

Key Questions in US Disability Policy: Employment and Beyond

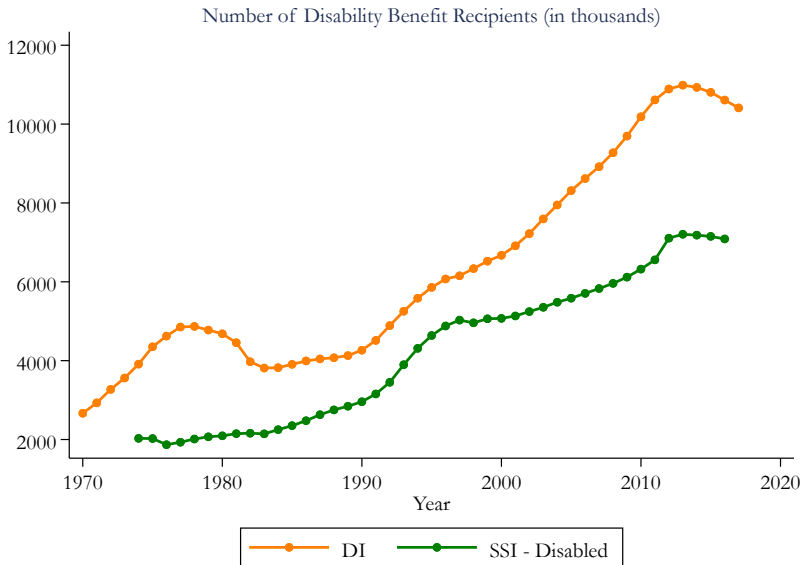
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Substantial expansions of SSDI and SSI in recent decades



Key questions in US disability policy

1. What are the effects of disability programs on employment?
2. How do disability programs affect outcomes beyond employment?
3. How do application costs affect who applies for disability programs, and what role does economic opportunity play?

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Theory on disability programs and employment

- ▶ Multiple theoretical channels through which disability programs can affect employment:
 1. Income effect (reduce work)
 - ▶ Recipients work less because of income transfer
 2. Incentive effect or moral hazard (reduce work)
 - ▶ Recipients work less because of program rules: e.g., benefits phase out if they work, or fear of removal if they work
 3. Long-term dynamic effects (reduce or increase work)
 - ▶ Recipients work less because of skill depreciation or LF detachment
 - ▶ Recipients work more because of better health or quality of life

Empirical evidence on disability programs and employment

- ▶ Channels matter for policies that try to encourage work
 - ▶ E.g., if income effect dominates, then more generous benefit phase-outs will not increase work
- ▶ Most studies estimate income and substitution effects together
 - ▶ Consensus: disability benefits reduce work moderately among adult disability recipients ($\approx 30\%$ reduction in LFP)
Bound (1989); Chen and van der Klaauw (2008); von Wachter, Manchester, and Song (2011); Maestas, Mullen, and Strand (2013); French and Song (2013); Moore (2015)
- ▶ Much less evidence on long-term dynamic effects, or on effects on children and young adults

SSI children have poor long-term outcomes

- ▶ SSI provides cash benefits and health insurance to 1.3 million low-income children with disabilities
 - ▶ Poor outcomes: SSI adolescents with mental and behavioral conditions have 45% drop-out rate and 30% arrest rate (Hemmeter et al. 2008)
- ▶ What is the effect of removing children from SSI at age 18 on adult employment and income?
 - ▶ 40% of SSI children removed at age 18 based on judgement that they can work in adulthood
 - ▶ **Deshpande (2016): children removed from SSI at age 18 earn on average just \$4,000/year in labor market**

Deshpande (2016): effect of SSI on young adult employment

Deshpande (2016), "Does Welfare Inhibit Success? The Long-Term Effects of Removing Low-Income Youth from the Disability Rolls"

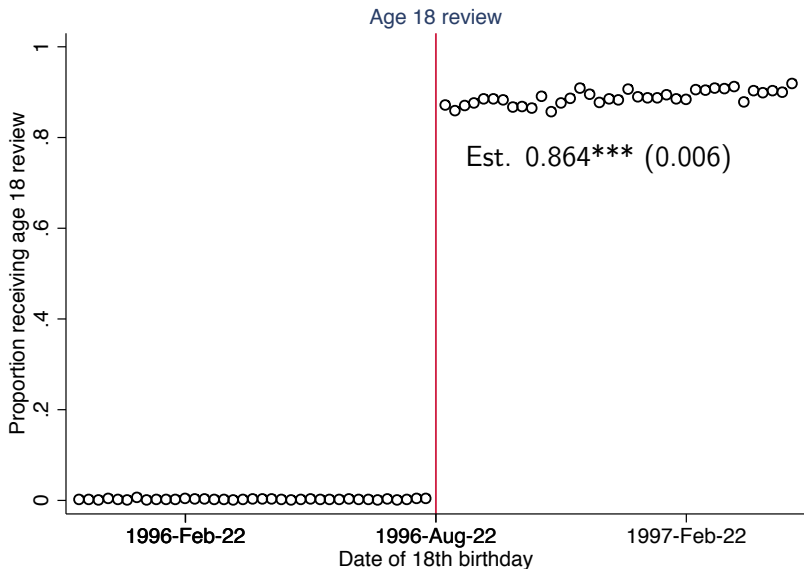
- ▶ Research question

- ▶ What is the effect of removing SSI children from SSI at age 18 on adult earnings and income?

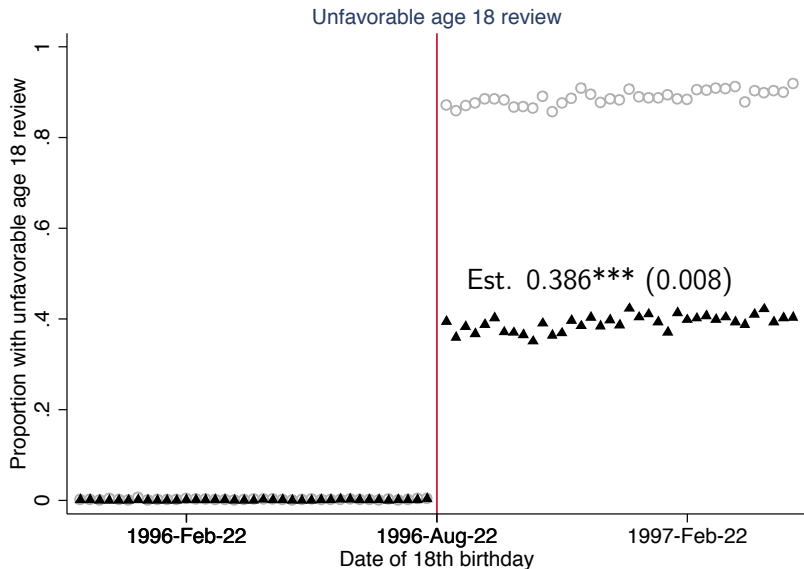
- ▶ Methodology

- ▶ Use birthdate discontinuity created by 1996 PRWORA reform in age 18 redetermination policy
- ▶ Use SSA admin data to track child earnings and income into adulthood

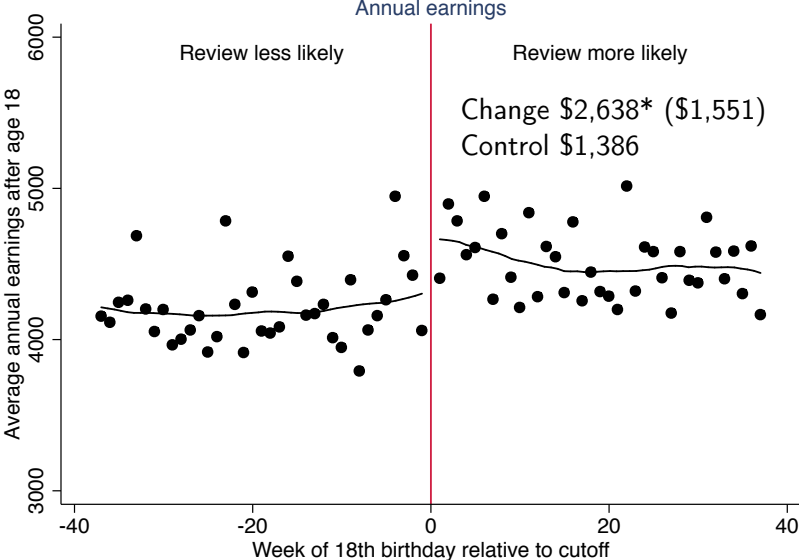
Deshpande (2016): PRWORA change in age 18 policy



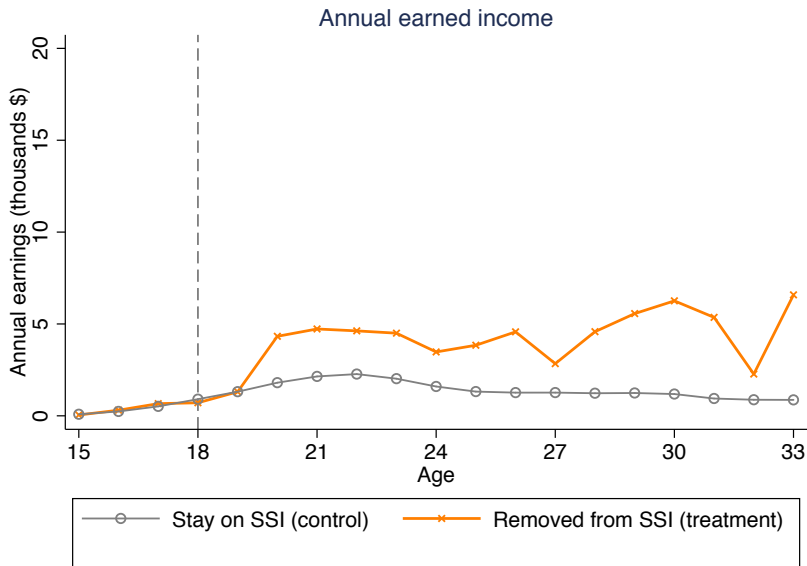
Deshpande (2016): PRWORA change in age 18 policy



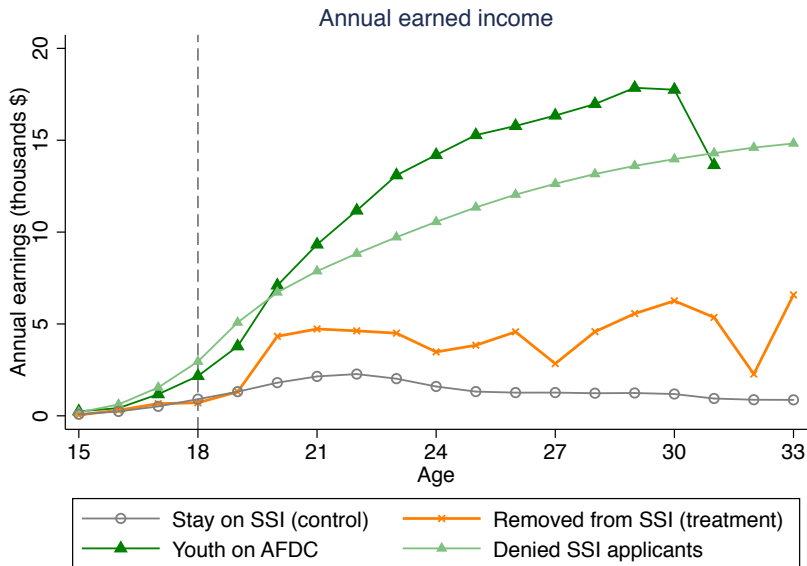
Deshpande (2016): removed increase earnings slightly



Deshpande (2016): removed earn \$4,000/yr in labor market

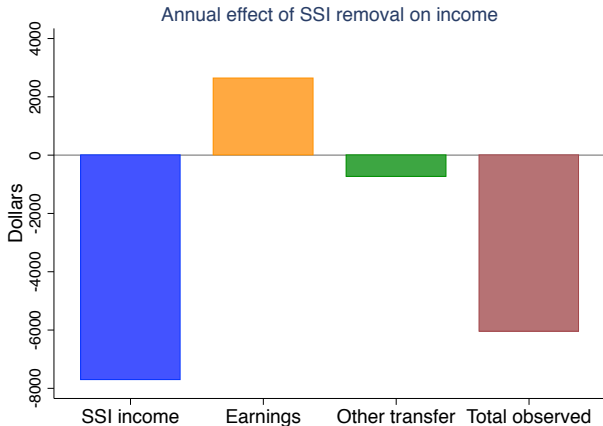


Deshpande (2016): earn less than other disadvantaged youth



Deshpande (2016): summary

- ▶ Question: what is the effect of removing low-income youth from SSI at age 18 on adult outcomes?
- ▶ Removed lose \$73,000 (PDV) in observed income over next 16 years, or 80% of original SSI loss



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How do disability program costs compare to benefits?

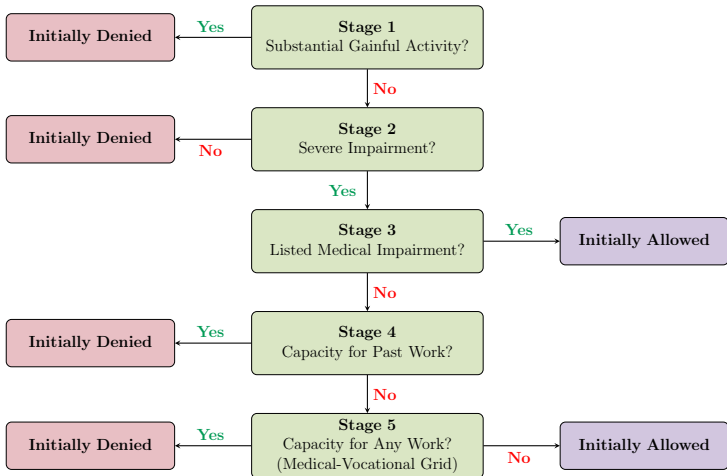
- ▶ Costs include distortion of incentives
 - ▶ Disability benefits reduce work moderately among disability recipients ($\approx 30\%$ reduction in LFP)
Bound (1989); Chen and van der Klaauw (2008); von Wachter, Manchester, and Song (2011); Maestas, Mullen, and Strand (2013); French and Song (2013); Moore (2015)
- ▶ Benefits include improvements in well-being
 - ▶ Limited research on benefits to recipients, such as consumption, well-being, and health effects
 - ▶ **Deshpande, Gross, and Su (2018): disability programs reduce financial distress of recipients substantially**

DGS (2018): evidence on benefits of disability programs

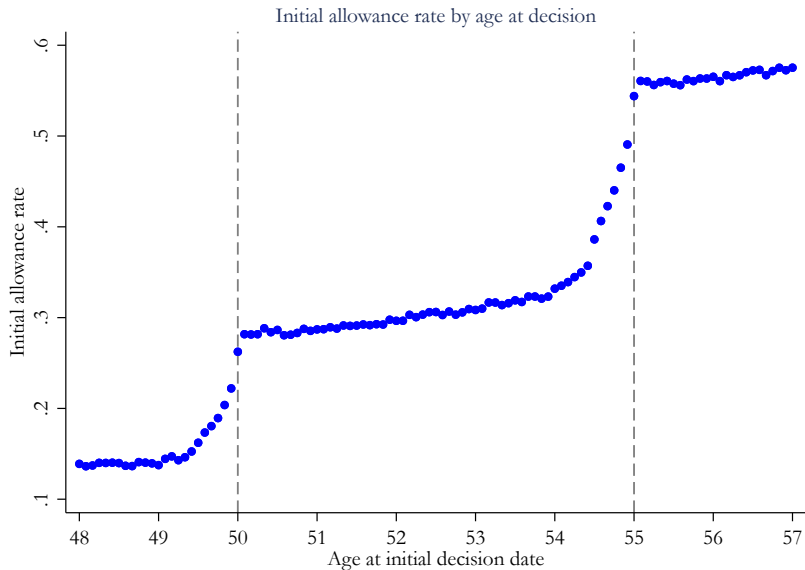
Deshpande, Gross, and Su (2018), "Disability and Distress: The Effect of Disability Programs on Financial Distress"

- ▶ Research question
 - ▶ What is the effect of disability programs on financial distress?
- ▶ Methodology
 - ▶ Use age-based discontinuity in disability eligibility standards to estimate effects of SSDI and SSI programs on measures of financial distress
 - ▶ Link SSA admin records to financial records on bankruptcy, foreclosure, eviction, and home transactions

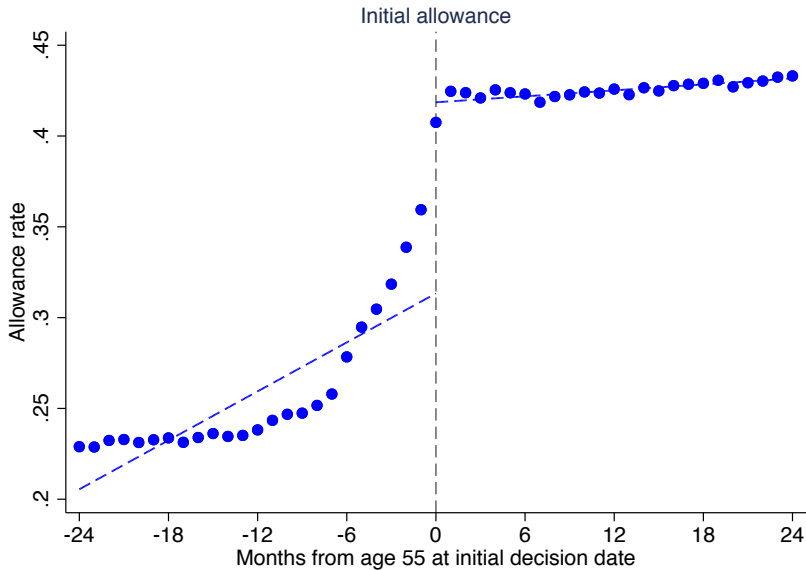
DGS (2018): use age-based eligibility rules in DDS process



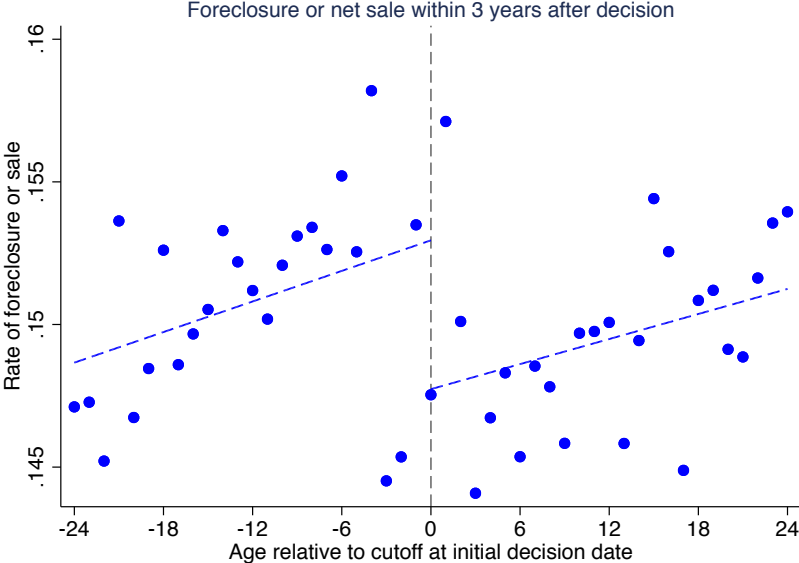
DGS (2018): more lenient standards just above 50 and 55



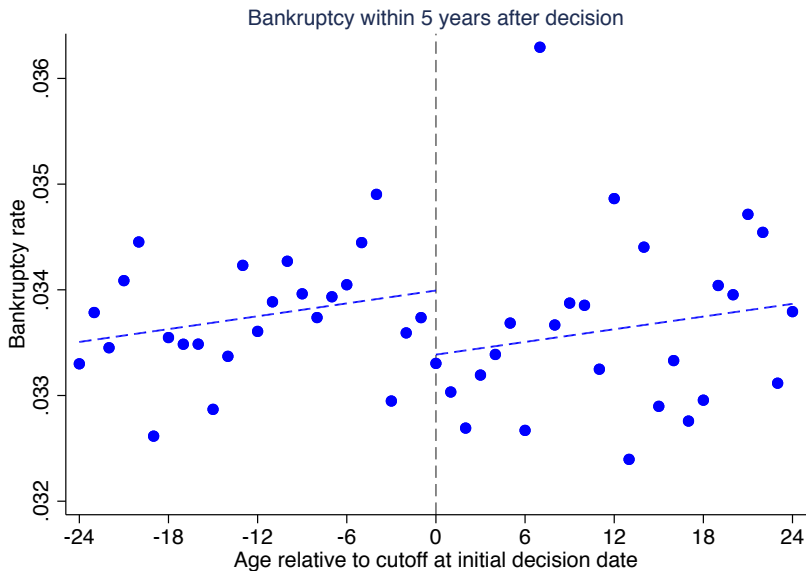
DGS (2018): combine age 50 and 55 cutoffs



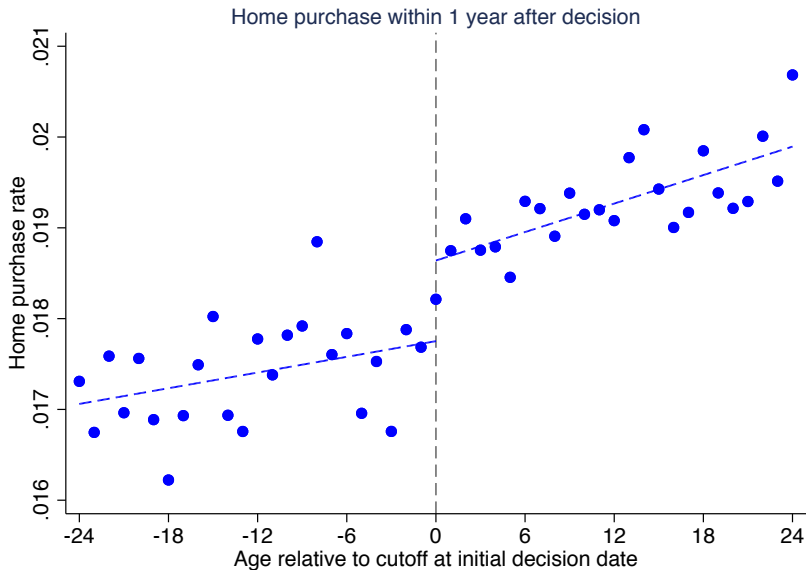
DGS (2018): risk of foreclosure or sale drops across cutoff



DGS (2018): risk of bankruptcy drops across cutoff



DGS (2018): home purchases increase across cutoff



DGS (2018): summary

- ▶ Question: what is the effect of disability programs on financial distress of recipients?
- ▶ Findings
 - ▶ Within three years, disability allowance *reduces*
 - ▶ Likelihood of foreclosure or home sale by at least 40%
 - ▶ Likelihood of bankruptcy filing by at least 20%
 - ▶ Likelihood of foreclosure, home sale, or bankruptcy by at least 30%
 - ▶ Within one year, disability allowance *increases*
 - ▶ Home purchases by at least 20%

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Who gets disability benefits?

Two critical margins for determining who gets disability benefits:

1. Disability determination process

- ▶ Main screening mechanism: 42% of applicants allowed at initial level, 16% allowed on appeal

2. Application process

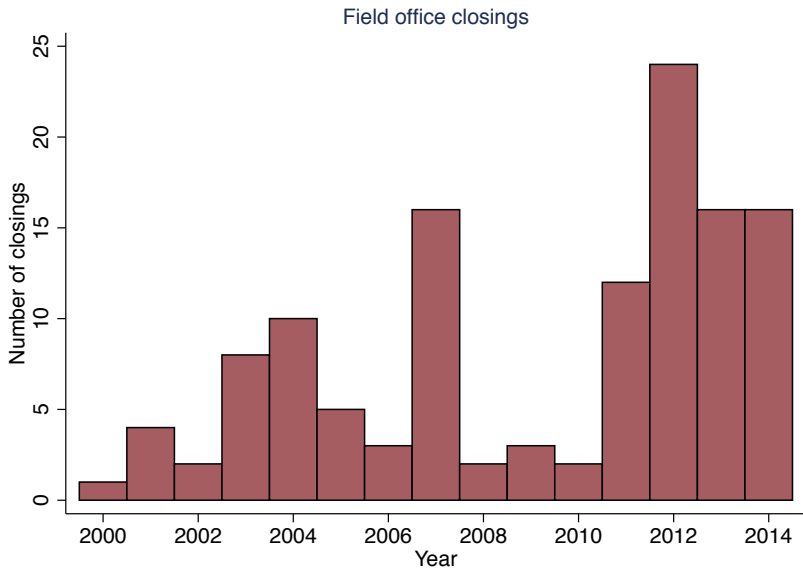
- ▶ Costs of applying include time out of labor market, time and effort to complete application
- ▶ **Deshpande and Li (2018): higher application costs discourage applicants with moderately severe disabilities and low education levels**

DL (2018): who is discouraged by higher application costs

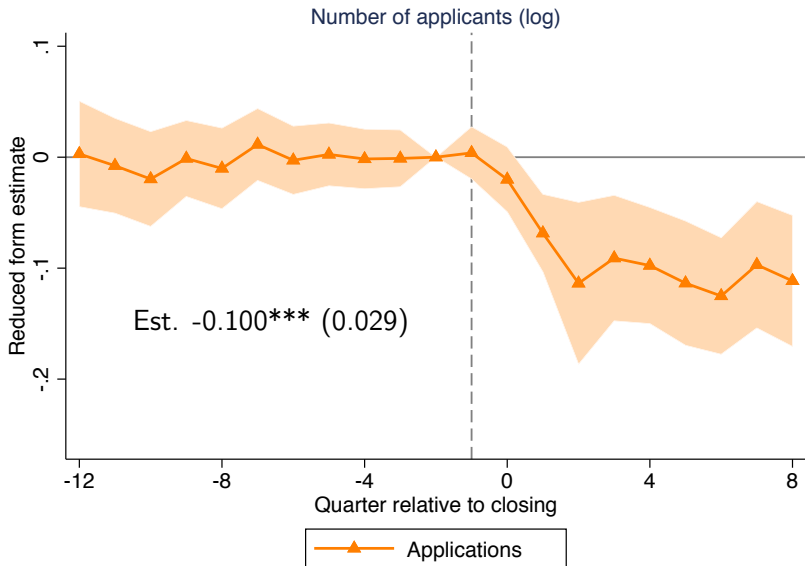
Deshpande and Li (2018), "Who is Screened Out? Application Costs and the Targeting of Disability Programs"

- ▶ Research question
 - ▶ Who is discouraged from applying when the difficulty of applying for disability programs increases?
- ▶ Methodology
 - ▶ Since SSA field offices provide assistance with application, study effect of office closings on the number and type of disability applicants
 - ▶ Use detailed SSA admin data on applicant characteristics

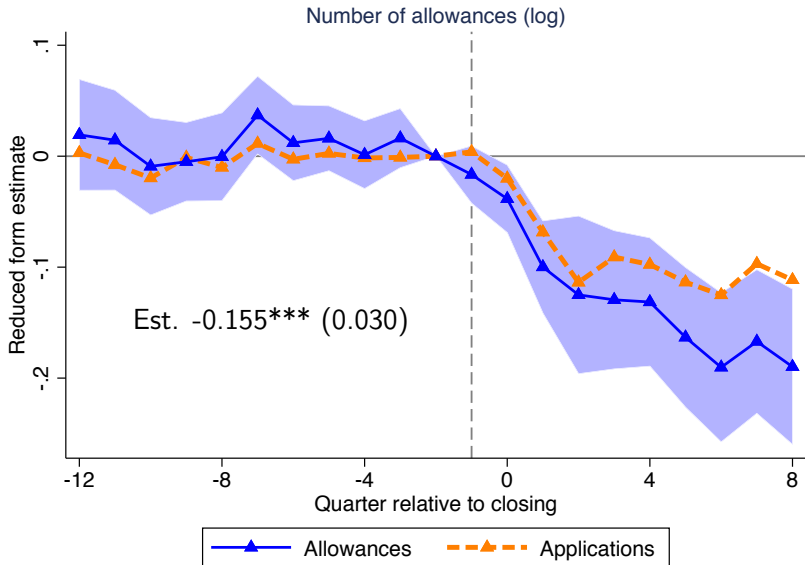
DL (2018): SSA field office closings increase app costs



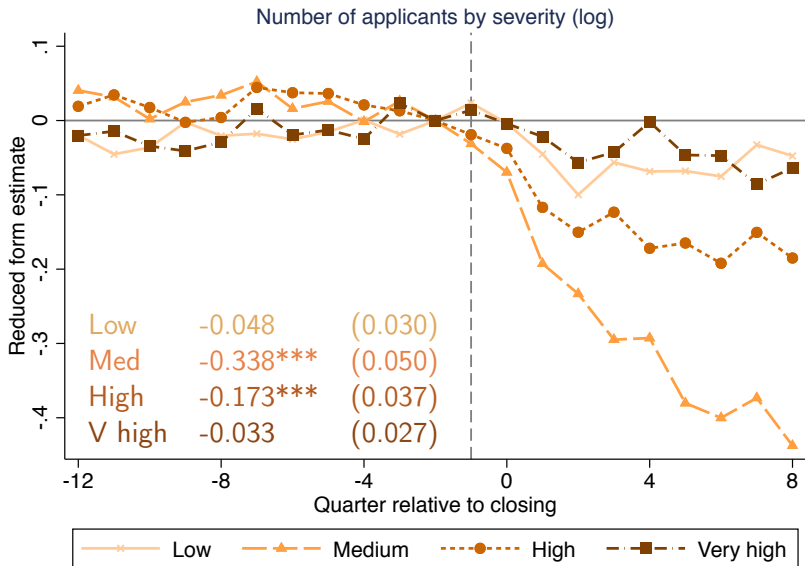
DL (2018): disability applications fall by 10%



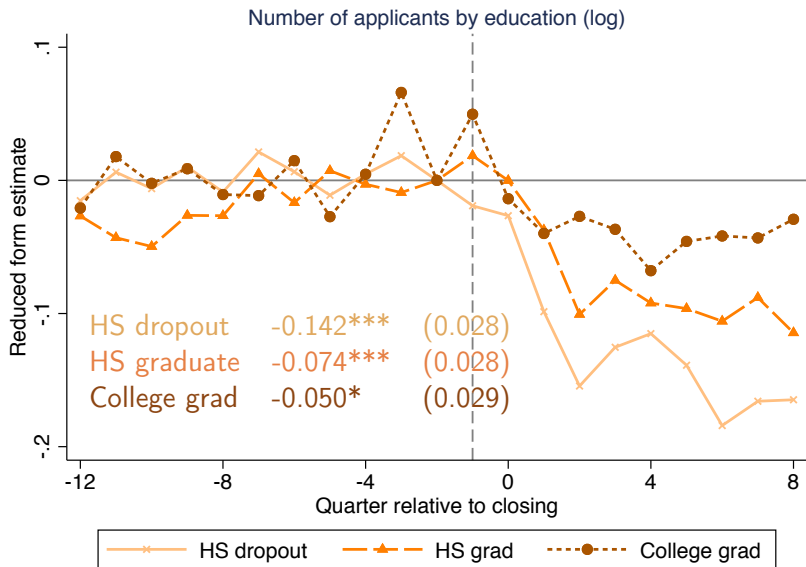
DL (2018): number of recipients falls by 16%



DL (2018): medium- and high-severity more discouraged



DL (2018): low-education applicants more discouraged



DL (2018): summary

- ▶ Question: how does increasing application costs affect the targeting of disability programs?
- ▶ Findings
 - ▶ Closings reduce applications by 10% and allowances by 16%
 - ▶ Effects persistent for at least two years after closing
 - ▶ Disproportionately affect applicants with moderately severe conditions and low education levels
 - ▶ Less effect on those with low-severity conditions, likely because they have few economic opportunities

Key questions in US disability policy

1. What are the effects of disability programs on employment?
 - ▶ Moderate discouragement effect for adults, small for low-income youth
 - ▶ More evidence needed on long-term dynamic effects
2. How do disability programs affect outcomes beyond employment?
 - ▶ Evidence of large reductions in financial distress
 - ▶ More evidence needed on consumption, health, and well-being
3. How do application costs affect who applies for disability programs, and what role does economic opportunity play?
 - ▶ Higher application costs affect disadvantaged applicants
 - ▶ More evidence needed on both determination and application margins