

Induced Entry in Disability Insurance: Evidence from Canada

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Key Findings and Policy Implications

This paper analyzes the effect on DI program entry of two commonly reevaluated DI policy variables: benefit generosity and financial work incentives for DI recipients. The study is based on DI program reforms implemented in Canada: specifically, a 1987 reform that increased the income replacement rate of some DI recipients by about 36 percent, and a 2001 reform that allowed some DI recipients to earn wages from work up to a defined annual threshold without sacrificing their DI benefits. The study uses administrative tax records from 20 percent of all Canadians. It finds that:

- More generous DI benefits induce substantial entry into the program. The estimates suggest that a \$1,000 Canadian dollar increase in benefit generosity increases average DI take up by 0.126 percentage points, implying a DI take up elasticity with respect to benefits of 0.67.
- The introduction of an allowed earnings threshold has a quantitatively minimal effect on entry into DI. The policy does, however, lead some DI recipients to return to work; and among those who choose to work, there is a sharp bunching at the earnings allowance threshold.

Disability insurance policy variables implicitly affect program application, enrollment, and cost. This study provides insights on the enrollment implications of two key DI program provisions that policymakers frequently reevaluate: benefit generosity and work incentives among beneficiaries. Both are found to have impacts on behavior, one concentrated on the likelihood of initial enrollment in the program, and the other concentrated on labor market behavior once enrolled.

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