Abstract: The public debate about disability insurance (DI) often focuses on the health status of recipients and whether they are “truly” disabled. We go beyond the health criterion to evaluate the welfare effects of DI. In the positive analysis, we find that pure health is a good tag for need, but that additional tags and screens in the DI program induce good selection into the program. In the normative analysis, we use a sufficient statistics approach to calculate the welfare gain from the actual DI program and compare it to an “idealized” DI program that is perfectly targeted on health. We find that the social welfare gain from actual DI is similar to the social welfare gain from “idealized” DI, even considering greater moral hazard in actual DI.