The Effects of Minimum Wage Increases on Receipt of Disability Benefits

DAYANAND MANOLI

Key Findings and Policy Implications

This paper explores the relationship between minimum wage changes and disability insurance enrollment. It focuses on the period between 2007 and 2009, when the federal minimum wage increased from $5.15 to $7.25. Because an increase in the federal minimum wage has no direct impact in states that already have a higher minimum wage, one can compare DI enrollment changes between those states that were and were not affected. The study relies on aggregated county-level data, and includes variables on state and federal minimum wages (available from the University of Kentucky Population Research Center and the Tax Policy Center), counts of disability beneficiaries by county and year (from SSA), and population counts by county and year (from Census). The paper finds that:

- 31 states were bound by the federal minimum wage in 2006 and 20 states were not bound (i.e., their minimum was already above the federal level). As one would expect, the bound states experienced a sharp rise in the average minimum wage between 2007 and 2009, and remained flat from 2010 onward. In contrast, the average minimum wage for states that were not bound by the federal minimum wage show no sharp changes, only a gradual increase across years (as certain state minimum wages rose).

- Variations in county-level enrollment in disability insurance were relatively stable across the entire 2001-2014 period, even along state borders between bound and unbound states. This is suggestive of evidence that state-level policies, such as state-level minimum wages, may not significantly affect or explain county-level differences in population disability percentages.

- Regression results are suggestive of a possible effect of the increased minimum wage in increasing the percentage of a county’s population receiving disability benefits, but all of the estimates are statistically indistinguishable from zero.

Increasing the minimum wage, and any consequent effects on labor market opportunities, could at least potentially change the incentives for a person on the margins of applying for disability insurance. While the results are inconclusive, this study explores these potential policy implications.

DAYANAND MANOLI is Assistant Professor of Economics at the University of Texas at Austin and an NBER Faculty Research Fellow.

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