

# WORKING PAPER

## *Executive Summary*

JANUARY 2012, WP 2012-2

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## THE IMPACT OF TEMPORARY ASSISTANCE PROGRAMS ON DISABILITY ROLLS AND RE-EMPLOYMENT

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There are a variety of assistance programs to replace lost earnings, some aimed at disability or illness, some aimed at low income families, and some at both. Federal disability benefits (Social Security Disability Insurance (DI) and Supplemental Security Income (SSI)) receipt tends to be an all-absorbing state, with few recipients ever ending their benefits, but one that requires a difficult application process in which individuals must demonstrate an incapacity to work (the process itself can increase incapacity to work by inducing individuals to avoid labor market opportunities). Many other kinds of assistance programs end after a number of months (e.g. unemployment), and even those that do not expire (e.g. food stamps) are designed to provide only temporary benefits.

We examine how program participation in four temporary assistance programs affects claims for DI and SSI as well as re-employment of adults who recently stopped working. The programs are: Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP, also known as food stamps), Unemployment Insurance (UI), and Temporary Disability Insurance programs (TDI). Our study is motivated by the observation that application rates for DI and SSI increase in periods of high unemployment, and that temporary assistance benefits help the unemployed to buffer their income losses before they apply for DI or SSI.

We first discuss several channels through which participation in one of the temporary assistance programs may affect re-employment and application for DI or SSI. Cash benefits from such temporary assistance programs could increase or decrease applications for DI or SSI, depending on whether such transfers support workers in their application for DI and SSI or whether they reduce the need to apply for DI and SSI in order to receive additional income support.

Temporary cash benefits make searching for a job less worthwhile but also may make it possible to engage in job search in the first place. The net effect of participating in a temporary assistance program on re-employment and on applications for DI and SSI is theoretically ambiguous, at the individual level, and the average net effect of increasing access to assistance programs on application rates is an open empirical question.

We select a sample of workers who lose employment and create spells of non-employment ending in re-employment, application for DI, or application for SSI. Since estimates based on observational data are likely to be biased due to selection and simultaneity, we construct instruments based on state policies and rules for each of the temporary assistance programs. Instrumental-variables (IV) regressions allow us to estimate the causal effect of taking up temporary assistance on each of the outcomes.

Associations show that participation in each of the four temporary assistance programs is associated with a lower re-employment probability. Furthermore, UI claimants tend not to apply for SSI, while TDI recipients tend to apply for DI. Workers who are more likely to receive SNAP benefits are also more likely to apply for SSI, but less likely to apply for DI. These results could signify causal effects of participating in temporary assistance programs on re-employment and applications for DI and SSI, but they are also consistent with selection by income and health status. The selection hypothesis can explain the observed associations even if there is no net casual effect of participation on applications and re-employment. For example, if low potential income and poor health cause both higher rates of participation in SNAP and application for SSI, then expansions of SNAP need not increase applications for SSI.

Results from IV regressions are in most cases quite different. For re-employment, we do not find that participation in temporary assistance programs leads to a lower re-employment probability. Furthermore, participation in UI decreases applications for DI, which is consistent with the idea that this program is a substitute for DI. For SSI, we find a positive effect of taking up SNAP benefits on subsequent applications, but only for the specification which uses months instead of spells as the unit of observation.

Three main conclusions can be drawn from these findings. First, applications for DI and SSI are sensitive to participation in temporary assistance programs. For re-employment, we do not find a systematic effect, but both coefficients and standard errors tend to be large for this outcome. Second, the size of the temporary assistance programs and their overlap with DI and SSI seems to matter. We found significant effects only for UI and SNAP, which are the two largest programs considered here. The target population for UI overlaps with the one for DI, but not with SSI as a means-tested program. Conversely, SNAP and SSI are both means-tested programs, but because these people tend to be poor and have a weak labor force attachment, they often do not qualify for DI benefits. Third, we find a negative effect of UI participation on DI, but (sometimes) a positive effect of SNAP participation on SSI. There are different explanations to reconcile the opposite signed effects. For instance, the effect of receiving temporary assistance on applications for DI and SSI could vary by benefit level. It is not implausible that low benefit amounts (as provided by SNAP) without a fixed time limit primarily support applications, and only high benefit amounts (as provided by UI) with a fixed time limit deter applications, and facilitate eventual re-employment. Other explanations are that program effects depend on the population involved (with greater or less intrinsic attachment to the labor force) or on other characteristics of temporary assistance programs.

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