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Unemployment Insurance and Disability Insurance in the Great Recession

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The share of American workers receiving benefits under the Social Security Disability Insurance (SSDI) program has more than doubled since 1990. The growth rate of SSDI rolls accelerated during the recessions of the early 1990s and early 2000s, and perhaps during the 2007-2009 recession as well. Neither the strong countercyclical pattern during earlier recessions, nor its dampening in the last decade is well understood.

One explanation is that employers' willingness to hire individuals with moderate work-limiting disabilities may vary with the tightness of the labor market. Other potential explanations derive from the incentives to the worker. For example, consider a worker with a moderate health problem (e.g., back pain) that makes work unpleasant but not impossible. In principle, this worker should not be eligible for SSDI. But if he applies, a generous medical examiner might award him benefits. His decision to apply will depend in part on the generosity of SSDI benefits relative to the market wage that he can command. If a recession reduces his market wage, he may be tipped over into SSDI application.

A related hypothesis is that workers use SSDI to insure against employment losses rather than wage declines. Displaced workers can generally claim unemployment insurance (UI) benefits. But UI is time-limited and recessions are associated with sharp increases in unemployment duration. Workers who exhaust their UI benefits but who are still unable to find work may turn to SSDI for ongoing income support. But little is known about the degree to which SSDI is in fact used in this way.

This paper uses data from the Great Recession and its aftermath to investigate the relationship between UI exhaustion and SSDI applications. Our analysis takes advantage of a great deal of variability of UI benefit durations during the recent economic downturn. Potential benefits reached as high as 99 weeks in 2009, remained high for several years, then declined substantially in 2012. At each point in this period there was substantial cross-sectional variation, due to variations across states and to discontinuous triggers in federal programs. This meant that workers laid off at roughly the same time were eligible for very different UI durations depending on the location and timing of the layoff. Thus UI exhaustion rates varied substantially over time and across states. We use this variation to identify the effect of UI exhaustion on SSDI usage, using time-series analyses, state-by-month panels, event studies of weekly SSDI applications surrounding UI extensions, and microdata on unemployed workers to isolate different components of the variation in exhaustion timing.

None of these analyses indicate a meaningful relationship between UI exhaustion and DI application. Although we cannot rule out small effects, all of the analyses indicate that the elasticity of DI

applications with respect to UI exhaustion is 0.02 or smaller, far too small to account for the cyclical pattern of DI application or to contribute meaningfully to the cost-benefit analysis of UI extensions.

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