

# Privatizing Disability Insurance\*

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## Abstract

**Abstract** In the light of rising expenditure, many social insurance programs face pressure to cut back their generosity to remain sustainable. Such reforms are often accompanied by the idea that individuals can obtain private insurance. In this project, we investigate how the private disability insurance (DI) market responds to a large change in public DI in Germany. Using a combination of administrative data on public DI claims and data from a large private insurance provider, we analyze the reform of 2001, which abolished a type of public DI for younger birth cohorts. We document that the private DI market multiplies in size after the reform. Results from a difference-in-difference strategy suggest a significant causal effect on private DI coverage among affected individuals. Yet, the estimated post-reform coverage rate remains modest. Moreover, we find that the share of privately insured individuals is lower among those with higher occupational disability risk and with lower income.

**Keywords:** disability insurance, social insurance, private insurance, crowd-out.

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