

A natural experiment on sick pay cuts, sickness absence and labour costs

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This study estimates the reform effects of a reduction in statutory sick pay levels on sickness absence behavior and labor costs. A federal law reduced the legal obligation of German employers to provide 100 percent continued wage pay for up to six weeks per sickness episode. Statutory sick pay was decreased to 80 percent of foregone gross wages in 1996. Within the reform's target group -- private sector employees -- this measure increased the proportion of employees having no days of absence by about eight percent and decreased annual short-term absence days by about twelve percent. Extended analyses suggest that in industries that enforced the cut, average absence days even decreased by one-quarter and the proportion of employees without absence days increased by 15 percent. We show that the direct labor cost savings effect stemming from the cut in replacement levels clearly exceeds the indirect effect due to the decrease in absenteeism. Our calculations about the total decrease in labor costs are in line with official data which suggest that total sick pay decreased by 16 percent or EUR 4.25 billion per year.