



Institutional Rules, Labour Demand and Disability Programme Participation

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We use matched employer-employee data from Finland to model transitions out of work into sick leave and disability retirement. To identify the role of institutional factors we exploit a law change that made the medical requirements for disability pension eligibility tougher for a certain group, as well as partially experience-rated employer contributions that vary with the firm size. We find evidence that employers exploit disability retirement as a way of adjusting their workforce at times when dismissals are difficult to justify. We also show that the transition rate to disability retirement depends on the stringency of medical screening and the degree of experience rating applied to the employer.

Keywords: Disability Pension, Sickness Benefits, Early Retirement, Experience Rating, Labour Demand.

JEL Code: J14, J23, J26.