# Evidence on Key Questions in US Disability Policy

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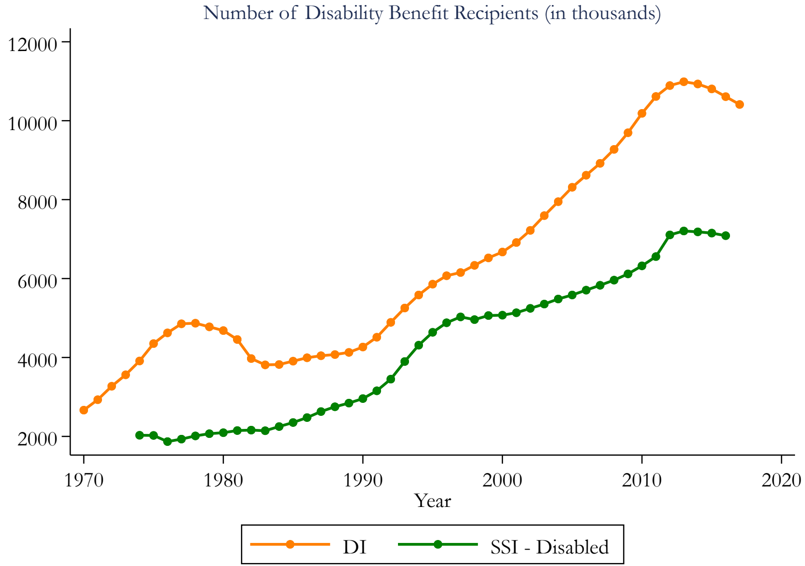
# Substantial expansions of SSDI and SSI in recent decades



# Recent disability reform proposals

- President's FY19 budget includes several reform proposals
  - Reduce retroactive benefits to disabled workers from 12 months to 6 months
  - Reduce SSI benefits for families with more than one recipient
  - Increase labor force participation of disability recipients
- McCrery-Pomeroy SSDI Solutions Initiative developing reform proposals

# Today: key questions in the disability policy debate

1. What are the economic costs and benefits of disability programs?
2. Are disability benefits going to the right people?
3. How can disability policy improve the outcomes of children receiving disability benefits?

# 1) What are costs and benefits of disability programs?

- Costs include distortion of incentives
  - Consensus: 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

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- Benefits include improvements in well-being
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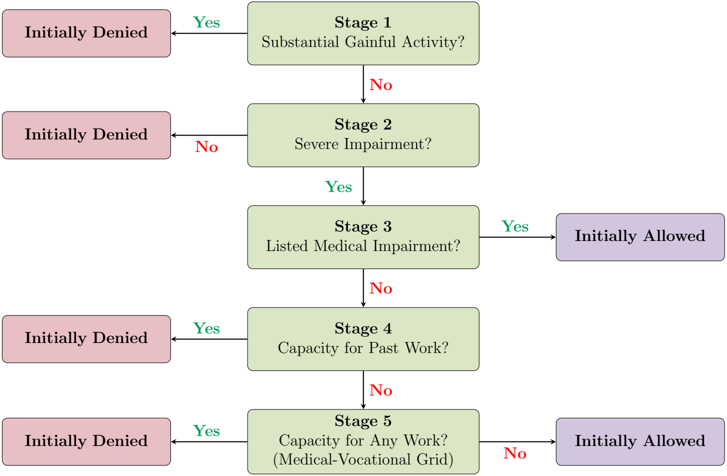
  - **Deshpande, Gross, and Su (2018): disability programs reduce financial distress of recipients substantially**

# 1) What are costs and benefits of disability programs?

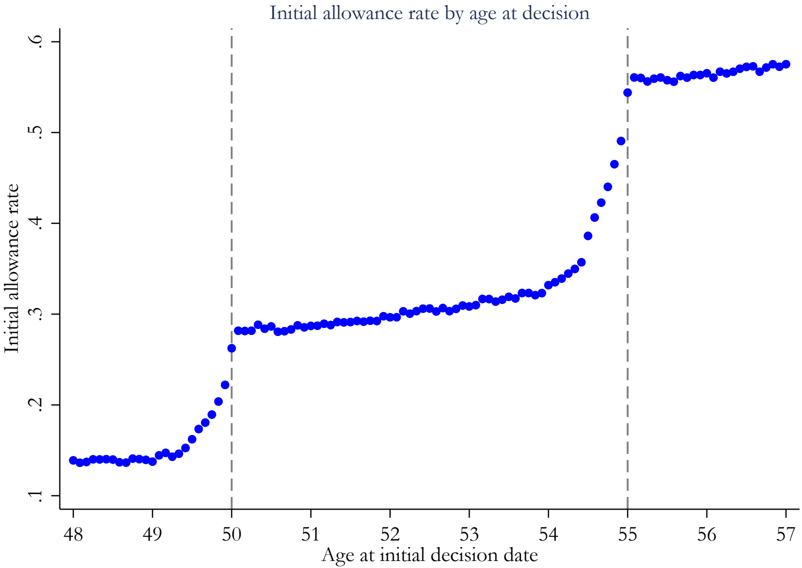
Deshpande, Gross, and Su (2018), "Disability and Distress: The Effect of Disability Programs on Financial Distress"

- 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

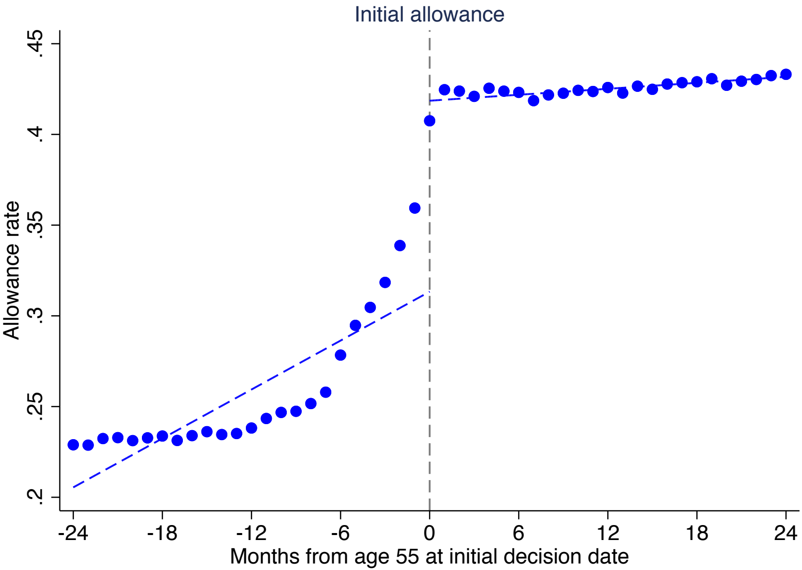
# DGS (2018): use age-based eligibility rules in DDS process



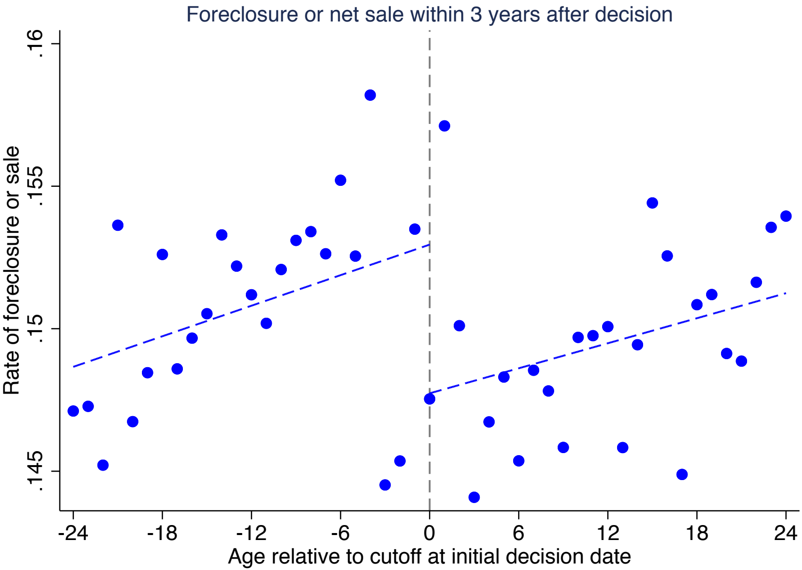
# DGS (2018): more lenient standards just above 50 and 55



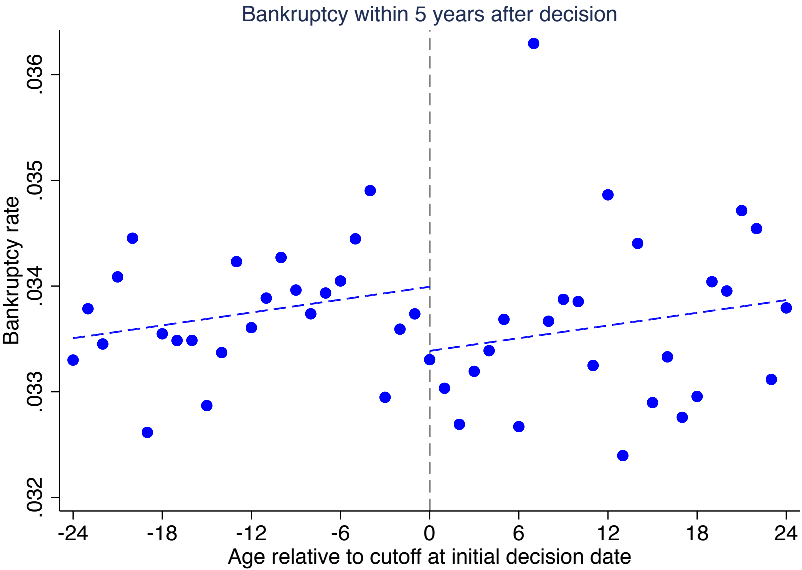
# DGS (2018): combine age 50 and 55 cutoffs



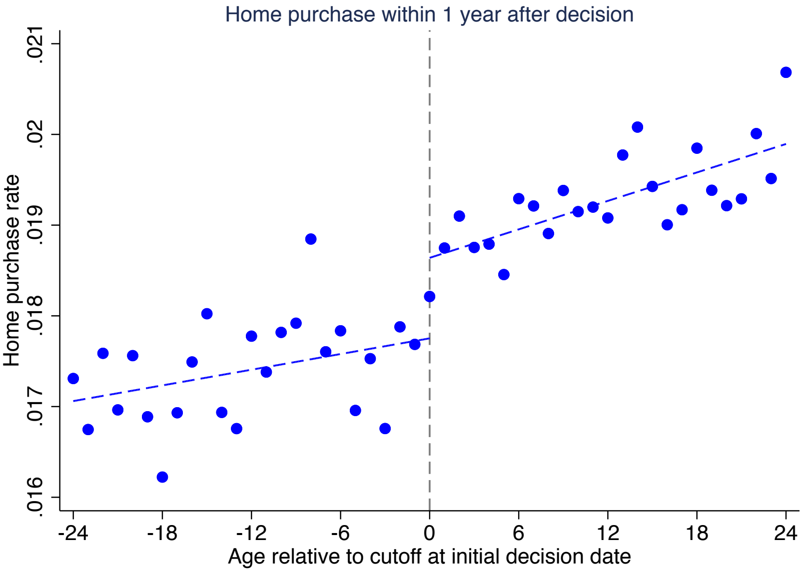
# DGS (2018): risk of foreclosure or sale drops across cutoff



# 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%

# Key questions in the disability policy debate

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2. Are disability benefits going to the right people?

3. How can disability policy improve the outcomes of children receiving disability benefits?

# 2) Are disability benefits going to the right people?

Two critical margins for determining who gets disability benefits:

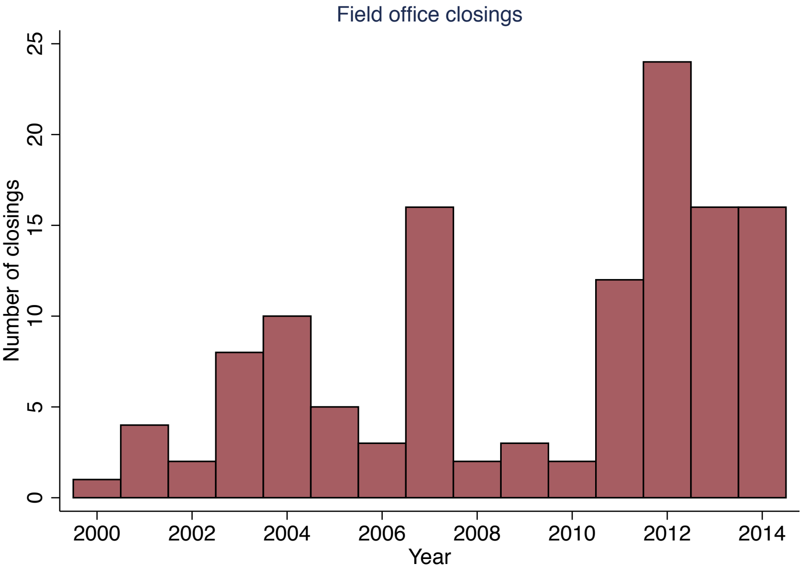
1. Disability determination process
   - Main screening mechanism: 42% of applicants allowed at initial level, 16% allowed on appeal
2. Application process
   - Costs of applying include time out of labor market, time and effort to complete application
   - **Deshpande and Li (2018): higher application costs discourage applicants with moderately severe disabilities and low education levels**

# 2) Are disability benefits going to the right people?

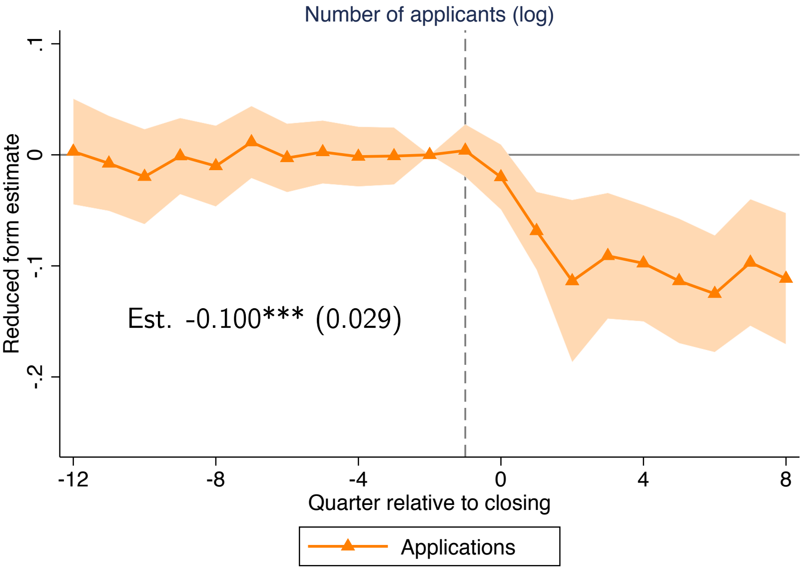
Deshpande and Li (2018), "Who is Screened Out? Application Costs and the Targeting of Disability Programs"

- 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

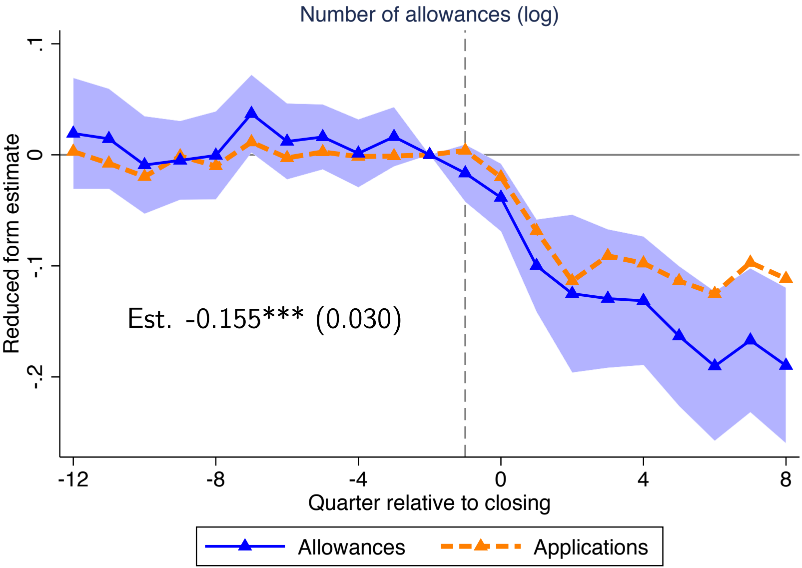
# DL (2018): SSA field office closings increase app costs



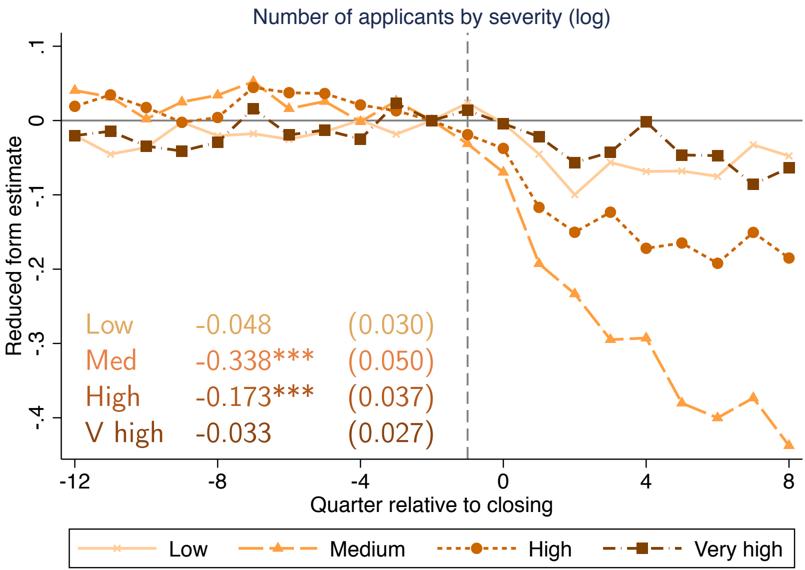
# DL (2018): disability applications fall by 10%



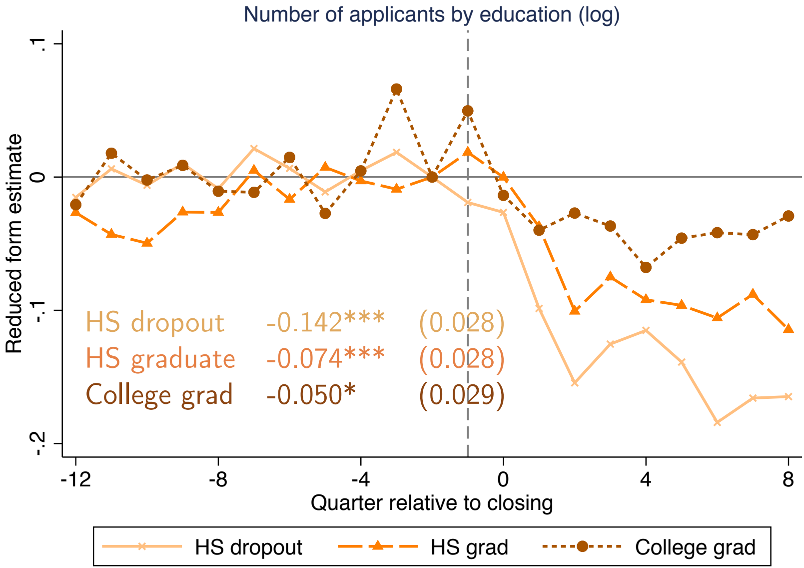
# DL (2018): number of recipients falls by 16%



# 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 low- and medium-severity conditions, lower socioeconomic status

# Key questions in the disability policy debate

1. What are the economic costs and benefits of disability programs?
2. Are disability benefits going to the right people?
3. How can disability policy improve the outcomes of children receiving disability benefits?

# 3) How to improve outcomes of SSI children?

- 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?
  - 40% of SSI children removed at age 18 based on judgement that they can work in adulthood

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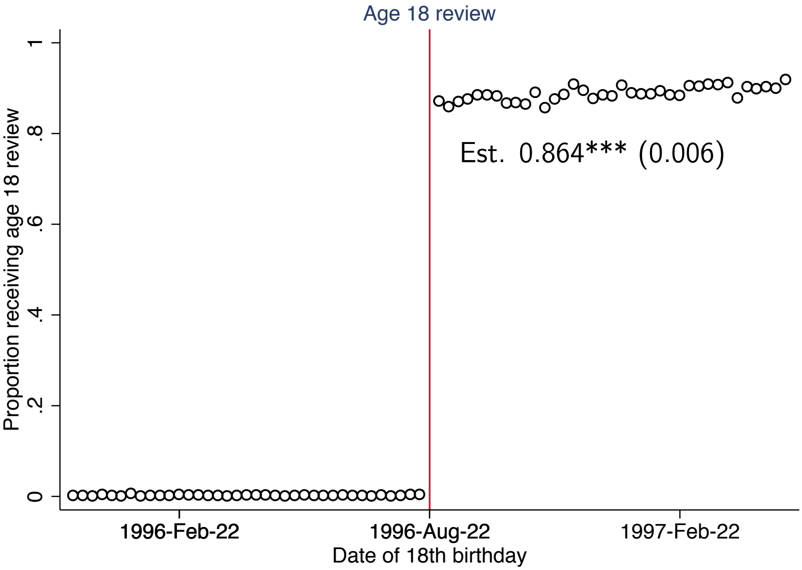
- What is the effect of removing children from SSI at age 18?
  - 40% of SSI children removed at age 18 based on judgement that they can work in adulthood
  - **Deshpande (2016): children removed from SSI at age 18 earn on average just $4,000/year in labor market**

# 3) How to improve outcomes of SSI children?

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

# D (2016): 1996 welfare reform change in age 18 policy



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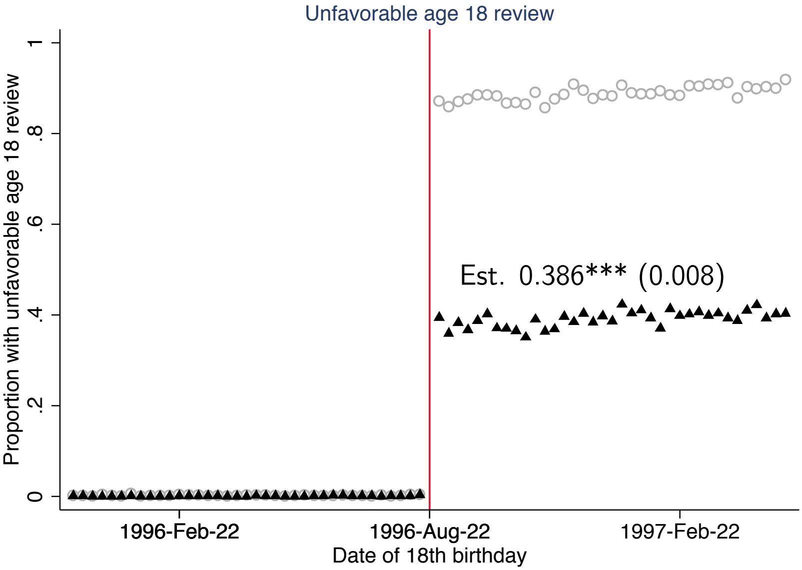
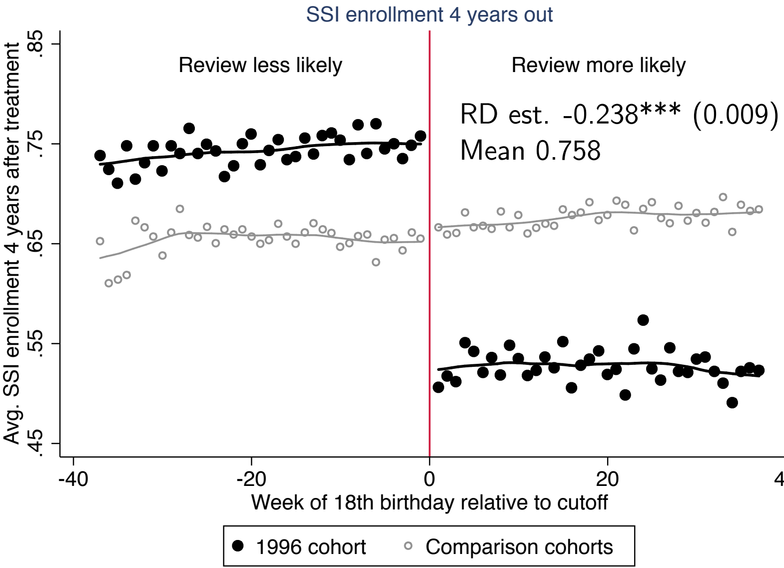
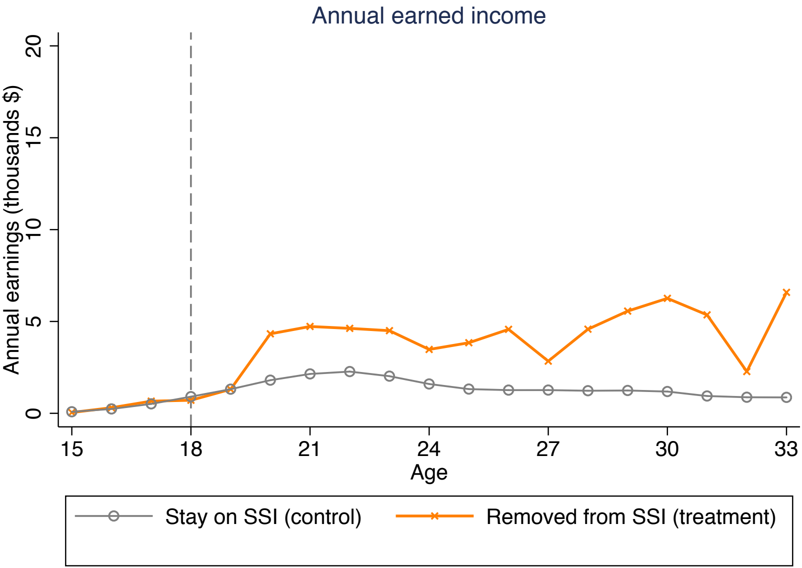


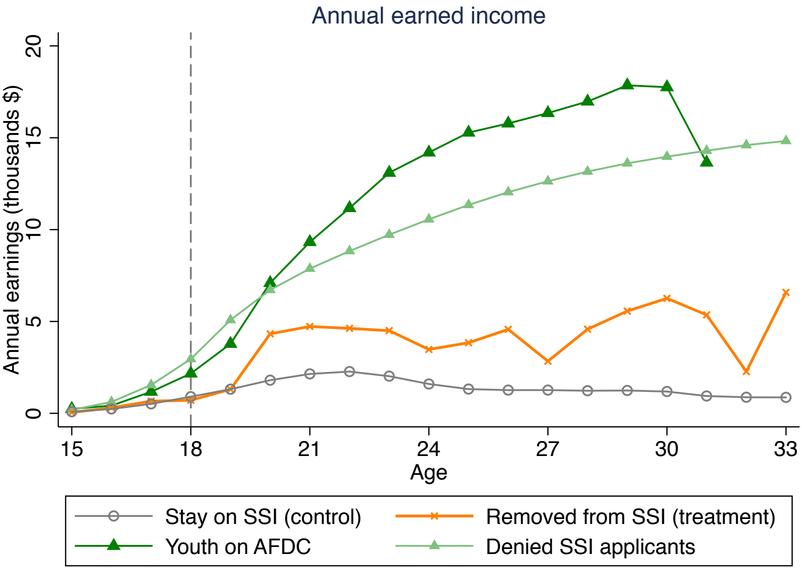
# D (2016): reviewed youth spend less time on SSI



# D (2016): removed earn $4,000 per year in labor market

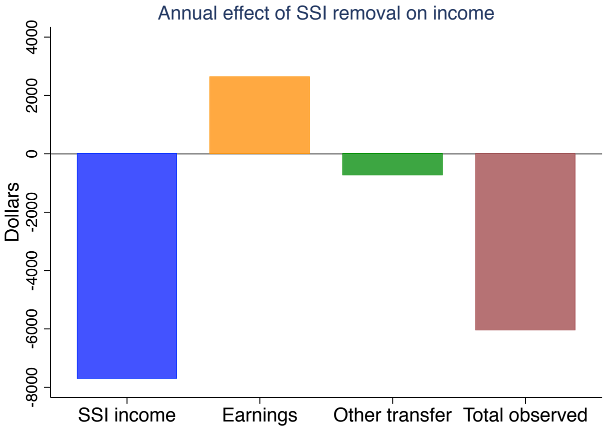


# D (2016): removed earn less than other disadvantaged youth



# D (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



# Summary: key questions in the disability policy debate

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