RESEARCH BRIEF

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

Based on BFI Working Paper No. 2019-32, "Disability and Distress: The Effect of Disability Programs on Financial Outcomes," by Manasi Deshpande, UChicago assistant professor in economics; Tal Gross, associate professor, Questrom School of Business, Boston University; and Yalun Su, PhD student at UChicago's Harris Public Policy

KEY TAKEAWAYS

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

If you had the unfortunate experience of acquiring a disability that hindered your ability to work and that suddenly put you in financial distress, you might be grateful for government-provided disability payments. Such income might do more than cover monthly living expenses, but may also keep you from such traumatic financial events as eviction, foreclosure, or bankruptcy.

The benefits of disability payments are easy to intuit when thinking hypothetically about the US government's Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs. Those benefits, though, are much harder to calculate in practice. For years, economists and other researchers have focused on the cost side of the ledger, especially regarding the supply of labor. For example, some of this research suggests that benefits can reduce the incentive to work among the marginally disabled.

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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.

However, focusing mainly on costs can give a distorted view of the efficacy of such programs and may encourage policymakers to draw false conclusions. New research reveals that disability programs have a real—and measurable—positive impact on the financial outcomes of recipients. In a first-of-its-kind study, UChicago assistant professor Manasi Deshpande, Boston University associate professor Tal Gross, and UChicago PhD student Yalun Su find that disability payments substantially reduce the likelihood of adverse financial events by as much as 30 percent for bankruptcy and foreclosure; coupled with reduced home sale and eviction rates, recipients actually increase home purchases within three years of applying for disability.

Application dates and financial distress

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 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.

[1] ssa.gov/policy/docs/statcomps/di_asr/2016/sect01.html

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.

Finally, the authors calculate the welfare implications of these reductions in financial distress for recipients. There are also positive spillovers when foreclosure is avoided, say, by the improvement in neighboring property values.

> What are the causal effects of disability application on the financial outcomes of recipients? According to the authors' analysis of the data, the effects are significant and positive. 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.

Conclusion

This research offers the first evidence that people who apply for SSDI or SSI disability payments are often in a precarious financial position; the disruption of regular income can quickly throw them into financial distress and bring them face-to-face with foreclosure, eviction, or bankruptcy. This is reflected in the timing of individuals' applications, as well as the financial resolution that often follows an application, even for those who are denied payments.

Using a novel dataset, the authors find that the welfare effects for reducing financial distress among disability applicants encompass more than just the gains to consumption to include, more importantly, the gains from avoiding major negative events.

Given that many applicants for disability programs are perched on the edge of financial distress, one takeaway for policymakers is that a reduction in application wait times could benefit applicants, as well as provide positive spillovers. One existing argument holds the opposite view, and says that long approval times reduce administrative costs and more accurately target recipients. However, the authors' find a reassessment of that presumption is in order and that optimal wait times need to incorporate the benefits that result from reducing the occurrence of major negative financial events.

CLOSING TAKEAWAY

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READ THE WORKING PAPER

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