

The Employment Effects of Social Security Disability Insurance in the Past 25 Years: A Study of Rejected Applicants Using Administrative Data

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Policy Abstract

To what extent would individuals receiving federal Social Security Disability Insurance (DI) be employed if DI were unavailable? In a widely cited 1989 study, Bound considered this question by looking at the subsequent employment of rejected DI applicants, which he interpreted as an upper bound for what new DI recipients might have done in the absence of the program. In this paper, we replicate and extend Bound's analysis. Our results confirm Bound's finding that rejected older male applicants have low employment rates. We show this result is stable over time, similar among women, and consistent within more narrowly defined impairment, industry, and earnings groups. However, we also find that younger rejected applicants have substantial employment after application. To what extent this translates into potential employment for new beneficiaries depends on which group among them is considered "on the margin" of receiving DI. If we use initially rejected applicants, who are awarded benefits after subsequent review – a large and growing fraction of new beneficiaries – the resulting counterfactual employment rate for younger applicants is low, too. We also find that rejected applicants bear signs of economically induced application to the program. DI appears to induce a growing number of less successful workers to apply, an important fraction of which ends up without benefits and non-employed.

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