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Beyond Health: Non-Health Risk and the Value of Disability Insurance

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Key Findings and Policy Implications

This paper examines the overall insurance value of U.S. disability programs, including their role in insuring non-health risks, such as job loss, or a lack of resources to cope with adverse life events. It uses a combination of SSA administrative data and survey data from the Panel Study of Income Dynamics. The paper finds that:

- Recipients of disability insurance benefits with less severe health conditions are much more likely to have experienced a wide variety of non-health shocks than either non-recipients, or recipients with more severe health conditions.

- Prior to receiving benefits, disability insurance recipients with less severe health conditions are 40% more likely to have experienced a mass layoff than recipients with more severe conditions. They are 19% more likely to have experienced a foreclosure, and 23% more likely to have experienced an eviction.

- Selection into disability receipt on the basis of non-health shocks is so strong among individuals with less severe health conditions that by many measures, recipients with less severe health conditions are worse off than those with more severe conditions.

- Under baseline assumptions, benefits paid to recipients with less severe health conditions have an annual surplus value (insurance benefit less efficiency cost) over cost-equivalent tax cuts of $7,700 per recipient. The annual surplus value of disability benefits for recipients with more severe health conditions is $9,900.

- Insurance against non-health risk accounts for about one-half of the insurance value of U.S. disability programs.

There is a contentious policy debate about whether awarding disability insurance benefits to individuals with less severe health conditions is diluting the value of disability programs. These results suggest that in the case of U.S. disability programs, such benefits are not diluting value but enhancing it.

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