

Economic Consequences of More Stringent Disability Screening

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Key Findings and Policy Implications

This paper examines the economic consequences of tightening the disability screening process, using evidence from disability applicants who are initially denied benefits in Norway. Because some appeal judges are systematically more lenient than others, one can compare economic outcomes among equivalent applicant groups that have greater or lesser probability of being accepted into the program. The study links several administrative data sources, including social security registers for all DI enrollees from 1967-2010, hearing office data on all applicant appeals from 1989-2011 (with identifiers for individual judges), and extensive socioeconomic data from Statistics Norway on every resident from 1967-2010. The paper finds that:

- There are small but significant effects of stricter disability screening on the probability of working. For example, four years after the court decision, being denied DI at the appeal increases the probability of labor force participation by 16 percentage points. There appear to be two distinct types of denied appellants: a small but non-negligible group who return to work and earn, on average, about \$5,000 per year; and a larger group who instead of working continue to apply for DI and potentially other transfer programs.
- In the year immediately following the disability award decision, accepted applicants receive the economic benefits of DI payments, while rejected applicants do not. Over time, however, many applicants who are initially rejected reapply, and are later accepted into the program, thus receive the economic benefit of DI payments subsequently.
- There is also some program substitution, as individuals who are denied DI enrollment may apply for and get on other transfer programs. However, traditional welfare like social assistance does not appear to be a close substitute to DI participation; instead, participation in vocational training or medical rehabilitation programs seems to be driving the benefit substitution.
- Spouses of denied applicants often respond by working more, but not by enough to compensate for the lost benefits of accepted applicants. These findings show that even in a setting with substantial benefit substitution and significant labor supply response among spouses, stricter screening still reduces substantially the income available for household consumption.

With the significant recent growth in SSDI enrollment and the fiscal challenges it presents, a common policy reform proposal is to tighten the screening process. This paper provides a great deal of new evidence on how tighter screening protocols would affect both the work behavior and disposable income of applicants on the margin of DI eligibility.

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This research was supported by the U.S. Social Security Administration through grant #DRC12000002-02 to the National Bureau of Economic Research as part of the SSA Disability Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.
