Disability Programs as Consumption Insurance

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While the SSDI and SSI programs aim to insure the risk of work-limiting disabilities, they might also help insure other risks as well, including risk from "behind the veil of ignorance." Deshpande, Gross, and Su (2019) find that disability applicants apply for these programs when they are in peak financial distress, and that disability benefits reduce financial distress substantially. These results suggest that disability programs might insure a broader set of risks and have larger welfare effects than previously appreciated.

In this paper, we will use a combination of survey data and administrative data to quantify the welfare effects of disability programs accounting for the insurance they provide against multiple types of shocks. Using the PSID, SSA-SIPP-linked data, and SSA administrative data, we will first characterize and compare the marginal utility (i.e., value of an additional dollar of consumption) of disability recipients, applicants, and non-applicants. Based on these measures of marginal utility, we will then quantify the welfare effects of disability programs under three scenarios: 1) considering insurance against work-limiting disabilities only, 2) considering insurance against other risks during life as well, and 3) considering insurance against risk from behind the veil of ignorance as well. We will also use variation in application costs to study the marginal-utility-related characteristics of individuals screened into or out of applying for benefits on the margin.

Relevance to Social Security: This project relates to the DI and SSI program areas and to the "trends in disability" focal area, and especially understanding "the connection between health and disability." We will measure the extent to which disability programs play a role in insuring risks beyond work-limiting disability. Disability programs could serve this role either because such shocks are correlated with disability shocks or because they are correlated with other factors considered in the determination process, such as the vocational grid. This project also aligns with focal area "measuring sources of income" for disability recipients. In particular, we will document the outside resources available to individuals to smooth consumption in the absence of disability benefits, including spousal earnings, homeownership, and other transfer programs.