



## DISABILITY PENSIONS

# The safety net

**Disability benefits act as a safety net across Europe, delivered through insurance, occupational pension funds or the state. But with rising retirement ages and a concerning mental health epidemic, calls for preventative solutions are growing. Natalie Tuck reports**

**A**mid rising retirement ages as Europe wrestles with the sustainability of its pension systems, one consideration is often left out of the debate – disability pensions. They are the safety net for workers when health fails, but the strength and structure of that net varies across Europe.

When it comes to claim rates, data tends to be local and specific, but figures from Eurostat released during EU Diversity Month 2025 shine a partial light on the situation. The data shows that Estonia has the highest proportion of people aged 50 to 74 receiving disability pensions in the European Union (EU).

Indeed, 11.5 per cent of Estonians in this limited age group receive disability-related benefits, more than double the EU average of 4.6 per cent. Denmark follows at 10.1 per cent, while Lithuania stands at 9.1 per cent. At the opposite end of the scale, just 2.2 per cent of individuals in Malta and 2.5 per cent in Greece receive such benefits.

## A pension problem?

When it comes to disability protection there is a dichotomy between countries and/or schemes that provide it as a pension benefit, and those that don't. In some countries payments are provided directly from pension providers and funds (sometimes as an add-on insurance), whereas in others, incapacity to work is covered by a separate insurance (through employee benefit packages or personal policies) or state benefits.

Scheme design also plays a part in whether disability payments fall on the pension scheme. For example, in traditional defined benefit (DB) schemes, early ill-health pensions can generally be granted to eligible members. In contrast, the nature of a defined contribution (DC) scheme does not allow for this type of benefit, leaving members to rely on other sources of income.

In some countries, such as Iceland, Switzerland and Finland, disability cover is part of their pension systems. In the latter, for example, it falls under the earnings-related pension system, and Kela's national pension scheme.

Elo director of work ability, Kati Korhonen-Yrjänheikki, explains that, in Finland, a disability pension can be granted before the old-age retirement age if a person's work ability is significantly, at least 40 per cent, reduced due to illness or injury, and this reduction is expected to last continuously for at least one year.

"Often, before being granted a disability pension, individuals receive sickness allowance, which is a Kela benefit. Rehabilitation options are always assessed as a primary measure before a disability pension is granted. The pension may be awarded either for a fixed term or until further notice," she says.

A similar system operates in Switzerland with the country's state (IV pension) and occupational pension funds (BVG) paying disability pensions to around 60 per cent of earnings. On top of this, disability insurance is available to help further bridge the gap.

Meanwhile in Germany, its statutory pension scheme (GRV) offers citizens 'Erwerbsminderungsrenten' disability pensions if they have contributed to the scheme for a minimum of five years, and immediately in the past three years before they became unable to work.

In contrast, particularly in countries that have seen a big shift from DB to DC schemes, such as the UK, the link is diminishing. Mercer partner, Graham Pearce, says: "The general trend has been away from this sort of coverage in the DB world... some countries have mandatory plans where disability is included but elsewhere the trend is away as the world moves from DB to DC. In DC it would be a separate insurance that would include disability cover."

While these schemes do not have a responsibility for disability pensions, there can be indirect consequences. For example, individuals unable to work due to ill health may accumulate lower savings, or they may access their DC pots earlier than intended, and before reaching state pension age. Therefore, Haines Global Pensions co-founder and CEO, Colin Haines, believes DC trustees do have some responsibility for members.

“Given their cost and complexity, ill-health retirements have long been a focus for many DB trustees. However, DC members face a far harsher reality with ill-health retirement meaning a smaller pension pot stretching out for decades and workplace benefits that could stop well before state pension age. DC trustees could monitor incidence, signpost support, and work with employers to limit the risk of financial hardship,” Haines says.

### Impact

Pension providers with responsibility are generally seeing a rise in disability applications, although not all are approved. This trend raises concerns about both member wellbeing and the financial sustainability of systems and schemes, with the scale of impact depending on their design.

Haines Global Pensions’ *Ill-Health and Disability Pension Claims – International Overview* notes that in public systems, higher ill-health incidence can accelerate cash outflows. For example, schemes offering partial or graded benefits may have a broader claimant base but pay lower benefits per person and often over longer durations. Whereas stricter systems awarding only full benefits may have fewer claims, but each case is more costly over time.

For occupational pensions, especially DB schemes, the report states that higher ill-health incidence increases liabilities, particularly where pensions are paid unreduced from an earlier age. In DC schemes, early access on ill-health grounds typically results in earlier drawdown and a greater risk of inadequate income later in life.

In Iceland, Gildi, the country’s largest pension fund, has warned that reforms to disability pension rules could raise claim rates and force cuts to old-age pensions. The changes would prevent funds from offsetting certain state benefits when assessing loss of income, which Gildi estimates would increase disability outgoings by around 12 per cent a year and reduce old-age pensions by 3 per cent.

The fund also warned that in some cases

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disability pensions could exceed income from work, potentially discouraging rehabilitation.

“Insurances are usually designed to cover losses, for example, in cases of disability but this proposed design of the system seems to go beyond that,” a spokesperson for Gildi says.

Cost is also becoming a growing problem in Denmark, as recent figures published by Insurance and Pension Denmark (I&P Denmark) reveal that the country’s pensions industry is paying out more than DKK 10bn annually in compensation for loss of earning capacity.

Analysis from I&P Denmark revealed that more than 86,000 Danes are receiving a payment for lost working capacity from their insurance or pension company after completely or partially losing their ability to work.

Like Denmark, Finland is also seeing a rise in disability pension applications; however, in Finland these have not yet led to higher costs, as a high proportion are not approved. Here, disability pension applications are increasing most rapidly among people under 35 due to mental health.

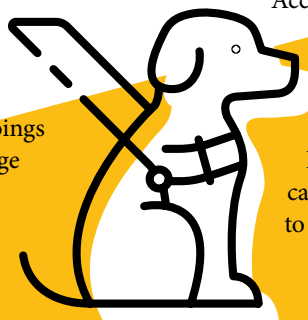
“This has not yet manifested as a rise in costs, since the number of actual disability pensions granted to young people has not significantly increased,” explains Korhonen-Yrjänheikki, adding: “However, the risk for the future is clear if the growing trend of mental health symptoms is not addressed with broad measures both in workplaces and society at large.”

Indeed, a general trend seen in Finland is a rise in the rejection rates of disability pension applications.

According to the Finnish Centre for Pensions (ETK), 40 per cent of claims were rejected in 2024, twice the level in 2007.

But the financial consequences extend far beyond the pension funds themselves.

For individuals, a long-term illness often causes an income gap of 40 per cent, according to Zurich.





Meanwhile, Insurance at Heart CEO, Gitte Kristiansen, says that business leaders should be aware that even the cost of only one day of sick leave is extremely expensive – at least €300-€1000 per day – but little action is being taken. She adds: “Typically corporate HR and finance departments are not correlating cost to people benefits across the whole organisation.”

For governments, rising disability claims drive up spending on benefits and healthcare while reducing tax revenues as more people exit the workforce. This creates difficult policy trade-offs between protecting vulnerable citizens and maintaining fiscal sustainability.

### Alternatives

For those unable to rely on a pension scheme or provider to cover disability insurance, the alternatives often come down to chance. Disability insurance is also far less common in employee benefits packages than life insurance, leaving many without adequate protection.

“You are much more likely to become disabled or unable to do your job than you are to die so life insurance is relatively cheap compared to disability insurance. It’s a much bigger cost for employers and for that reason it is probably less commonly provided,” Pearce explains.

He continues: “A lot of companies only offer accidental death and dismemberment (AD&D) where you become disabled because of an accident. That’s a lot cheaper because usually it is not an accident that leads to a disability, that’s a very small proportion of cases.”

According to figures from Zurich, disability is nine times more likely to be caused by illness than by an accident. Over the past five years, however, Pearce has observed growing international debate around

minimum standards, though the focus has largely been on life insurance, as disability cover tends to be far more costly.

In these cases, the onus, as is the case with DC schemes, lies with the individual. Therefore, Pearce believes that employees need to think about how to protect their own financial resilience.

“A state plan might help to some extent, but it will not leave people anywhere near the position they were in before. Another problem is that disability cover is increasingly offered as a separate insurance rather than part of a comprehensive pension package. With job-switching now far more common as the idea of a 40-year career fades, people moving jobs in their 50s face added challenges,” Pearce says.

“Unless they join a very large company that automatically accepts the risk, they are more likely to encounter underwriting restrictions, which can limit when benefits are paid. In practice, this often depends on the medical assessment made when they first joined the employer.”

### Causes

Among all the many illnesses that exist, there are two umbrellas that the majority of disability claims sit under: musculoskeletal (MSK) and mental health, says Kristiansen, with everything else grouped as ‘other’.

According to Haines Global Pensions’ overview, in countries where there is detailed diagnostic reporting, mental health conditions have become the leading cause of new disability awards.

For example, in Germany, around 40 per cent of new disability awards in 2023 were linked to mental disorders. In Finland, mental health and MSK conditions each account for roughly one third of cases. Switzerland reports psychological conditions in more than half of all awards, while in Belgium, mental disorders make up 37 per cent, with depression and burnout alone representing about a quarter.

There is also a gender divide at play in some sectors. In Norway, for example, women in the public sector are more than twice as likely as men to retire on a disability pension, according to KLP’s *Working Life Report 2025*, which warns of the toll taken by demanding health and childcare roles.

One in 10 pensioners at KLP receive a disability pension; among women, the rate is 11.4 per cent, compared to 4.5 per cent for men.

“These are professions characterised by close contact with people, high emotional stress, low levels of self-determination, role conflicts and, unfortunately, not infrequently, violence and threats.

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In addition, the work is often physically demanding,” the report states.

More specifically, mental health issues are a key driver in younger workers leaving the workforce, and their wellbeing is of great concern to Korhonen-Yrjänheikki.

“The highest risk of social exclusion is among long-term unemployed youth. At Elo, between 2018 and 2024, the number of disability pension applications filed by individuals under 35 due to mental health reasons increased by 37 per cent,” she notes.

But what is behind this cause? A spokesperson for the World Health Organization (WHO) states that it is difficult to say definitively why mental health issues are rising among young people.

“Mental health is influenced by a range of biological, psychosocial, environmental and economic determinants, and it is unlikely that there is one single factor at play,” the spokesperson says.

The spokesperson, citing findings from a recent Lancet Psychiatry Commission on youth mental health, noted that rising rates of mental health problems among young people stem from multiple pressures.

These include “changes in education and the transition to adulthood, rising inequality, the spread of smartphones and unregulated social media, academic pressures, and broader technological and economic shifts such as artificial intelligence and climate change”.

The drivers of MSK issues are clearer: rising retirement ages and ageing populations are increasing vulnerability, while sedentary work and lifestyle factors such as low physical activity and obesity add further strain. Meanwhile, employees in physically demanding sectors such as construction, logistics, and healthcare face heightened risks of injury.

### A need for prevention

There is growing recognition that as retirement ages increase, ensuring people remain healthy enough to work longer will be a significant challenge. Kristiansen argues that preventative health measures are key to addressing this but not enough is being done.

“Prevention is not at all in focus enough, not at all. Neither at governmental level, nor with corporates – of course with some exceptions in the private sector. Society wise, the big issue is that politicians have known the high sick leave stats for years. Denmark has used years and years to ‘talk about it’ but no one has made this a priority,” she says.

Indeed, Kristiansen, who has previously served as head of global pensions and insurance at ISS and Carlsberg, among others, received acclaim for her out-of-the-box approach to preventative care.

Highlighted in Swiss Life’s white paper, *Why insurers should take responsibility for customer employees’ wellbeing*, Kristiansen was initially concerned about the high-risk factors and health issues resulting from back strain for people providing cleaning services and physical jobs.

In search of solutions, she deployed a smart vest that measures the strain caused by different positions and efforts, helping the wearer learn to reduce the risk of injury by adjusting their movements to lower pressure on the spine.

She then correlated data gathered by the smart vests with global sick leave outlays, developing a risk management approach designed to drive down the costs arising from employees’ back problems and used this to lower the company’s insurance premiums.

Despite being proactive in this area (she left her job at ISS to form her own company after the success of the project), she is perplexed at the lack of action from governments and business alike. In her native Denmark, she raises concerns about the government’s action in this area.

“Some initiatives on healthy living have been taken and built into public thinking – many years of campaigning to eat healthier, stop smoking, exercise more and drink less – but there are no laws or regulation requiring actions specifically on workplace sick leave,” she says.

“We need workplaces to ask themselves, how they can help their employees live better, so they don’t run into sickness and attrition. My dream for Denmark – as people are suffering with pain and sickness, putting pressure on the public health system – is that we make it mandatory for all public workplaces to make sick leave and prevention a strategic priority.”

Kristiansen believes that if public workplaces are required to address the sickness burden, it will push the private sector to follow – with a focus on business cases, efficiency, and return on investment.

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A tough question is where responsibility for preventative health measures should lie. For example, Pearce thinks that the business case is “probably strongest for governments and individuals”.

He adds: “For private sector employers, you can invest in people’s health but there is also going to be a degree of turnover.” In his view though, employers do have a role to play in facilitating education around the topic but he thinks governments have the biggest incentive as they look to increase state retirement ages.

### Prevention in action

While concerns remain about the limited measures to prevent disability pension claims, positive examples are emerging, and more broadly there are signs that the business community is beginning to take the rise in mental health issues seriously.

For example, one of Elo’s strategic objectives is to be a “forerunner in work ability services”, says Korhonen-Yrjänheikki. The provider has made “significant investments in the development of work ability services, both in disability risk management services, as well as in vocational rehabilitation and disability pensions”.

“We help client companies reduce disability risks and extend working careers through vocational rehabilitation. In cases of disability, we secure the livelihood of our insured individuals,” she says.

It is this kind of proactive management seen in Finland that Haines would like to see more of in the UK, stating that ill-health retirements should be “firmly on trustee risk registers”.

“Regulators expect demographic risks to be managed, and acting in members’ interests ought to mean trustees being proactive in managing and preventing ill-health claims. However, even if not a strict legal duty, trustees could find it difficult to argue that it’s inappropriate for them to be helping members at risk of major financial loss.”

He highlights further examples of good practice across Europe, such as Sweden’s Alecta, which is working with AFA Försäkring on preventing mental ill-health and long absence. The SEK 30 million project will run for three years and it is hoped that the outcome will provide increased knowledge on sickness absence in relation to mental health.

He adds: “In the Netherlands, many pension funds, including ABP, operate within occupational health frameworks, which coordinate prevention and return-to-work measures before disability pensions are granted. In the UK, the Local Government Pension Scheme

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offers insurance to help employers manage large ill-health pension costs. These examples show that practical models exist that other pension fund boards and trustees could adapt.”

There are countless other examples, particularly in Scandinavia. In Denmark, pension providers are leveraging technology to achieve measurable results. PFA, for example, has reduced the risk of long-term illness by 70 per cent for customers receiving early intervention through an AI-powered prevention tool that helps healthcare professionals spot those at risk.

The technology, combined with new digital solutions, is enabling faster access to treatments such as physiotherapy and psychological support.

In the wider business community, Pearce says that progress is already visible as a lot more companies are “offering training to managers to try to recognise signs of mental health issues, offering training to employees to also help them understand the importance of mental health and trying to make sure that they are doing the things that they should be doing to keep a balance”.

This practice aligns with guidance from the WHO, as its spokesperson says that the organisation has developed guidelines and a policy brief on mental health at work, which, while not specific to young people, are highly relevant to those entering or already in the labour market.

“The guidelines recommend multi-component interventions such as organisational changes to reduce psychosocial risks, training for managers and supervisors to build supportive practices, individual interventions including psychosocial support and physical activity, and programmes to support entry into work and return-to-work for those with mental health conditions,” the spokesperson says.

While employers and pension providers are taking important steps, the bigger question is how to embed these approaches across Europe’s diverse systems. If prevention is not given equal weight to provision, the safety net fraying just as more people depend on it.

