

Prof. Dr. Lars Skipper will present this:

Title: “Reducing Entitlements in Sickness Insurance – Evidence from a Danish Natural Experiment”

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Abstract

This paper studies the effects a major reform in the Danish sickness insurance system in the summer of 2014. With the reform, sickness benefits recipients risked having their benefits lowered after five months but at the same time, it became easier to continue receiving the benefits beyond the pre-reform time limit of 12 months. We exploit this natural experiment to study how the universe of Danish sick-listed workers responded to these changes. We find that long-term sick-listed workers were remarkably responsive to economic incentives: We find that the hazard back to work jumps upwards by 40% after five months where after-tax benefits become at risk of being lowered by 21%. The hazard back to work drops by 40% when the possibility of extension materializes after 12 months. Because of these two counter-acting effect, the net-decrease of expected sickness-duration drops by a mere two percent. There is no indication that the dramatic increase in the hazard back to work resulted in worse future attachment to the labor market.

Key words: sickness insurance entitlement; job finding; duration model.

JEL: C21, C41, H51, J68.