Title: The Long-Term Externalities of Short-Term Disability Insurance

Michael Stepner

March 27, 2020

One-Year Project Proposal: NBER Retirement and Disability Research Center

Abstract

This project examines the effect of employer-provided short-term disability insurance (DI) on public long-term disability insurance take-up. Expanding private short-term DI has been touted as a way to lower Social Security DI expenditures by giving employers a financial incentive to provide workplace accommodations. But private short-term DI can also raise public long-term DI costs, since short-term DI generates moral hazard by providing benefits during the waiting period for long-term DI. The net effect remains theoretically ambiguous, and must be measured empirically.

This project will provide quasi-experimental evidence quantifying the externality from employer-provided short-term DI onto public long-term DI. Measuring this externality requires two ingredients: data linking private short-term DI coverage with public long-term DI take-up, and a research design generating variation in short-term DI coverage that is exogenous from long-term DI risk. Prior work using US survey data has been limited along both dimensions and yielded inconclusive results, leading its authors to conclude that new data is required (Autor et al 2013). I have constructed a new dataset of linked Canadian administrative tax and benefits records to study quasi-experimental variation in short-term DI coverage generated by firms starting or ending their private plans. These administrative records allow me to observe private short-term DI coverage linked to public long-term DI take-up for the full population because Canada offers a payroll tax rebate for employer-provided short-term DI that is unique within the OECD.

Focal Areas

The evidence generated by this analysis directly addresses the SSA focal areas on trends in disability and informing long-term projections and models. Only five states in the U.S. currently provide universal short-term DI and only 25% of workers outside those states have short-term DI coverage. Additional state governments mandating universal short-term DI or large employers expanding their short-term DI coverage could impose a substantial fiscal externality on the Social Security Administration trust fund. These concerns about cross-program interactions are particularly timely as the COVID-19 pandemic is generating immense pressure on employers and governments to expand paid sick leave and insure workers against short-term disability.