Evidence on Key Questions in US Disability Policy

Manasi Deshpande

University of Chicago and NBER

National Academy of Social Insurance

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Substantial expansions of SSDI and SSI in recent decades

Number of Disability Benefit Recipients (in thousands)
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 (≈ 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)

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1) What are costs and benefits of disability programs?

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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

Chen and van der Klaauw (2008) use the Survey of Income and Program Participation (SIPP) linked to SSA application and award data to study the effect of receiving disability benefits on labor supply. SSA evaluates disability-program applicants with a five-stage process, described in Figure 4. During the first two stages, examiners deny applicants if they have engaged in substantial gainful activity since onset of their disability (stage 1) or if their impairment is not severe (stage 2). During stage 3, applicants with listed medical impairments are allowed onto the program. During stage 4, applicants are denied if the examiner deems that they could still do the work that they had done before the disability onset.

Figure 4: Stages of the Disability Determination Process

Stage 1
Substantial Gainful Activity?

Stage 2
Severe Impairment?

Stage 3
Listed Medical Impairment?

Stage 4
Capacity for Past Work?

Stage 5
Capacity for Any Work? (Medical-Vocational Grid)

Notes: Figure presents the stages of the Social Security Administration’s disability determination process. In stage 1, disability-program applicants who are earning at substantial gainful activity levels ($1,180 per month in 2018) are denied. In stage 2, applicants who are determined to have a non-severe impairment are denied. In stage 3, applicants whose diagnosis meets the medical listings are allowed. In stage 4, applicants who are determined to have capacity for past work are denied. In stage 5, applicants who are determined to have capacity for any work are denied, while those determined not to have capacity for any work are allowed.

Finally, during stage 5, examiners evaluate whether the applicants who cannot do past work can adjust to another type of work. Examiners divide applicants into cells based on...
DGS (2018): more lenient standards just above 50 and 55
DGS (2018): combine age 50 and 55 cutoffs

![Graph showing allowance rate over months from age 55 at initial decision date.](image)

- **Allowance rate**:
  - 0 to 6 months: Linear increase from 0 to 0.45
  - 6 to 18 months: Steep increase
  - 18 to 24 months: Steep increase

- **Months from age 55 at initial decision date**:
  - Range from -24 to 24 months.
DGS (2018): risk of foreclosure or sale drops across cutoff

Foreclosure or net sale within 3 years after decision
DGS (2018): risk of bankruptcy drops across cutoff

Bankruptcy rate

Bankruptcy within 5 years after decision

Age relative to cutoff at initial decision date

Bankruptcy rate

Age relative to cutoff at initial decision date
DGS (2018): home purchases increase across cutoff

Home purchase within 1 year after decision

Home purchase rate -0.24 -0.18 -0.12 -0.06 0 0.06 0.12 0.18 0.24
Age relative to cutoff at initial decision date

Home purchase rate -0.016 -0.017 -0.018 -0.019 -0.02 -0.021

Age relative to cutoff at initial decision date
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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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%

Reduced form estimate

Quarter relative to closing

Applications

Number of applicants (log)

Est. -0.100*** (0.029)
DL (2018): number of recipients falls by 16%

Est. -0.155*** (0.030)
DL (2018): medium- and high-severity more discouraged

Number of applicants by severity (log)

- Reduced form estimate
  - Low: -0.048 (0.030)
  - Med: -0.338*** (0.050)
  - High: -0.173*** (0.037)
  - V high: -0.033 (0.027)
DL (2018): low-education applicants more discouraged

Reduced form estimate

Quarter relative to closing

Number of applicants by education (log)

HS dropout -0.142*** (0.028)
HS graduate -0.074*** (0.028)
College grad -0.050* (0.029)
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

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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
3) How to improve outcomes of SSI children?

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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

Proportion receiving age 18 review


Date of 18th birthday

Age 18 review

Est. 0.864*** (0.006)
D (2016): 1996 welfare reform change in age 18 policy

Unfavorable age 18 review

Est. $0.386^{***} (0.008)$
D (2016): reviewed youth spend less time on SSI

<table>
<thead>
<tr>
<th>Avg. SSI enrollment 4 years after treatment</th>
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<tr>
<td>Review less likely</td>
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<tr>
<td>Review more likely</td>
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RD est. -0.238*** (0.009)  
Mean 0.758
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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