Abstract

This project will comprehensively evaluate a fundamental reform of the public Disability Insurance (DI) system in Germany. The findings will offer important insights and lessons for possible reforms of the U.S. disability insurance system. In Germany, effective 2001, cohorts born after 1960 were no longer eligible for "occupational DI." Occupational DI (ODI) implies benefit eligibility if employees are no longer able to work in their *previous* occupation. For the affected "notch cohorts", the post 2001 DI eligibility rules require that their reduced work capacity must prevent them from working in *any* job. Using administrative statutory pension insurance data, we will first show in a regression discontinuity framework that the reform significantly reduced the inflow of new DI beneficiaries. We will also assess what alternative social insurance routes people may have taken. We will then validate these findings using representative SOEP household panel data comprised of the entire underlying population and not just DI inflows. These data also allow us to estimate labor supply effects. Next, we leverage unique representative survey data on old-age saving motives, health and what is typically private unobserved information. Our preliminary findings do not provide evidence that notch cohorts purchased individual *private* ODI policies at higher rates to compensate for the reduced generosity in the public DI system. As German private ODI policies are individually underwritten and not guaranteed issue, we find advantageous selection into the relatively big private ODI market in Germany. Sick individuals are significantly less likely to be covered, as are individuals who expect to die young due to bad health and an unhealthy lifestyle. Liquidity constraint households also purchase private ODI at significantly lower rates. After having quantified private ODI demand, we categorize uninsured ODI households. The final part of the project will use several waves of German consumption data to estimate the impact of the public DI reform on household consumption. We will use the standard Baily-Chetty optimal social insurance framework to assess whether post-reform benefit generosity is too low.

Keywords: occupational disability insurance, social safety net, private disability insurance, advantageous selection, private information, labor supply, well-being, health shocks, consumption, redistribution

JEL Codes: H53, H55, I10, I14, I18, J14, J21, J26

Contribution to SSA focal areas:

- Trends in Disability
- Work in the Modern Economy
- Disabled Beneficiaries and Return-to-Work
- Disparities by Race and Ethnicity