

Referee Report: Beyond Health: Non-Health Risk and the Value of Disability Insurance

Reviewed by: Sarah Bass

In this paper, Deshpande and Lockwood evaluate the non-health benefits of U.S. disability programs. Insurance against non-health risk accounts for roughly half of U.S. disability programs, despite USDI being intended for severe health risk. For disability recipients with less-severe health risks, the potential to experience a non-health shock such as a layoff, foreclosure, or an eviction is much more likely compared to non-recipients. Even though these individuals are able-bodied and may not need disability benefits for health-related reasons, Deshpande and Lockwood argue that providing disability insurance to cover non-health risk may increase the overall value of disability insurance.

The authors evaluate this question using both positive and normative analysis. In the positive analysis, the authors use the Panel Study of Income Dynamics and Social Security Administrative Data to show that (1) more-severe households are worse off than less severe households by both health and non-health measures, (2) less-severe recipients are worse off than less-severe non-recipients by many non-health measures, and (3) more-severe non-recipients are better off on non-health measures than recipients. In the normative analysis, the authors estimate the value of U.S. disability programs using a combination of survey data and literature estimates. The main finding of the paper was that U.S. disability programs and their mismatches with respect to health are highly valuable. However, although USDI is a cost effective insurance against non-health risk, the authors emphasize that this may not necessarily be the best way to insure non-health risk.

This is an interesting paper for students and scholars in public economics with potential significant applications in public policy and fiscal policy design. I recommend this paper for publication, contingent on the authors addressing the following comments:

On Issues of Style:

- Pages 18-20, Section 5: Define all acronyms clearly. For example, $EA WTP_e(\Omega_b)$ - what does this stand for?

On the Analysis:

- Page 13, Fact 2: Author states that L-DI and M-DI are equally likely to be at the bottom of the consumption distribution prior to receiving benefits. How do L-DI and L-NDI consumption compare prior to receiving benefits?

- Page 14/15, Fact 2: Figures show that L-DI is more likely to have experienced a layoff or other non-health shock than M-DI, but on page 16 the authors clarify that roughly $\frac{1}{4}$ of L-DI had a more-severe health condition when applying for disability benefits. Are the pre-benefit layoffs accounting for the fact that at the time of layoff (or other non-health shock), some of the L-DI recipients would fall into the M-DI category?
- Page 16/17, Fact 3: M-NDI are better off on non-health measures than M-DI and L-DI. Authors clarify that 45% of M-NDI do not receive benefits because of mistakes in the decision process, but they authors use this data to reinforce that M-NDI are better off on non-health measures. If these decisions were mistakes and not intentional, it seems that these recipients should be recategorized as M-DI when evaluating non-health comparisons.
- Page 22: First order approximation does not account for any hassle or stigma costs associated with disability benefits. I think it's fine to omit these from the model for the sake of simplification, but add a few sentences explaining why these are relevant and would cause some disutility for recipients
- Page 24: Why divide household consumption by the square root of household size instead of household size? Is this assuming the marginal consumption for an additional person in the household is decreasing? Clarify reasoning.
- Page 25: Authors state disability benefits as a whole are 64% more valuable than tax cuts with the same cost to the government. Clarify what is meant by "disability benefits *as a whole*". Is this comparing to hypothetical tax cuts distributed across the entire population or only hypothetical tax cuts for USDI recipients? When comparing USDI benefits to tax cuts, are there differences by health severity and/or risk level?
- Page 30, Figure 2: The notes say that Random-App-DI and Earnings-Test-DI are a hypothetical programs with award probabilities based on severity and age. Clarify what is meant by "severity". Severity of health or non-health risk?