



FACULTY OF
BUSINESS &
ECONOMICS

Melbourne Institute Information Sheet 5/2011 on Health and Disability

Based on reports under the 2005–2009 Social Policy
Research Services agreement with the Department of
Education, Employment and Workplace Relations

September 2011



MELBOURNE INSTITUTE[®]
of Applied Economic and Social Research

Melbourne Institute Information Sheet 5/2011

Based on reports under the 2005-2009 SPRS agreement

Health and Disability

Brief overview of key results

The findings regarding the theme of Health and Disability, as researched under the 2005-2009 Social Policy Research Services Contract, are summarised in the overview in Appendix Table 1. In the 2005-2009 period, six papers in total have been concerned with the impact of poor health and/or disability on employment outcomes and/or income support dependence, while a seventh paper separately assessed the effect of (work-limiting) disability on wage growth of low-pay workers.

Discussion of the results

It is not surprising that the reports discussed in this information sheet have found that mental and physical disability are associated with lower labour force participation and higher dependence on income support. This confirms the results found in other studies both for Australia and a wide range of other countries. Health is an important component of human capital and together with the level of qualifications they are the strongest determinants of employment and of income support receipt (Cai *et al.*, 2008). However, what is also clear from the studies discussed in this information sheet is that a disability does not need to lead automatically to being out of the labour force and depending on income support. For example, Oguzoglu and van Zijll de Jong (2009) find that individuals with a disability who are on low pay are equally likely to experience wage growth as low-paid individuals without a disability, except if their disability was work limiting. One of the important protective factors against being out of the labour force is education. In two studies under the NCVER contract, related to this theme, it was found that the strongest labour market benefit from completing a VET course for people with disability is in shifting those out of work into employment (Polidano and Mavromaras, 2010; and Polidano and Vu, 2011). Although the studies reviewed in Appendix Table 1 do not look at the effect of obtaining a qualification, Mavromaras *et al.* (2007) found that persons with a disability who are more highly educated are more likely to stay employed and if they lose their job they are more likely to obtain another job.

There is no clear division between recipients of DSP and recipients of NewStart. Instead there is a grey area of NewStart recipients who have temporary incapacity exemptions of the looking-for-work requirement and former recipients of Disability Support Pension (DSP) who are now required to search for part-time work and have been moved to a NewStart payment due to a relatively high remaining capacity to work despite their disability. In addition, Cai, Vu and Wilkins (2006) found that one of the larger sources of inflow into DSP are unemployment-related benefit recipients, particularly if they experienced temporary incapacity exemptions (TIEs) while on the unemployment-related benefit (Buddelmeyer, Fok and Vu, 2010). Nevertheless, it should also be noted that TIEs are an appropriate way to keep individuals with temporary health problems out of DSP for longer than would otherwise be the case, allowing them to recover before requiring this group to search for employment again. Mavromaras, Oguzoglu and Black (2008) examined the group of workers that experienced a work-related injury and conclude that only in few instances do these types of injuries

seem to lead to more permanent withdrawal from the labour market or a reduction in the hours worked. Unfortunately the data that were available were of insufficient quality to allow for in-depth economic/econometric analysis.

Two studies focussed on mental health problems in particular. Black and Lee (2009) focussed on income support recipients specifically, comparing DSP and NewStart recipients both with and without mental health issues, while Jeon and Fok (2009) studied the Australian population of employed individuals. Black and Lee (2009) find an increase in the reported occurrence of mental health problems in both populations of recipients. The increase amongst NewStart recipients could at least partly be due to the fact that moderately disabled individuals were transferred to DSP after July 2006. Mental illness sufferers are found to be more welfare reliant if they received DSP (70 to 85 per cent) compared to receiving NewStart (30 to 40 per cent). Compared to NewStart recipients without a mental (or physical) illness, those with a mental illness had only one-third of the probability of being employed, and as a result they were more welfare reliant. This is despite having positive attitudes to work. They had however considerable employment difficulties due to psychological and psychiatric difficulties that disrupt work, and they had a difficulty to focus on work tasks. This is a major barrier to re-entry in the labour market, which may be more difficult to overcome than physical disability.

Jeon and Fok's study does not relate to mental health issues that individuals already experience, rather they focus on the potential for mental health problems to arise from high levels of work stress. They use life satisfaction as an indicator for mental well-being and find that a larger number of work stressors negatively affects mental well-being. For men, important stress factors are unfair payment, job insecurity and job demands, while for women important factors are low skill utilisation and lack of freedom. In addition, they find that being unemployed or not in the labour force is associated with a decrease in people's mental well-being, which may potentially lead to mental health problems in the longer term.

Contribution to knowledge on this topic

- Entry into DSP does often not happen suddenly, it is an event that is frequently preceded by long-term income support dependence or a long period of moving in and out of income support.
- Despite difficulties in obtaining employment, having a disability is not equivalent to being out of the labour force. Education for example can work as a protective factor.
- Mental health problems cause a substantial drop in employment rate due to barriers that may be particularly difficult to overcome. Physical disability may lead to more concrete barriers that can be resolved through adaptations of the workplace, while overcoming mental disability seems a more difficult challenge requiring colleagues to be involved, to understand the limitations and to find ways of overcoming these limitations.

Potential policy implications

- The reforms in disability employment services and a renewed focus on reintegration of DSP recipients into the labour market through activation policies to counteract the increase in numbers on DSP, which is occurring despite low unemployment rates, are supported by the

findings in the reports discussed in this information sheet. However, this group may need substantial assistance to re-enter employment, for example through re-training.

- Individuals with mental health issues are a particularly complex subgroup of the group with a disability, facing barriers to work which are perhaps more difficult to overcome than many of the physical barriers of the physically disabled. Further investigation into effective policies to assist this group are required.

There are a number of facts arising from the research discussed here that show that there should be ways in which at least some of the DSP recipients could (re-)enter employment. That is, being on DSP does not automatically equal a total incapacity to be in the labour force.

- For example, people who become disabled at an early age are more successful in their lifetime labour market experiences than those who become disabled in later stages of their lives.
 - This may show a capacity to adapt to particular limitations. Training or education with a focus on what the disabled person still can do seems important in this context.
- The research under the contract of the Melbourne Institute with NCVET on the effect of VET schooling on employment outcomes of people with a disability has contributed to this debate through showing that obtaining VET qualifications improves this group's employment outcomes.
 - These results underline the potential importance of VET in improving the utilisation of skills and abilities, and financial independence of people with disability.

Reference list of 2005-2009 projects

- 6/08 Black, D. and Lee, W.S. (2009). [‘Experiences of Income Support Recipients with a Mental Illness.’](#)
- 1/09 Buddelmeyer, H., Fok, Y.K, and Vu, H. (2010). [‘Transitions of Income Support Recipients with Incapacity Exemptions.’](#)
- 8/07 Cai, L., Mavromaras, K., Zakirova, R. and Fok, Y.K. (2008). [‘Human Capital and the Patterns of Employment and Welfare Receipt.’](#)
- 5/08 Jeon, S.H. and Fok, Y.K. (2009). [‘Work and Mental Well-being: Work Stress and Mental Well-being of the Australian Working Population.’](#)
- 1/07 Mavromaras, K., Oguzoglu, U. and Black, D. (2008). [‘Incidence of Work Related Injury - Migrants, Youth and Mature Age Workers.’](#)
- 3/06 Mavromaras, K., Oguzoglu, U., Black, D. and Wilkins, R. (2007). [‘Disability and Employment in the Australian Labour Market.’](#)
- 3/07 Oguzoglu, U and van Zijll de Jong, M. (2009). [‘Factors Affecting the Wage Progression of the Low Paid.’](#)

Related references

- 2/05 Cai, L., Vu, H. and Wilkins, R. (2006). [‘Previous Income Support Receipt of Entrants to the Disability Support Pension.’](#)
- Polidano, C. and Mavromaras, K. (2010) 'The role of vocational education and training in the labour market outcomes of people with disabilities', National Centre for Vocational Education Research (NCVER), Adelaide.
- Polidano, C. and Vu, H. (2011) 'The role of education in the employment outcomes of people with disability', National Centre for Vocational Education Research (NCVER), Adelaide.

Appendix Table 1 Summary Table of Reports Relating to Health and Disability

Authors	Data	Approach	Findings
Mavromaras, K., Oguzoglu, U., Black, D. (2007) Disability and Employment in the Australian Labour Market	HILDA 2001-2004	Descriptive analysis, and cross-sectional regressions, static and dynamic panel data regressions. Dependent variables: transition in and out of employment, and wage rate	<ul style="list-style-type: none"> • People who become disabled at an early age are more successful in their lifetime labour market experiences than those who become disabled at later stages of their lives. • Staying employed or returning to work after losing a job is more likely if a person with a disability is younger, highly educated and more experienced in the labour market. • Relationship between labour force participation and the prevalence of disabilities is highly dynamic. • Being disabled for longer <i>in itself</i> significantly decreases the probability of participation. • An approximate wage gap of 7% has been estimated between workers with and without disabilities.
Mavromaras, K., Oguzoglu, U. and Black, D. (2008) Incidence of Work Related Injury - Migrants, Youth and Mature Age Workers	2006 Workplace Related Injuries Survey (WRIS)	Mostly descriptive and probit regressions of work related injury rates. Dependent variable: severity of injuries,	<ul style="list-style-type: none"> • Analysis identified a number of serious shortcomings in the design of the WRIS which seriously limit its use for in-depth economic and econometric analysis. • Recommends more piloting be carried out during data design phase, involving both the research and policy communities, to maximize scope and usefulness of national data sets. • Access to the data via RADL only, limits the statistical analysis that can be performed. • Once the socio-demographic and employment characteristics of migrants, mature age workers and youth are considered, there are no differences in the severity of workplace injuries between these groups. (severity has been approximated by the length of stay off work and is found to be associated with the employment variables only) • Workplace injuries are not a major cause of leaving the labour market altogether, but some return to another job and some reduce hours. Difficult to determine exact size of effect due to normal turnover and hours changes which would have happened anyway. • Migrants who have been in Australia for less than five years experience fewer workplace injuries because of their choice of industry and occupation • Not everyone who experienced a workplace injury applied for Workers' Compensation. • In most of these cases the injury was considered too minor, but a sizeable minority of workers did not apply for reasons that may cause concern: <ul style="list-style-type: none"> • 'not covered or not aware of workers' compensation', 'did not think eligible', 'inconvenient/required too much effort' or 'fear of negative impact on current or future employment' (particularly prevalent amongst youth possibly due to higher job insecurity)

Authors	Data	Approach	Findings
Oguzoglu, U. and van Zijll de Jong, M. (2009) Factors Affecting the Wage Progression of the Low Paid	HILDA 2001-2005	Descriptive analysis and panel fixed effects regressions. Dependent variable: natural logarithm of the real hourly wage rate	<ul style="list-style-type: none"> • Low pay is defined as an hourly wage rate of less than 2/3 of the median wage in the selected sample (\$11.05 per hour in Wave 1 to \$13.19 per hour in Wave 5). • Wage progression of low-paid workers with disabilities is similar to those without disabilities at approximately 30% as long as the disability is not work limiting. For work-limiting disabilities, the wage growth is somewhat lower at around 25%.
Cai, L., Mavromaras, K., Zakirova, R. and Fok, Y.K. (2008) Human Capital and the Patterns of Employment and Welfare Receipt	HILDA 2001-2006	Descriptive analysis, and multinomial logit and competing risks duration model. Dependent variable: four combinations of employment (yes/no) and welfare receipt status (yes/no), and changes in these combinations.	<ul style="list-style-type: none"> • Of 4 main categories of explanatory variables (Qualifications; Work Experience; Health; Individual and Family characteristics), strongest results for Qualifications and Health. • More qualifications decrease the probability to be in not-Employed + Welfare. • In the case of Employed + non-Welfare the opposite holds. • Work experience increases the probability of being Employed + non-Welfare and decreases the probabilities of all other alternatives up to a level of work experience, beyond which the relationship is reversed. • Worse health is strongly and positively associated with being not-Employed + Welfare, and better health is strongly and positively associated with being Employed + non-Welfare. • Family status and children in the family influence employment-welfare outcomes, but not as strongly as qualifications and health do. • Work attitudes show a weak but statistically significant positive (negative) association with the probability of being Employed + non-Welfare (not-Employed + Welfare). <p>Transitions between employment – welfare states:</p> <ul style="list-style-type: none"> • Work experience facilitates movements into the employment state for those who are not in employment, and reinforces the employment stability of those who are in employment. • Education/qualifications have a positive effect on movements into employment and non-welfare and stability of employment and non-welfare. • Those with the lowest levels of education are most vulnerable, especially when it comes to retaining employment without welfare support. • Fair and poor health is strongly associated with negative labour market movements. Poor health stops people from obtaining jobs as well as retaining the ones they have. There are few differences between those with excellent, very good and good health. • Family status and presence of children affect movement into employment and welfare and stability of employment and welfare, but less strongly as qualifications and health.

Authors	Data	Approach	Findings
			<ul style="list-style-type: none"> • Mutual obligation requirements and activities were found to have little effect on the probability of returning to employment. • Marginal attachment to the labour market was estimated to have a positive but small additional impact on the probability of returning to employment.
<p>Jeon, S.H. and Fok, Y.K. (2009) Work and Mental Well-being: Work Stress and Mental Well-being of the Australian Working Population</p>	<p>HILDA 2001-2006</p>	<p>Descriptive analysis and Instrumental Variable methods. Dependent variable: life satisfaction (also called subjective well-being) is used to measure individual mental well-being. Instruments for work stressors: Work/job characteristics.</p>	<ul style="list-style-type: none"> • Five potential work stressors are identified: unfair payment, job insecurity, job demands, low skill utilisation and lack of freedom. Total work stress is constructed by summing up all five work stressors and dividing by five. (in waves 5 and 6, job strain is also available). • Men report higher scores relating to unfair payment, job insecurity, and job demands. • Women report higher scores concerning low skill utilisation and lack of freedom. • Greater level of total work stress is negatively correlated with workers' mental wellbeing, even after controlling for other important individual and household characteristics, and for individual fixed effects. • Negative effect of unfair payment on mental wellbeing is statistically significant for women, but not for men, suggesting that improving fairness of payment is important for the mental well-being of women in work. • Being unemployed or not in the labour force is associated with a decrease in mental well-being. • Greater negative effect of unemployment on mental well-being for men than for women.
<p>Black, D. and Lee, W.S. (2009) Experiences of Income Support Recipients with a Mental Illness</p>	<p>RED 2002-2008 and LPS</p>	<p>Descriptive analysis, and pooled probit, fixed effects and random effects panel probit. Dependent variable: being employed and welfare reliance (proportion of income from income support)</p>	<ul style="list-style-type: none"> • Increase in reported mental illness in the 2002-2008 period by Disability Support Pension (DSP) and NewStart Allowance (NSA) recipients. • Observed increase in NSA recipients who reported having a disability of some sort after 2006-07 could reflect the fact that persons with a moderate disability who would have been eligible for DSP prior to 1 July 2006 were thereafter only eligible for NSA. • Thus, there may have been an increase in actual disability rates, rather than merely an increase in the reporting rates of relevant medical conditions. • 70 to 85% of DSP recipients were found to be highly reliant on welfare. The corresponding proportion of NSA recipients with a mental illness is 30 to 40%. • DSP and NSA recipients with permanent or recurring mental illness were more likely to be highly welfare reliant than recipients with only temporary mental illness. • Depression, anxiety, and alcohol and drug disorders were more common among NSA recipients. Psychological disorders were more prevalent among DSP recipients.

Authors	Data	Approach	Findings
			<ul style="list-style-type: none"> • An NSA recipient with a mental illness has about one-third the probability of being employed relative to an equivalent person with no mental illness or other disability. • NSA recipients with a mental illness were also more likely to have higher welfare reliance levels than NSA recipients with no mental illness or other disabilities. • NSA recipients with a mental illness did not differ much from other NSA recipients in terms of attitudes towards welfare and work, but many faced considerable employment-related difficulties. In particular, psychological/psychiatric difficulties that disrupt work and the ability to concentrate/focus on work tasks for sustained periods. The latter is also a problem for DSP recipients. Work stress and pressure is less of a problem.
<p>Buddelmeyer, H., Fok, Y.K. and Vu, H. (2010)</p> <p>Transitions of Income Support Recipients with Incapacity Exemptions</p>	<p>RED 2002-2009</p>	<p>Descriptive analysis and multinomial logit approach.</p> <p>Dependent variable: to be on unemployment-related benefits (UB), on DSP, on any other income support payment, or off income support after one year</p>	<ul style="list-style-type: none"> • The proportion of NSA recipients with temporary incapacity exemptions (TIEs) has been falling over the period 2002-2009 • About 83% of exemptions are for less than 6 months but 17% last for more than 6 months (with 5% lasting over one year) via consecutive exemptions. • Around 20% of UB spells are observed to have received at least one TIE at some point. • The greater the number of UB spells an individual has, the more likely the individual is observed to have had a TIE. • Men, singles and those over 25 are more likely to have multiple TIEs than women, partnered individuals and those under 25 are. • Those that have had an exemption are less likely to leave income support and much more likely to transfer to DSP compared to those that have not had a TIE. • Experiencing a TIE in the first 6 months of an UB spell is associated with a reduction of 10 percentage points in the probability of having left income support one year later. • Having one TIE spell (compared to 0) in the first 6 months of an UB spell increases the probability of being observed on DSP one year later by 3 percentage points (ppt). • Having multiple TIE spells increases the probability of remaining on UB by 7.3 ppt. • Restricting the sample for the analysis to UB spells that lasted 12 months or more, having a TIE spell during the initial 12 months reduced the probability of being off income support at the one-year follow-up by about 6 ppt. • But temporary exemptions help keep those with poor health or disability on 'active' payments and out of DSP for longer than might otherwise be the case.