ireland: Evidence from the National Disability Survey. Dublin: ESRI and NDA.

⁵⁶ Von Wachter, Song and Manchester (2011) Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program. American Economic Review vol 101 no 7 3308-29

⁵⁷ Ben-Shalom and Mamun (2015) Return-to-work outcomes among social security disability insurance beneficiaries. Journal of Disability Policy Studies, September 2015 vol. 26 no. 2 100-110

⁵⁸ Kostøl and Mogstad (2014) How Financial Incentives induce disability insurance recipients to return to work. American Economic Review 104(2): 624-55

⁵⁹ Low and Pistaferri (2015) Disability Insurance and the Dynamics of the Incentive Insurance Trade-Off American Economic Review. Vol. 105 No. 10 October 2015. pp 2986-3209

⁶⁰ E.g. Kostøl and Mogstad (2014); Lindsay and Houston (2013) Fit for work? Representations and explanations of the benefits 'crisis' in the UK and beyond, in Lindsay and Houston (eds) Disability Benefits, Welfare Reform

5.4 Early intervention is critical

There is a lot of evidence that shows the importance of early intervention to prevent joblessness occurring in the first place.⁶¹ Recent work experience is a good predictor of who will respond to incentives to work, while once absence has become established, such incentives have a much weaker effect.

A strategy of early intervention includes systems that young people with disabilities to get work when they leave the education/training system, and systems that support early return to work for those who have acquired a disability. Conversely, studies show that once absence from employment has been prolonged, the probability of someone with a disability taking up employment is very low.⁶² Mont (2004) states

“Generally speaking, once recipients go on these (disability payments) programs they rarely exit them to return to work. In fact, the outflow rate in most of these countries is about 1 percent (Australia, Canada, Germany, Norway, Portugal, Sweden, and the United States)... Low exit rates from disability programs exist in programs with a strong focus on reducing inflow by providing vocational rehabilitation and training on intake (e.g., Denmark Germany, Norway, and Sweden) as well as countries with historically poor economic incentives for returning to work (e.g., Australia and the United States)... Outflow rates are remarkably stable, even in response to programmatic changes, and are similar across countries with very different levels of benefits.”⁶³

6. Conclusions

6.1 No stand-out approach internationally

Most countries at Ireland’s stage of economic development have measures to support and encourage people with disabilities to work. The most common ones are partial disability pensions for people with a partial capacity to work, the disregard of a minimum level of earnings, and tax reliefs for certain costs of disability. Ireland has broadly similar provisions. It is less common for countries to give dedicated earned income tax relief for people with disabilities, or to provide cash payments towards costs of disability.

There is no stand-out approach to making work pay for people with disabilities that has succeeded in raising labour force participation. Indeed, a review of active labour market programmes in countries which had placed different emphases on activation has concluded that measures to activate recipients of long-term sickness/disability benefits have had little impact.

and Employment Policy. Basingstoke: Palgrave Macmillan; Ryan (2012) Do Residual Benefits Induce Disability Support Pension Leavers to Return to Income Support? Government of Australia, Dept of FAHCSIA, Social Policy Research Paper 46; Fevang Hardoy and Røed (2013) Getting disabled workers back to work – how important are economic incentives? IZA Discussion paper 7137

⁶¹ E.g. Wynne, R. and McAnaney, D. (2004). Employment and disability: Back to work strategies. Eurofound

⁶² See for example Franche, R.L., Cullen, K., Clarke, J., Irvin, E., Sinclair, S. & Frank, J. (2005) ‘Workplace-Based Return-To-Work Interventions: A Systematic Review of the Quantitative Literature’, **Journal of Occupational Rehabilitation**, 15 (4), pp. 607-631; Mont, Daniel (2004) Disability Employment Policy. Washington: World Bank, Social Protection Discussion Paper Series; European Foundation for Living and Working Conditions (2004) Employment and Disability: Back to Work Strategies.

⁶³ Mont (2004) Disability and employment issues. World Bank, Social protection discussion paper series 413.

6.2 Withdrawal of health entitlements on getting work is unusual

As people with disabilities on average experience poorer health than others, access to health care is a critical issue. In international terms, Ireland (along with the US) is unusual in that taking a job can jeopardise access to health services. The evidence is that in both Ireland and the US, fear of losing health benefits inhibits people with disabilities from taking up work.

6.3 Reluctance to leave the social safety net

Fear of potential losses if a job does not work out is a potent factor. The international evidence suggests that when incentives to work are introduced for people with disabilities, the main result is to encourage people on benefits to take up limited employment or work more hours while remaining on their benefits. Very few exit the benefit system.

A number of countries including the Scandinavian countries, Canada and the US provide for easy return to benefits if a job does not work out. In Ireland, while the Department of Social Protection try to streamline return to payment in such circumstances, there is no formal automatic right of return.

6.4 Young, well-educated are most likely to respond to incentives to work

Those who are likeliest to respond to improved incentives are those who are better-educated, younger, with lower degrees of impairment, more recently in work, and living in areas where jobs are more plentiful. Economic incentives for individuals have minimal results in raising employment of poorly educated or older people with disabilities, or those who have been absent from the workforce for a significant period.

Fear of potential losses if a job does not work out is a potent factor, and the international evidence is that better work incentives may increase employment for those enabled to do so while retaining their welfare benefits, but would see relatively little movement off benefits altogether.

Positive incentives to work will not have an impact where they are little known or understood. Reducing complexity, and provision of clear and readily-understandable information are both important. The evidence also suggests that when incentives to work are introduced for people with disabilities, the main result is to encourage people on benefits to take up limited employment or work more hours while remaining on their benefits. Very few choose to exit the benefit system.

6.5 Early intervention is critical to prevent long-term joblessness

Several studies point out the importance of early intervention to prevent joblessness occurring in the first place, and the very low rate of return to work of those who have been absent for a significant period.

6.6 Tackling disincentives is necessary but not sufficient

As the Comprehensive Employment Strategy for People with Disabilities acknowledges, there are complex reasons for the lower employment rates experienced by people with disabilities compared to others. The factors affecting this include the degree of impairment which affects capacity to work; higher levels of ill-health; lower levels of education and skills; being closer to normal retirement age; and absence of recent work history; lack of employer know-how; practical difficulties such as transport; and lowered expectations of finding work.

Tackling disincentives to work is a necessary part of the jigsaw of measures required to raise employment levels of people with disabilities and stem the flow to joblessness. However, the international evidence suggests that the scale of impact of any measures in this area, taken in

isolation, is likely to be modest. The OECD have argued that improving incentives for people with disabilities, through for example in-work benefits, should not be seen in isolation but rather as one component of a comprehensive strategy to help the transition from welfare to work.⁶⁴ Addressing disincentives to work to ensure work pays, and is seen to pay, for people with disabilities, is just one element in a suite of actions set out in the Comprehensive Employment Strategy for People with Disabilities.

⁶⁴ OECD Employment Outlook 2005, Chapter 3

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Appendix 1: Assistance in Ireland with costs of disability

Scheme	Disability recipients	Description	Value	Weekly value	Means-tested?	Tied to welfare
Social welfare						
Invalidity pension	55,000	€5.50 a week above the standard welfare rate of €188	€5.50 a week	€5.50	No	Yes
Blind Welfare Allowance	n.a.	Means-tested allowance on top of basic pension rate	€58.50 a week	€58.50	Yes	No
Disability Allowance	125,000	Means disregard of €120 earnings a week and 50% of earnings between €120 and €350	€120 - €225	€120-€225	Yes	
Carer's support payment	n.a.	Annual grant (formerly Respite Care Grant) to carers	€1,700 a year	€32.70	No	No
Carer's allowance	63,000	Means-tested payment to a carer	€204 a week	€204	Yes	
Carer's benefit	1,800	Insurance-based payment to a carer	€205 a week	€205	No	
Domiciliary Care Allowance	31,000	Payment to carer of disabled child under 16. Carer's allowance may be paid in addition	€309.50 a month	€71.40	No	
Household benefits package - electricity	53,000	€35 a month off electricity, gas or solid fuel bills if living alone or with other qualified person	€35 a month	€8.10	No	Yes
Free TV licence	59,000	if living alone or with other qualified person	€160 a year	€3.05	No	Yes
Fuel allowance	73,000	26 weeks in heating season	€22.50 a week in season	€11.25	No	Yes
Rent supplement	11,000	Assistance with cost of private rented accommodation	Depends on level of rent and family size			
Supplementary welfare allowance	n.a.	Discretionary top-up payment to social welfare recipients for exceptional needs	Can vary	Can vary	Yes	Yes

Scheme	Disability recipients	Description	Value	Weekly value	Means-tested?	Tied to welfare
Other cash supports						
Rehabilitation training allowance	c. 2,000	Top-up allowance for those in foundation disability rehabilitation training (training allowances on other courses are at same rate as basic welfare payment)	€31.80 a week	€31.80	No	No
Fuel grant, Disabled Drivers and Passengers Scheme		59c per litre of petrol up to maximum payment of about €1,600 a year (and equivalent for other fuels)	€1,610 max. A year	Up to €31	No	No
Mobility allowance	n.a.	(closed to new entrants). Half grant if on Disabled Drivers scheme, otherwise full grant	€104.25 or €208.50 a month	€24 or €48	Yes	No
Housing adaptation grant		30% to 95% of the cost of the work on a sliding scale of income, up to a maximum income of €60,000 a year	Maximum grant of €30,000	n.a.	Yes	No
Health etc.						
Full medical card		Free primary and hospital care, medication and assistive technologies			Yes	No
Doctor visit card		GP visits			Yes	No
Long-term illness scheme		Medication and assistive technologies – people with one of 17 named conditions			No	No
Tax reliefs						
Blind tax credit	1,560	Single rate	€1,650	31.80		
Guide dog tax credit	In above		€825	15.90		

Scheme	Disability recipients	Description	Value	Weekly value	Means-tested?	Tied to welfare
Home care relief	1,910	Cost of employing a home carer is allowed in full against top rate of tax	Actual cost subject to ceiling €75,000) (max value €30,000 a year to top rate taxpayer)	ceiling of €576		
Incapacitated child credit	20,300	Child of any age, where disability diagnosed before adulthood	€3,300 annual credit	63.50		
Dependent relative's credit	18,400	Where relative being supported has income at or below old age pension rate	€70 annual credit	1.35		
Disabled drivers and passengers scheme	Drivers – 1,742 Passengers – 3,184	Refund of VRT and VAT on purchase, and VAT on adaptation. Exemption from annual car tax	Example of 1.2 litre new car gross price €16,000 – refund of VAT and VRT each c€3,000. Car tax exemption worth €358 a year	Annual car tax exemption on €6.90	No	No
VAT relief on disability equipment	4,322	Vat exemption or refund of VAT	Average value c €700	€13	No	No

Appendix 2: Comparing employment rates of people with disabilities internationally

Comparing disability employment rates across countries is intrinsically difficult

Declared prevalence of disability varies across cultures

Individuals with disabilities may have varying degrees of incapacity or functional difficulties depending where they are on the spectrum of disability. Because it is a spectrum, social, cultural and institutional factors can affect the degree to which individuals self-identify as having a disability. In particular the proportion of people of working age who say they have a disability can vary across different countries due to differences in culture or in thresholds for disability entitlements, even where harmonised definitions are being used. For example, the European Union Survey of Income and Living Conditions (EU-SILC) in 2008 found the proportion of people declaring a disability ranged from a low of 9.5% of those of working age in Belgium, to a high of 24.7% in Germany.

In a country where a high proportion declare they have a disability, this is likely to include people with milder levels of impairment, who in turn are more likely to be in employment. Conversely, where only a small proportion declare they have a disability, this is likely to comprise people with severer levels of impairment, who are least likely to be in work.

For these reasons, inter-country differences in employment rates may reflect inter-country differences in how people label themselves as disabled or not, rather than underlying realities. This measurement issue makes it difficult to identify which jurisdictions are relatively more successful than others in supporting people with disabilities to work. The chart below illustrates this strong relationship between the proportion of people with disabilities in work, and the proportion reporting a disability, using data from the EU-SILC 2011. The same pattern is apparent whichever of the two definitions of disability in this dataset are used.

