ECONOMIC FINDING

Disability and Distress: The Effect of Disability Programs on Financial Outcomes

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Applicants for disability payments are often in financial distress, with rates of foreclosure, eviction, and bankruptcy higher for disability applicants than for others. Disability programs reduce financial distress, and a reduction in application wait times could improve the financial well-being of applicants.

More than 6 percent of working age adults receive SSDI or SSI disability payments; that aggregate number has grown steadily over the last 30 years, roughly tripling to 10 million individuals.1 Given the size and growth of this demographic, it is imperative that policymakers understand the impact of disability programs and the degree to which they influence recipients' financial standing and quality of life. For example, the authors cite anecdotal evidence that shows how some landlords prefer SSDI/SSI recipients because of their steady source of income, and how such income proves more reliable for some recipients than most available jobs.

But anecdotes and theoretical assumptions are not enough to assess whether these programs are actually

Figure 1 · Trends in Adverse Financial Events Around Disability Application and Decision Dates

Notes: The decision-event-time coefficients (right-hand side of this figure) suggest a downward trend in bankruptcies, foreclosures, and evictions for both allowed and denied applicants preceding the decision, controlling for application date. After the initial decision, bankruptcy rates continue falling for the denied, but they decline further for the allowed. This is suggestive evidence that allowance onto disability programs reduces the risk of bankruptcy relative to denials. Please see full paper for full description.

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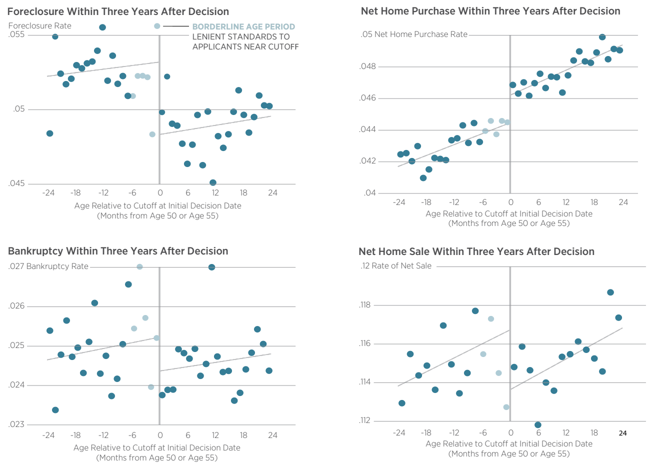
Figure 2 · Bankruptcy, Foreclosure, Net Home-Sale, and Net Home-Purchase Rates Relative to Applicant Age



Notes: Figures are based on quantile spaced binning, allowing each bin to have the same number of observations. Dashed lines are fitted using a "donut" strategy, excluding the light blue cirlces that correspond to the borderline age period. The bankruptcy sample consists of disability-program applicants who reach step 5 of the disability determination process and who have an initial decision date in 2000– 2009. The foreclosure sample consists of disability-program applicants who appear in the deeds records (homeowners), who reach step 5 of the disability determination process, and who have an initial decision date in 2005–2014. The "home-sale sample" and "home-purchase sample" consist of disability-program applicants who appear in the deeds records (homeowners), who reach step 5 of the disability determination process, and who have an initial decision date in 2000–2014. Each sample excludes ZIP Codes of residence at application that have an average of fewer than fifteen recorded events per year during the corresponding period. Samples involving "foreclosure" and "bankruptcy" outcomes exclude ZIP Codes of residence at application that have an average of fewer than five recorded events per year during the corresponding period; samples involving "net home sale" and "net home purchase" outcomes exclude ZIP Codes of residence at application that have an average of fewer than fifteen recorded events per year during the corresponding period.

operating as intended. To address this evidence gap, the authors constructed what they believe is the first quasi-experimental study of the effects of US disability programs on outcomes that look beyond labor supply and mortality data. The authors built a new dataset that links administrative records from the SSDI and SSI programs to records on bankruptcy, foreclosure, eviction, home purchases, and home sales. In doing so, they present a first look at recipients' financial well-being. These disruptive financial events occur irregularly but they have an outsized negative impact on recipients' financial status and give key insights into fluctuations in recipients' consumption.

Analysis of their dataset reveals three key facts:

- Applicants for disability programs experience bankruptcy, foreclosure, and eviction at rates higher than the general population. From this fact, the authors surmise that applicants likely experience higher rates of financial distress than others.
- Adverse financial events increase in the time leading to the application date, where they peak in occurrence. This finding suggests that applicants apply for disability benefits when they are in a state of financial distress.
- Relatedly, negative financial events occur less frequently for those who apply for benefits, even if they are rejected for disability payments, suggesting that such applicants find other means to address their financial needs.

The second and third facts show the importance of application dates and what they reveal about the state of financial distress faced by applicants. What are the causal effects of disability application on the financial outcomes of recipients? According to the authors' analysis of the data, applicants who are allowed into the program are 30 percent less likely to experience bankruptcy over the following three years, 30 percent less likely to experience home foreclosure, and 20 percent are less likely to have to sell their home. Finally, as further evidence for the positive effects of disability application, the authors reveal that allowance into disability programs results in a 20 percent increase in home purchases.

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