How Does the Income Effect Vary with Skill Level for Workers with Disabilities? Evidence from Workers' Compensation

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Key Findings and Policy Implications

This paper examines how the size of one-time, or short-duration disability benefit awards affect the likelihood that beneficiaries later return to work, and whether the effect varies by the skill level of the worker. The study is based on a policy reform affecting permanent partial disability (PPD) benefits in the Oregon workers' compensation program, which changed benefit amounts for nearly every new claimant. The paper uses several administrative datasets maintained by the state of Oregon. It finds that:

- Under the Oregon program, unskilled and skilled workers receive similar average PPD benefits; $8,991 for unskilled workers and $8,832 for skilled workers. Thus, a $1,000 increase in benefits is equivalent to an 11% increase in benefits for both groups.

- Unskilled workers are more responsive to benefit levels than skilled workers for a range of return-to-work outcomes including employment, earnings, and weekly hours. Focusing on the employment impact, a $1,000 increase in PPD benefits results in a 0.35 percent decline in the probability of return-to-work for unskilled workers, compared to a 0.15 percent decline in the probability of return-to-work for skilled workers.

- The effects of the benefit change on employment, earnings and hours are similar in both percentage and elasticity terms. This suggests that the main response is to the likelihood of returning to work, rather than the amount of time spent working by those who do return to work.

PPD benefits in Oregon are paid as either a lump sum, or as monthly installments spread over the first few months after claim closure; and they are paid regardless of future labor supply. So, there is no disincentive to work after receiving the benefit. The fact that we find a persistent labor supply response even two years following the claim is striking.

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