ECONOMIC FINDING

Beyond Health: Non-Health Risk and The Value of Disability Insurance

Manasi Deshpande, Assistant Professor in Economics, UChicago; and Lee Lockwood, University of Virginia

Benefits to less-severe recipients of disability payments have an annual surplus value (insurance benefit less efficiency cost) over cost-equivalent tax cuts of $7,700 per recipient, about three fourths that of benefits to more-severe recipients ($9,900).

In the United States, the Social Security Disability Insurance and Supplemental Security Income programs together provide access to health insurance and $200 billion annually in cash benefits to nearly 13 million Americans, primarily as assistance for people who cannot work because of severe health conditions. Some have attributed the expansion of US disability programs at least in part to non-health factors like stagnating wages, along with widespread concern that providing benefits to individuals without severe health conditions dilutes the programs' value.

This issue raises an important question: What is the overall insurance value of US disability programs, including value from insuring non-health risk? To address this question, the authors quantify the extent to which these programs

Figure 1 · Less-Severe US Disability Program (USDP) Recipients Are Similar to or Worse off than More Severe Recipients on Non-Health Measures

Notes: Figures 2a, 2c, and 2d present data from the Panel Study of Income Dynamics (PSID). In all three PSID figures, "more-severe" is defined as self-reporting that a health condition limits "a lot" the amount of work one can do (vs. "somewhat," "just a little," or "not at all" [or no condition]). Figure 2b presents rates of adverse financial events in the three years before receiving USDP for individuals who receive USDP benefits in SSA administrative data. "More-severe" in Figure 2b indicates recipients allowed at the initial state DDS level, and "less-severe" indicates recipients allowed upon appeal. Refer to the working paper for more.

insure different risks by comparing disability recipients and non-recipients along a wide variety of health and non-health dimensions, including consumption, adverse events like job loss, and resources available to cope with adverse events, as well as other comparisons.

The authors' approach allows them to go "beyond health" when determining the value of such programs. While health is likely a strong indicator of the value of receiving disability benefits, it is not a perfect indicator because individuals face major non-health risks as well, including job loss, productivity shocks, and changes in family structure. To the extent that a particular risk is not completely insured by other means, disability insurance potentially insures or exacerbates that risk, depending on whether people receive disability benefits.

The authors perform a series of measurements and find that less-severe disability recipients are on average much worse off than less-severe non-recipients, and by many non-health measures are even worse off than more-severe recipients. For example, they find that prior to receiving disability benefits, less-severe recipients are 40% more likely to have experienced a mass layoff than more-severe recipients, 19% more likely to have experienced a foreclosure, and 23% more likely to have experienced an eviction.

Further, the authors show that the value of disability benefits exceeds that of cost-equivalent tax cuts by 64%, creating a surplus worth $8,700 of government revenue per recipient per year. Moreover, they find that the high value of US disability programs is in part because of, not despite, mismatches with respect to health. They estimate that benefits to less-severe recipients create a value (insurance benefit less distortion cost) over cost-equivalent tax cuts of $7,700 per recipient per year, about three-fourths that of benefits to more-severe recipients ($9,900).

Bottom line: Benefits to less-severe recipients do not decrease the value of US disability programs; rather, they increase it considerably, accounting for about half of the total value.

The authors draw an important conclusion from their work—no program exists in a vacuum, Instead, a program's effects reflect the diversity of risks in the economy, how well insured those risks are by other programs and institutions, and how its tags and screens select on those risks.

In this case, US disability programs insure risks well beyond health, and this "incidental" role is central to their overall value. Other programs might also provide similar returns.