Why Do Disability Insurance Claims Increase During Recessions?

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Key Findings and Policy Implications

This paper examines the characteristics of individuals applying for disability benefits and trends in disability and labor market outcomes among older adults from 2000 through 2012. It uses data on people between ages 55 and 61 in the Health and Retirement Study. To focus on the impact of recessions, the data are grouped into the pre-Great Recession years (2003-2008) and the Great Recession years (2009-2012). Among the key findings:

- The increase in DI applications in the Great Recession is entirely due to people with some functional limitations. The rate of DI applications is much higher for people with functional limitations than for those without, and it rises much more in the Great Recession. Comparing those with and without a major health shock, the relationship to recessions is less clear. By demographics, the increase in DI applications is greater among the better educated.

- An obvious follow-up question is what people with functional limitations did when the economy was not in recession. We examine this by comparing the pathways of individuals who develop a functional limitation before versus during the Great Recession. We then trace out the cumulative distribution of work and DI application for these different cohorts as time passes. The results show that the Great Recession sped up DI applications and led to more people cumulatively applying for DI within 4 years of reporting functional limitations.

- There is no matching trend in greater workforce withdrawal for people who experience functional limitations just prior to or during the Great Recession. The share of respondents working full time, working for pay, or in the labor force showed similar trends for all cohorts newly reporting functional limitations. There is little evidence that earnings, at the median, fall more rapidly for the group with functional limitations during the Great Recession compared with other cohorts. Economic conditions and the rise in DI applications are thus temporally related, though labor market outcomes for these older workers are not.

This offers important insights to disability policy in helping to characterize the marginal population that applies for DI benefits during recessions, and highlights the extent to which recessions speed up DI application.
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