Induced Entry in Disability Insurance: Evidence from Canada

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Focal and Program Areas:

The proposed research addresses the focal area **induced entry** by estimating the effect of changes in the level of disability insurance (DI) benefits and the allowable earnings amount on DI claiming. The project also offers lessons from **other programs (U.S. and international) serving similar populations** by studying this issue in the context of Canada.

Project Abstract:

A key component for determining the optimal structure of DI programs is the elasticity of DI claiming with respect to the generosity of the DI program. Two important parameters that determine DI generosity are (i) the level of benefits and (ii) the amount of earnings DI recipients can earn before benefits are deducted. This project will estimate the impact of changes in these two parameters on DI claiming and labor supply in the context of Canada.

Studying the Canadian case has two key advantages. First, we can use the Longitudinal Administrative Database (LAD) which contains detailed information about demographics, earnings, income, taxes, transfers, and savings of 20 percent of individuals (and their spouse) filing an income tax return. Importantly for our context, the LAD also contains information on the receipt of DI benefits. Second, we can exploit exogenous variation in both the amount of DI benefits and the allowable earnings level that is generated by two pension reforms. The 1987 reform increased the replacement rate of DI benefits by about 36 percent, while the 2001 reform increased the allowable earnings level[1]. Importantly, these reforms were not implemented in Quebec – the second largest province of Canada – which runs its own DI program. We can therefore apply a difference-in-differences estimation approach, comparing the change in an outcome variable, for example DI claiming, in the rest of Canada with the change in the outcome variable in Quebec before and after the implementation of the reform. Additionally, we study whether the earnings distribution of DI recipients exhibits bunching at the pre- and post-reform allowable earnings level. The amount of bunching allows us to estimate DI recipients' labor supply elasticity, a key factor for assessing the effectiveness of return-to-work policies.

References

Campolieti, Michele & Riddell, Chris, 2012. Disability policy and the labor market: Evidence from a natural experiment in Canada, 1998–2006, Journal of Public Economics, vol. 96(3),

[1] Previous studies by Gruber (2000) and Campolieti and Riddel (2012) examine the 1987 and 2001 reform, respectively. Our proposal adds to Gruber (2000) by estimating the effect of the level of DI benefits on DI claiming and not only labor supply. Moreover, we will use administrative data with large sample sizes, rather than survey data, allowing us to examine effect heterogeneity across subgroups. Our proposal adds to Campolieti and Riddel (2012) by studying the effect on earnings and household labor supply.

pages 306-316.

Gruber, Jonathan (2000), Disability Insurance Benefits and Labor Supply, Journal of Political Economy, vol. 108. no. 6, 2000.