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Rejection from the Disability Insurance Program and Dependency on Social Support

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INTRODUCTION

Recent studies of the work disincentive effects of the Social Security Disability Insurance (DI) program have shown that many rejected applicants do not return to work. Younger rejected cohorts have much higher rates of work participation but they still experience large and permanent earnings losses compared to pre-application levels. Up to 10 years after the final DI decision, earnings have not rebounded to their pre-disability levels. Little is known, however, about the other sources of income that are used to replace earnings in the long term for these rejected applicants. Since most recommendations to reform the DI program would result in lower acceptance rates, it is important to understand the behavior of rejected workers. More stringent acceptance rates may decrease DI rolls but it may come at the expense of other social support programs as rejected DI applicants search for alternative sources of income replacement.

This paper tracks the social support participation rates of male cohorts rejected from the DI program from 10 years before to 10 years after filing for DI benefits. If an applicant is rejected from the DI program it is likely that their social support dependency will increase if they are searching for alternative non-labor sources to maintain their consumption. By comparing rejected applicants with various control groups, this study provides two sets of parameters which are best viewed as upper bounds on the effect of being rejected from DI on social support participation. The first estimate answers the question: what is the average maximum change in social support participation that occurs when a worker who has applied to the DI program is rejected from DI? The second estimate answers the question: what are the maximum average spillover effects from DI unto other social support programs?

DATA

The data used in this study are constructed by linking the Survey of Income and Program Participation (SIPP) to administrative data from the Social Security Administration. The SIPP provides demographic and social support

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program participation, and the administrative data provide the retrospective and prospective earnings records and disability insurance application history for each participant in the SIPP. These data are used to identify three groups of individuals: DI beneficiaries, rejected DI applicants, and healthy workers. The DI applicants considered in this analysis are workers who have applied to either the Social Security Disability Insurance program or the Supplemental Security Income program.

METHODS

This paper provides estimates of the mean effect of being rejected from the DI program on social support participation rates for males by age cohort. Synthetic cohorts of male workers are tracked from 10 years before their first DI filing date to 10 years after their first filing date. Using difference in difference models, the paper analyzes how the social support participation of rejected DI applicants evolves from baseline to 10 years after the filing decision. The estimates provided are based on two commonly used control groups in the disability literature: healthy workers and DI beneficiaries. While the richness of the administrative data allows for a rich set of controls for pre-filing labor force attachment, it is still likely that rejected applicants differ in terms of healthy status. The estimates are, therefore, best viewed as upper bounds on the effect of being rejected from DI on social support participation.

DISCUSSION

In this paper I explore potential ways to answer the question of how/whether more stringent DI eligibility criteria will affect dependency on social support programs. Obtaining credible estimates or even reliable bounds on this effect is difficult in a setting such as the U.S., where we have had no policy changes to exploit a natural experiment in the DI program over the last 30 years. In light of these circumstances, this paper examines whether rejected applicants are more likely to depend on social support programs post-DI filing compared to two reference groups. In the first analysis, with the healthy worker reference group, the treatment effect identified is the mean effect of applying and being rejected from DI. I present both an average estimate of the difference in social support participation and I show how this average is distributed over time with the treatment effects being largest around the time of filing. I also show that the effects of applying and being rejected from the DI program are permanent. Ten years after filing, young rejected applicants are on average 12 percent more likely to participate in social support programs than healthy workers. Larger effects are found for sub-groups of young workers with lower labor force attachment or who were rejected from DI between 2000 to 2013. In the second analysis, with the DI beneficiary reference group, the treatment effect identified is an estimate of the spillover effects from DI unto other social support programs. Spillover estimates are at most 7 percent. Similar analyses were conducted for older male workers and the effects were smaller in magnitude for all estimates.

FINDINGS

The analysis in paper suggests that policies that tighten eligibility criteria — and increase the number of rejected applicants — have the potential to impact other social support programs. This study shows that even for workers who are rejected, the act of applying seems to make them more likely to participate in social support programs. Policies that provide incentives to employers to intervene early and strengthen incentives for people with disabilities to continue to work would be one type of intervention that could be considered.

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