Disability Insurance and Life-cycle Labor Supply: Evidence from a Discontinuity in Disability Eligibility

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Key Findings and Policy Implications

One of the structural features of disability insurance policy is the stringency of the health screening process required for benefit eligibility. More relaxed screening criteria may also be applied to applicants at older ages, effectively serving as a bridge retirement. This paper examines the effect on application and enrollment of a policy reform in Austria that raised the age of eligibility for relaxed screening standards from age 55 to age 58. It uses detailed administrative data from the Austrian social security system covering all workers in Austria since 1972. The paper finds that:

- Tightening DI eligibility standards at certain ages reduces DI awards at that age by between 1.5 and 2.7 percentage points (43–54 percent). However, there is an increase in DI awards at later ages, when the eligibility standards for these same individuals are relaxed again. This suggests that many individuals simply postpone program enrollment to the older age eligibility threshold.

- Decompose the reduction in DI awards into a behavioral effect (fewer people applying) and a mechanical effect (fewer awards made among those who apply), we find that both matter. Between one-third and one-half of the reduction in awards (depending on gender) is the result of fewer applications being made. The other one-half to two-thirds of the reduction in awards is the result of more stringent screening among those who do apply.

- Importantly, a one-year increase in the age eligibility threshold for relaxed DI access did not increase the employment of individuals in the affected age groups. Rather, they substituted the loss of disability insurance benefits with either unemployment or sickness insurance benefits.

Because the stringency of health screening that takes place in the disability insurance application process is a key aspect of disability insurance policy and administration, understanding its impact on program application and enrollment is important background in policy evaluation.

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