Why Does Disability Insurance Enrollment Increase During Recessions? Evidence from Medicare

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Key Findings and Policy Implications

This paper examines the causal factors driving SSDI’s increased enrollment during economic downturns. It considers the extent to which increased enrollment is a result of recession-driven changes in health, and the extent to which it is a result of a higher relative value of SSDI; specifically, that lower earnings prospects during recessions make SSDI relatively more appealing. The study uses Medicare claims data for all SSDI beneficiaries joining Medicare from 1993 to 2013. The paper finds that:

- Consistent with direct measures of SSDI enrollment, there is a strong, countercyclical relationship between employment conditions and Medicare entry among beneficiaries under age 65. Each percentage point increase in unemployment increases the size of the under-65 cohort entering Medicare that year by around 45,000 individuals.

- The under-65 beneficiaries who enter Medicare during recessions have lower average Medicare spending, suggesting that the incremental applicants are healthier than those who would have applied regardless of economic conditions. Each percentage point increase in unemployment lowers the average health care spending of new enrollees by about $87 annually.

- A discontinuity in age in the SSDI determination process is used to differentiate between the health and opportunity cost drivers of these recession-driven effects on Medicare spending. These estimates suggest that about three-quarters of the $87 decrease in average spending is due to reductions in the opportunity cost of joining SSDI, while the remaining one-quarter is due to improvements in health.

The importance of the findings is that they largely rule out the hypothesis that increased SSDI enrollment during recessions is driven by recession-induced health declines. One channel through which health improvements could occur is if recessions induce individuals to apply for SSDI and gain access to health insurance sooner than they would have otherwise, helping individuals to manage chronic health conditions before they worsen.

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