

Return-to-Work Policies' Clawback Regime and Labor Supply in Disability Insurance Programs*

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Abstract

Exploiting a quasi-natural experiment and using administrative data, we examine the effects of the return-to-work policies' clawback regime in Disability Insurance (DI) programs on beneficiaries' labor supply decisions, allowing them to collect reduced DI payments while working. We compare two return-to-work policies: one with a single rate clawback regime and another with a progressive clawback regime where a reform further increased its progressiveness. The reform caused an increase in the mean labor supply; beneficiaries who already work, work more, and those who did not work start working. The effects are heterogeneous by beneficiaries characteristics, and the increase is driven mainly by top percentiles of earnings. Findings suggest an essential role for the clawback regime in return-to-work policies and targeted policies to increase the labor supply in DI programs.

JEL classification: D3; H3; I3; J3.

Keywords: disability insurance; clawback rate; return-to-work policy, financial incentives; labor supply.

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1 Introduction

Return-to-work policies in Disability Insurance (DI) programs allow beneficiaries to work and collect reduced DI payments under a clawback regime, characterized by the earnings thresholds, marginal clawback rates, and DI payments. These policies intend to provide financial incentives to beneficiaries to return to the labor force to potentially improve their economic well-being, ensure their broader integration into society, and decrease the programs' cost. Previous studies have examined the effects of return-to-work policies on beneficiaries' labor supply decisions from the introduction of return-to-work policies, changes in the DI payments, eligibility, and screening process, with mixed findings.¹ However, little is known about the effect of variations in the clawback regimes, which influence the size of the induced financial incentives and the labor supply response in the return-to-work policies. The scarcity of work in that area could be due to the lack of such policy variations. Results in this area would be important for understanding labor supply policies' ramifications and better design of DI policies.

We examine the effects of return-to-work policies' clawback regimes on DI beneficiaries' labor supply decisions. Specifically, we compare return-to-work policies in two Canadian provincial DI programs with similar screening, eligibility criteria and benefits but different clawback regimes. One is Alberta's "Assured Income for the Severely Handicapped" (hereafter AISH) program, with a progressive clawback regime featuring an earnings exemption threshold,² wherein monthly DI payments gradually get reduced as earnings increase. A reform in April 2012 further increased its progressiveness, allowing the beneficiaries to work more while collecting a larger portion of their DI payments. The second program is the "Ontario Disability Support Program" (hereafter ODSP), with a single rate clawback regime. We estimate the causal effects of AISH's clawback

¹Some authors find positive effects of return-to-work policies on labor supply (e.g., [Zaresani, 2018](#); [Vall Castelló, 2017](#); [Kostol and Mogstad, 2014](#); [Campolieti and Riddell, 2012](#)). However, some other authors find negative effects (e.g., [Ruh and Staubli, 2019](#); [Gelber et al., 2017](#); [Maestas et al., 2013](#); [Marie and Vall Castello, 2012](#)). Yet, another group of authors find neutral effects (e.g., [Bütler et al., 2015](#)). There is incipient work on explaining these findings by considering adjustment costs in the labor supply decision (see, for example, [Zaresani, 2020](#) and [Gelber et al., 2020a](#)).

²The earnings exemption threshold in Canadian DI program is comparable to the Substantive Gainful Activity (GSA) in the US system. Earnings below the threshold do not affect DI payments.

regime change on the beneficiaries' earnings and labor force participation decisions in a Difference-in-Differences (DD) framework using ODSP as a control group. We provide suggestive evidence on the relative magnitude of the substitution versus income effects of the reform. To gain further insight into the effects of the reform apart from mean effects, we employ a quantile DD framework. Finally, we estimate the elasticity of earnings in the exempted range with respect to the progressiveness measure of the clawback regime.

We use individual-level longitudinal administrative data on monthly earnings of AISH and ODSP beneficiaries spanning two years of pre- and two years of post-reform obtained from the Alberta and Ontario governments, respectively. Observing monthly earnings is essential since the earnings thresholds are monthly based. The data also has information on beneficiaries' characteristics, including gender, age, family structure, type of disability, and residence location.

Our analysis provides three main conclusions. First, a more progressive clawback regime causes an increase in the mean labor supply along both the intensive and the extensive margins. The DD model's estimated effects, controlling for individual fixed effects, are an 11.87% increase in the average inflation-adjusted monthly earnings and a 0.79% point increase in the labor force participation rate.

Second, the estimates are heterogeneous by beneficiaries' family structure, age, gender, type of disability, and location of residence. The estimates are larger for men, younger beneficiaries, those with dependents, those with psychotic disabilities, and beneficiaries who reside in metropolitan areas. Suggestive evidence shows that the income effects of the reform are negligible, and a more progressive clawback regime affects work incentives. The quantile DD estimates show that the higher percentiles of the earnings are the driver of the increase in mean earnings. Findings suggest that targeted policies may work better to encourage DI beneficiaries to return to work.

Third, an increase in the progressiveness of a clawback regime decreases the portion of the beneficiaries with earnings in the exempted range. The estimated elasticities suggest that a 10% increase in progressiveness decreases the portion of beneficiaries with earnings in the exempted range by 11.4% and 3.3% for the beneficiaries without and with

dependents, respectively.³

Our findings provide evidence on the labor supply responses to different clawback regimes of return-to-work policies in DI programs, an important policy domain. While the return-to-work policies aim to get DI beneficiaries into the labor force by providing financial incentives, empirical findings from the effectiveness of such policies are mixed. [Hoynes and Moffitt \(1999\)](#), [Benitez-Silva et al. \(2011\)](#), [Weathers II and Hemmeter \(2011\)](#) and [Bütler et al. \(2015\)](#) find no effects from financial incentives to work in the US and Switzerland, and [Ruh and Staubli \(2019\)](#) find earnings threshold provides work disincentive in Austrian DI program. Meanwhile [Zaresani \(2018\)](#), [Kostol and Mogstad \(2014\)](#) and [Campolieti and Riddell \(2012\)](#) find positive responses respectively in Norway and Canada. [Gelber et al. \(2017\)](#); [Maestas et al. \(2013\)](#); [Marie and Vall Castello \(2012\)](#); [Lemieux and Milligan \(2008\)](#); [Fortin et al. \(2004\)](#); [Campolieti \(2004\)](#) and [Gruber \(2000\)](#) find that providing more generous benefits has negative effects on labor supply in social assistance programs in Canada, the US, and Spain. [Garcia Mandico et al. \(2020\)](#); [Borghans et al. \(2014\)](#) and [Staubli \(2011\)](#) examine the effects of terminating benefits and stricter eligibility criteria in DI programs in the Netherlands and Austria. They find that individuals substitute DI benefits by collecting more from other social assistance programs. Beyond a change in financial incentives, medical reassessment of DI recipients and trial work periods in the US do not affect the labor supply ([Autor and Duggan, 2006](#)). [Moore \(2015\)](#) finds that losing benefits due to the removal of drug and alcohol addictions as qualifying conditions for DI benefits increase the labor supply. We contribute to this literature by examining the impacts of financial incentives induced by the return-to-work policies' clawback regime on labor supply decisions.

³The exemption threshold is higher for AISH beneficiaries with dependents than those without dependents.