A Natural Experiment on Sick Pay Cuts, Sickness Absence, and Labor Costs
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Abstract
We estimate the overall reform effects of a reduction in statutory sick pay levels on sickness absence behavior, labor costs, and the creation of new jobs. 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. From October 1996 onwards, statutory sick pay was decreased to 80 percent of foregone gross wages. This measure increased the ratio of employees with no days of absence by about 7.5 percent. The mean number of absence days per year decreased by about 5 percent. The effects were more pronounced in East Germany, which can be explained by a stricter application of the new law in this region. Effect heterogeneity is of relevance since singles, middle-aged full-time employed people, and the poor revealed stronger behavioral adaptations than the population average. According to our calculations, the reform reduced labor costs, and job creation in Germany by means of difference-in-differences, longitudinal survey data from the SOEP, and two control groups.

2. Variables, Methods, and Descriptives

Dependent Variables
1. Total number of absence days: Daysabs
   "How many days off from work did you have in 19XX because of illness? Please enter all days, not just those for which you had a doctor’s certificate."
   • The big advantage is to have a measure on the total number of absence days
   • Seven respondents (0.03 %) indicated a total number of absence days of more than 100 (!) although we dropped all those with a long-term sickness spell of more than six weeks.
   • To reduce the influence of outliers and to make the samples more homogenous, we generate a second variable:
   2. Missed30
   Includes all respondents with up to 30 absence days (98.45 % of the sample included in Daysabs)

3. Results and Conclusion

• Reform led to an increase in the ratio of employees with no days of absence of about 7.5 % in whole Germany, 15 % in East Germany, and 5 % in West Germany.
• Reform led to a decrease in the number of average annual absence days of about 3 % in whole Germany, 7.5 % in East Germany, and 4 % in West Germany.

Health Reform to be evaluated
• Reduction of short-term sick pay for sickness spells up to six weeks from 100 % to 80 % of foregone gross wages (from October 1, 1996)

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Dataset and Sample
• SOEP: German household panel (since 1984)
• We contrast the pre-reform years 1994/1995 to the post-reform years 1997/1998; no 1996, since law became effective on October 1, 1996
• Respondents in gainful employment, aged 18 to 65; no observations with missings
• No employees with work accidents (since unaffected by reform)
• No employees with long-term sickness; – 5 % of sample (since long-term sick pay was reduced at the same time; objective is to estimate impact on short-term sickness; need to be discarded to avoid contamination of the estimated effects)

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