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Is disability insurance used as a form of extended unemployment insurance?

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At yearend 2012, 8.8 million adult Americans were receiving Social Security Disability Insurance (SSDI) payments. SSDI, which is funded from mandatory premiums paid by workers, is a social insurance program that pays benefits to workers who have become disabled and can no longer work. Grave concern has arisen over the doubling of the number of recipients since 1990, and this has led to some forecasts of bankruptcy of the SSDI trust fund by 2016.

Because SSDI applications are countercyclical—that is, disability insurance applications and awards since the 1980s have risen when the economy soured and fell when the economy rebounded—conventional wisdom is that unemployed workers during recent recessions use Disability Insurance (DI) as a form of extended benefits after their Unemployment Insurance (UI) benefits expire.

In "Unemployment Insurance and Disability Insurance in the Great Recession," (National Bureau of Economic Research, working paper no. 19672, November 2013), economists Andreas I. Mueller, Jesse Rothstein, and Till M. von Wachter note that neither the countercyclical pattern nor a lessening of it during the 2007–2009 recession are well understood. Building upon the work of others who have recently explored the relationship between UI and DI, the authors examine the variability of UI benefit extensions during the recent recession to determine if the expiration of UI benefits is connected to the rise in DI applications and rewards.

The research of Mueller, Rothstein, and von Wachter expands most closely upon that of Matthew Rutledge. Both Rutledge and the authors of the NBER working paper use aggregate data at the state–month level. However, the three coauthors differ from Rutledge by including micro administrative data from the Social Security Administration and micro data on the unemployed from the Current Population Survey. Also, Mueller, Rothstein, and von Wachter's model is conceptually different from that of Rutledge, in that the former considers UI extensions to be a source of variation in the time till UI benefits are exhausted, whereas Rutledge considers UI extensions to be a direct determinant of SSDI applications.

The analysis of Mueller, Rothstein, and von Wachter shows that expiration of UI benefits and increases in DI applications have very little correlation. The authors suggest the rise in DI applications during economic downturns may be a result of the lower wages marginally disabled displaced workers could expect to earn in a weakened economy. The authors note that the policy implications of this explanation are uncertain: because DI examiners consider the employment prospects of the applicant under current labor market conditions, implementing stricter DI reviews may not result in fewer DI claims.