

Understanding the Impact of Cash on Hand on the Labor Supply of Disabled Workers

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Key Findings and Policy Implications

This paper examines whether there is a difference in the subsequent labor market behavior of workers who are awarded a lump-sum workers' compensation claim, as compared with a stream of monthly installments. It focuses on the workers' compensation program in Oregon, where permanent partial disability (PPD) claims of less than \$6,000 are paid as a lump-sum, while claims of \$6,000 or more default to monthly installments. The study uses administrative data from the workers' compensation and employment divisions of Oregon state government.

- The study finds no statistically significant evidence that the default assignment to receive the PPD benefit as a lump sum, versus an installment stream, affects subsequent labor supply.
- Because the findings are specific to the \$6,000 threshold, it is possible that providing larger benefits in a lump sum could have a greater impact on workers' labor supply decisions; this is a question for continuing study.

Some workers almost certainly experience cash constraints following the onset of a disabling health condition; thus, it seems possible that a lump-sum payment might improve beneficiary outcomes in the period following disability onset. However, this study found no evidence of a labor supply effect, at least at the levels of the lump-sum payment provided in the workers' compensation program in Oregon.

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