

Comment on Philip de Jong and Maarten Lindeboom: Privatisation of sickness insurance: Evidence from the Netherlands

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Most economic research, both theoretical and empirical, on sickness absence has considered the worker's preference for work absence in a conventional labour supply framework (see e.g. Allen, 1981, and Broström et al., 2004). Alternatively, previous studies have been oriented towards empirical personnel economics, where the effect of different incentive contracts between the employer and the employee was studied (see e.g. Barmby, Orme and Treble, 1991 and 1996). This paper is, as far as I know, the first empirical paper dealing with the incentives among employers.

Employer responsibility was introduced in Sweden in 1992. The cost of absence in the first 14 days in an absence spell is covered by the employer, thereafter it is covered by the public sickness insurance.¹ This construction may create the opposite effect to what was intended and it is interesting to note that since the employer period was introduced, the cost of the sickness insurance has increased from 20 to 50 (in 2002) billion SEK. Given that long-term sick workers are likely to have new sickness spells, there has been less incentive for employers to rehabilitate long-term sick workers after than before 1992. The consequence of the Swedish employer responsibility period has not, as far as I know, been evaluated. The reason for this is most likely changes in the data collecting routines. Pre 1992, Sweden had register data on all absence spells. However, after 1992, only absence spells longer than the employer period are recorded in registers.

Making the employer period the cause of the increase in absence in Sweden may be speculative and perhaps also far fetched. However, it illustrates the need to be careful when making changes in the sickness insurance.

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¹ The rules for the employer period have varied. For a short period, the employer period was three weeks.

The construction of the Dutch employer period is different from the Swedish one. There is, for instance, economic incentives for employees and employers to reduce the absence duration. For the employees, there is a 30 per cent decrease in the wage if disability benefits are awarded and, since 1998, there is an experience rating for the employer, *inter alia* the firm will face a higher contribution rate if employees are awarded disability benefits. Also, the construction of an insurance scheme that tries to avoid “cream skimming” of employees is interesting.

The main result of de Jong and Lindeboom is that the employer period decreased the absence rate. They find neither adverse selection nor moral hazard effects on absence of the reinsurance and find no evidence that preventive measures decrease absence, and they also state that no cream skimming occurs. From a theoretical perspective, these findings are all very interesting. However, I am not convinced by any of the results.

1. The employer period

After the 1994-1996 reform in the Netherlands, individuals' absenteeism is a direct cost for the employer. We may say that there is a coinsurance in the sickness insurance for employers. Theoretically, the introduction of a coinsurance for employers will increase the control (not discussed in the paper) of employees and induce preventive measures by employers. Both these effects would reduce work absence. However, the employer coinsurance may create cream skimming of the employees. *Inter alia*, employers will not employ sickness-prone individuals, such as handicapped, women, elderly etc. From an equity perspective, this is problematic. To reduce or remove the cream skimming, employers are offered the possibility of insuring against the risk of employing workers with a high absence risk. Furthermore, a residual “Sickness Benefit” fund covering handicapped, dismissed, pregnant women, employees on temporary contracts, etc. is offered. Due to the moral hazard of employers, this possibility may offset the effects of the employer period. In order to circumvent this problem, employers have, since 1996, obligations to contact a private occupational health agency and buy a package of services including sickness prevention and management claims.

If the present construction does not induce cream skimming, it is of large policy interest, since it is difficult to avoid in most situations (Kruse, 2003).

The authors state that cream skimming is not a problem. This conclusion is based on a survey made in 1999 where one third of the companies screen on health in both 1990 and 1999. Given the 1998 Act “banning medical examination”, I am not convinced that employers respond in the same way to this question in the two different surveys. Thus, it would have been of interest if the authors could have studied this question more thoroughly since it is of large interest to create a sickness insurance that combines equity and efficiency.

2. The evidence

Is the observed decrease in the sickness absence at the macro level (see Figure 1) caused by the introduction of the employer period? From Figure 2, it seems plausible that the changed practice in the construction industry after 1994—not to sick list employees between projects—has decreased the absence rate. Naturally, this is of interest and is likely to be an effect of the reform, which could have been reached by other means than introducing a coinsurance in the sickness insurance for employers. Questions of more interest are if there is (i) adverse selection of employers to the reinsurance, (ii) moral hazard effects, (iii) effects of preventive measures and (iv) effects of increased control.

In order to study the effect of preventive measures, adverse selection and moral hazard, de Jong and Lindeboom regress “policy measures” and a dummy variable for insurance (“Insurance = yes”) against the firms’ absence rates. The conclusion (see Tables 3 and 4) is that the effect is not due to preventive measures (positive or insignificant parameters for the “policy measures”). In addition, de Jong and Lindeboom find no evidence of moral hazard or adverse selection.

If there is an effect of the coinsurance for the employer on work absence, then this could be due to increased control. The paper does not provide any insights on that matter. I am not satisfied with the interpretation of the parameter for moral hazard and adverse selection. It is well known that it is difficult to distinguish between adverse selection and moral hazard (see e.g. Chiappori and Salanié, 2002). From a policy point, it is of great interest to distinguish between the two effects, which might be identified in this study.

In this setting, moral hazard implies that employers using the insurance are expected to perform less control and less preventive measures. The insurers require that firms contract occupational health agencies that stipulate which set of services be contracted. Also, since 1996, employers have obligations to contact a private occupational health agency. I think it is safe to assume (could be tested in the data) that all firms are likely to increase their preventive measures between 1994 and 1997. Under this assumption, Tables 3 and 4 suggest evidence of moral hazard, since the “policy measures” induce an increase in absence. These parameters are, however, not always significantly (at reasonable levels) different from zero. A better approach for studying the prevalence of moral hazard would be to allow for separate effects of the “policy measures” for the two types of firms. Moral hazard would be present if the “policy measures” for insured firms are (significantly) larger than for non-insured firms.

There is at least one more reason for the decrease in absence at the macro level that is not related to any intentional effect, i.e. the presence of cream skimming. Another concern is if the survey used (see footnote 7) to create Figures 1 and 2 is in any way affected by the employer period?

3. Concluding remarks

The mandatory sickness insurance in Sweden is non actuarial and has contributed to income security and decreased poverty in Sweden (Lindbeck, 2003). Although not an expert on the Dutch social insurance system (nor on the Swedish one), I believe this is also true for the sickness insurance in the Netherlands. Since 1992 for Sweden and 1994 for the Netherlands, employers are partly responsible for the sickness insurance, which means that it is semi-privatized.

The employer is likely to act as an insurance company. The cream skimming problem of this construction was discussed above. Another concern about equity is that, in a labour market with decentralized wage setting, the employer period is likely to affect the wage. It would hence be of interest not only to study the effect of the employer responsibility on the absence rate but also on the effect on the wage distribution.

This paper is a first attempt to analyse the effect of employer responsibility on absence. Even though I don't agree with all empirical evidence, I found it to be interesting and stimulating reading. Future

empirical research on the effect of changes in the sickness insurance should hopefully give us ideas on how to construct a sickness insurance that combines efficiency and equity.

References

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