

DISABILITY BENEFIT GENEROSITY AND LABOR FORCE WITHDRAWAL

PUBLICATION FACTS

JOURNAL

JOURNAL OF PUBLIC
ECONOMICS

PUBLICATION DATE

2016

VOLUME/ISSUE

143

PAGES

49-63

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ABSTRACT

A key component for estimating the optimal size and structure of disability insurance (DI) programs is the elasticity of DI claiming with respect to benefit generosity. Yet, in many countries, including the United States, all workers face identical benefit schedules, which are a function of one's labor market history, making it difficult to separate the effect of the benefit level from the effect of unobserved preferences for work on individuals' claiming decisions. To circumvent this problem, we exploit exogenous variation in DI benefits in Austria arising from several reforms to its DI and old age pension system in the 1990s and 2000s. We use comprehensive administrative social security records data on the universe of Austrian workers to compute benefit levels under six different regimes, allowing us to identify and precisely estimate the elasticity of DI claiming with respect to benefit generosity. We find that, over this time period, a 1% increase in potential DI benefits was associated with a 1.2% increase in DI claiming. (C) 2016 Elsevier B.V. All rights reserved.

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