Experience Rating Disability Insurance: Evidence from the Netherlands*

Extended Abstract

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November 14, 2019

Abstract

We study the employment consequences of experience rating disability insurance and sickness payments, a policy under which premiums became differentiated across employers based on how many of their workers claimed benefits. Evaluating a reform in the Netherlands that extended experience rating to temporary contract workers in some employers, we document a decrease in disability inflow for covered employers and an increase in employer selection of healthier workers in hiring. We present a simple model of disability insurance experience rating in which incentives to accommodate potentially disabled workers are traded off against selection incentives.

*Prinz: dprinz@g.harvard.edu. Ravesteijn: ravesteijn@ese.eur.nl. We thank Sam Burn, David Cutler, Yunan Ji, Tim Layton, Nicole Maestas, Tom McGuire, Sam Moy, and participants at the Harvard Proseminar on Inequality and Social Policy, the Harvard Department of Health Care Policy Health Economics Seminar, the Harvard PhD Seminar in Health Policy, the Harvard Health Economics Tea, and the NBER Aging and Health Trainee Seminar for useful comments. We gratefully acknowledge financial support from the Social Security Administration and the Disability Research Center at the National Bureau of Economic Research through a Pre-Doctoral Fellowship in Disability Policy Research (Prinz) and the Harvard Kennedy School Malcolm Wiener Center for Social Policy through the Multidisciplinary Program in Inequality & Social Policy (Prinz). The findings and conclusions expressed are solely those of the authors and do not represent the opinions or policy of the Social Security Administration, any agency of the Federal Government, or the National Bureau of Economic Research.
The sharp increase of disability insurance (DI) rolls has caused concern among policy makers in the United States and other developed nations. For example, in the United States, 8.8 million workers received Social Security Disability Insurance (SSDI) benefits in 2016, up from 4.4 million in 1996 (Social Security Administration, 2017). Over the same time period, spending on benefits has more than doubled from $60 billion to over $120 billion in real terms (Autor, 2011). Several proposals to curb this increasing trend in the United States include incentivizing employers to reduce the flow of their workers onto DI rolls through experience rating, a system in which an employer’s premiums would depend on its contributions to DI rolls (Autor and Duggan, 2010; Autor, 2011; Burkhauser and Daly, 2011; Liebman, 2015).

However, evidence on the role employers play in their employees’ disability insurance claims in general, and on the impact of experience rating in particular is limited. One reason for the relative dearth of evidence on this question is data limitations. Connecting disability insurance claims to employment records has been challenging in the United States. When researchers have made this link, they have been limited in making causal statements because of the lack of policy variation in the United States (Stapleton, Mann, Singh and Song, 2017; Lurie, Maestas, Miller and Prinz, 2019).

In this paper, we study the consequences of a 2012 reform in the Netherlands which extended experience rating which previously applied to permanent workers to include temporary contract workers. This group of workers comprises several different groups of employees, including workers with fixed-term contracts, workers with “zero-hour” (or on call) contracts, and workers who are employed through temp agencies. Overall, these workers make up over one-fifth of the Dutch labor force and 25% of employment contracts (Statistics Netherlands, 2017). Under the new system, employers became responsible for part of the DI costs of these employees. Our research design exploits differences in the impact of the reform by worker type (only employers of flex workers were affected and employers of some types of flex workers were affected much more strongly), and employer size (only medium and large employers were affected). We find that when the incentives created by experience
rating are strong and immediate, they reduced the flow of workers onto DI rolls. However, strong incentives may create a trade-off: when it becomes more expensive to let workers with reduced productivity or costly accommodation needs go on DI, employers may differentially reduce their hiring of workers with higher expected costs for the employer.

To formalize this intuition, we develop a model that incorporates two potential impacts of experience rating in disability insurance. The model shows that if employers are risk-neutral, the optimal amount of experience rating trades off employer-side moral hazard (the fiscal externality of not retaining workers on all employers’ premiums) and selection (the hiring disincentive created by higher firing costs). If employers act as if they were risk averse, then the insurance value of public disability insurance for employers also needs to be taken into account in calculating the optimal level of employer responsibility.

Our work contributes to a small literature on the consequences of employer-side incentives in disability insurance (Acemoglu and Angrist, 2001; De Groot and Koning, 2016; Kyyrä and Paukkeri, 2018; Hawkins and Simola, 2018) and a somewhat larger literature that examines employer-side incentives in workers’ compensation, summarized by Tompa, Cullen and McLeod (2012). The only existing studies that we are aware of on the consequences of experience rating DI that rely on policy variation are De Groot and Koning (2016) and Hawkins and Simola (2018), which study reforms in the Netherlands and Finland, respectively. Both studies find that experience rating DI reduces the DI flows of the impacted employers. We advance this literature by examining a recent reform in the Netherlands and exploiting detailed administrative data on earnings, disability claims and healthcare utilization to understand how different employees are impacted by the reform and the selection consequences of experience rating. We also contribute to this literature by developing a model of disability insurance with an employer side.

Unemployment insurance (UI) is also partially experience rated in the United States. Anderson and Meyer (1993) find that under imperfect experience rating, there is persistent variation across industries and across employers within the same industry in UI claims. Anderson and Meyer (2000) show that when experience rating is strengthened, UI claims are reduced. In recent work, Johnston (2019) finds that unemployment insurance tax increases reduce employer hiring and employment, but have no effect on layoffs or worker earnings.
We complement the recent literature that studies the aggregate economic sources of disability applications (e.g., Autor and Duggan, 2003; Maestas, Mullen and Strand, 2015, 2018) and the employment consequences of disability receipt (e.g., Maestas, Mullen and Strand, 2013; French and Song, 2014; Autor, Maestas, Mullen and Strand, 2015; Gelber, Moore and Strand, 2017). This literature focuses on individual workers and largely abstracts away from the role of employers. We do the opposite, focusing on the employment sources of disability claiming behavior, while holding employee-side incentives fixed.

Our work is also connected to recent research on alternative work arrangements (Collins et al., 2019; Katz and Krueger, 2019a,b). Contingent, flexible work often comes with lower-quality benefits and less employer responsibility for employee outcomes such as disability or health. In recent work examining how employees in the contingent work force and with alternative work arrangements fare in disability programs, Broten, Dworsky and Powell (2018) document larger disability and employment impacts for temporary and contract workers than for permanent workers, though Rutledge, Zulkarnain and King (2018) find that in general, likely due to differences in eligibility, they are less likely to apply for and be awardeded disability benefits. In this paper, we examine the consequences of increasing the responsibility that employers take for their fixed-term and contingent workers. Our findings suggests that policymakers can change the behavior of employers with respect to their flexible workforce if incentives are sufficiently strong and direct.

Finally, we build on our own work on the employment and industry sources of disability insurance claims (Maestas, Prinz and Ravesteijn, 2018; Lurie, Maestas, Miller and Prinz, 2019). This work has documented variation across industries in disability insurance claiming and studied the consequences of health shocks by industry, as well as the relationship between wage premiums and disability insurance claiming. This paper advances our understanding of the role of employers in disability insurance claiming by developing quasiexperimental evidence based on a policy reform that has already been implemented.
References


