The Effect of Unconditional Cash Transfers on the Return to Work of Permanently Disabled Workers

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Key Findings and Policy Implications
This paper analyzes the effect of an unconditional cash benefit provided to permanently disabled workers on return to work outcomes. It is based on the permanent partial disability workers’ compensation benefit in Oregon, which vary across impairment categories, and over time as a result of program reforms. The study uses administrative claims data on worker characteristics, disability ratings, and quarterly earnings from the Oregon Workers’ Compensation Division (ORWC) and the Oregon Employment Department (OED). The paper finds that:

- Providing cash benefits to workers with disabilities reduces labor force participation, hours, and earnings, even though the benefits are unconditional – meaning they are paid regardless of how much the individual decides to work.

- The effect of the unconditional benefit on labor force participation is fairly small; the effect on work effort is larger. A 1 percent increase in unconditional disability payment is associated with a reduction in labor force participation of between 0.05 and 0.1 percent, and a reduction in earnings of between 0.4 and 0.8 percent.

One of the biggest questions in disability policy is why do so few Social Security Disability Insurance (SSDI) beneficiaries return to work, and it remains to be shown how many workers could return to work if they received different types of support or a different structure of benefits. This study helps to differentiate between the work disincentive of having unconditional income from a disability program, as compared with its contingency on not working.

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