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DESIGNING DISABILITY INSURANCE REFORMS: TIGHTENING ELIGIBILITY RULES OR REDUCING BENEFITS?

ABSTRACT

This paper develops a sufficient statistics framework for analyzing the welfare effects of disability insurance (DI). We derive social-optimality conditions for the two main DI policy parameters: (i) eligibility rules and (ii) benefit levels. Applying this framework to two restrictive DI reforms in Austria, we find that tighter DI eligibility rules triggered higher fiscal cost savings and lower insurance losses. Hence, tighter DI eligibility rules dominate DI benefit reductions in scaling back the Austrian DI system.

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