

## **Disability Benefits, Consumption Insurance, and Household Labor Supply**

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### Key Findings and Policy Implications

This paper provides empirical evidence on the fiscal costs, consumption benefits and welfare implications of disability insurance receipt in the context of Norway's DI system. It focuses on individuals at the margin of program entry, based on the random allocation of applicants to adjudicators who differ systematically in their leniency for approval. The study uses Norwegian register data covering employment, taxation, benefits receipt, and assets at the person and household level; thus allowing for very comprehensive estimates of how DI affects household labor supply, income, consumption and net payments across all public transfer programs. The paper finds that:

- Denying DI benefits to applicants on the margin of program entry induces an increase in annual earnings of approximately \$6,600, which is about 40 percent of the annual DI transfer benefit denied.
- DI denial lowers average household income and average household consumption by about 15 percent. This equates to a reduction of approximately 60 cents for every dollar in net government spending averted, implying that DI receipt provides partial consumption smoothing.
- There are stark differences in the impact of DI denial on single versus married applicants. For single applicants, each public dollar saved through DI denial reduces household income by nearly 90 cents. But for married applicants, DI denials do not decrease household income or consumption at all. In married households, joint labor supply and benefit substitution entirely offset the loss in DI benefit payments.

While specific to the Norwegian disability insurance program, the comprehensive assessment of the cost of benefits, on the one hand, and the impact on household labor and finances, on the other, is instructive. The study draws particular attention to the differences between single and married households, and how denied households partially or fully offset the denial of DI benefits with earnings or other transfer payments.

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