Evidence and the Evolution of Financial Work Incentives

NAWRS
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MDRC: Nonprofit, nonpartisan research organization
Designed/evaluated work incentives over nearly 20 years
Try to apply lessons from each study in designing subsequent approaches/evaluations

Today’s presentation

- What’s been tested
- What the evidence shows
- How the evidence has informed subsequent efforts (though not a completely linear process)
Some history

Welfare-to-work programs of 1980s to mid-1990s
- Increased employment and reduced welfare
- Did not improve overall income
- Low-wage jobs left many former recipients poor

“Make work pay” strategies emerged as one response
- Created stronger incentives to work
- Sought to increase income/reduce poverty through extra cash transfers tied to work (like EITC)

Rich body of evidence has kept the idea alive, but nuances in findings complicate the application to policy
Work incentives in welfare reform and related experiments

“First-generation” tests

- Minnesota Family Investment Program (MFIP)
- Canada’s Self Sufficiency Program (SSP and SSP Plus)
- Connecticut’s Jobs First Program
- Milwaukee’s New Hope Program
Programs and features

Minnesota MFIP
Incentives + mandatory welfare-to-work program
• Earnings disregard + child care, mandatory work prep

Canada SSP
Incentives as an alternative to welfare
• Earnings supplement if leave welfare and work 30+ hours

Canada SSP Plus
Incentives + services
• Earnings supplement + help finding and staying employed

Connecticut Jobs First
Incentives + mandates, services, time limit
• Earnings disregard + mandatory work prep, 21-month time limit

Milwaukee New Hope
Incentives + other work supports and CSJ
• Earnings supplement + child care, low-cost health insurance, community service job (if work 30+ hours)  (For broader low-income population)
Positive impacts on earnings, but effects generally faded over time (*control catch-up*)
Effects persisted for some subgroups

Impacts on quarterly earnings

- New Hope – “moderate barriers” subgroup
- MFIP – “most disadvantaged” subgroup
Work incentives in post-employment experiments

- Employment Retention and Advancement (ERA)
- UK Employment Retention and Advancement (UK ERA)
Employment Retention and Advancement Demonstration (ERA)

Test of 12 post-employment intervention models in 6 states (HHS-funded)

Texas site:
- Targeted unemployed TANF recipients
- Offered:
  - Monthly stipend ($200) for full-time work
  - Continued job coaching while working
  - Required monthly participation in employment-related activities
Corpus Christi ERA program
Impacts on earnings (TANF recipients)

Impact on 4-year total earnings = +2,560 (15%)***

ERA group

Control group
(Got regular welfare-to-work services)

Note: Earnings include $0 for non-workers
A British attempt: UK ERA

Operated within selected Jobcentre Plus agencies
- 6 regions of UK

33-month program
- If unemployed at intake: Got job search help through New Deal welfare-to-work program (Similar to control group)
- Once working: Got 24+ months of “in-work” advancement coaching/support

24 months of financial incentives
- For sustained FT employment: £400 (or $700-$800 at time of study) 3x per year
- For completing training while employed
Impact on earnings (£)

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Control group</th>
<th>ERA group</th>
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<tbody>
<tr>
<td>2005-2006</td>
<td>3000</td>
<td>3000</td>
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<tr>
<td>2006-2007</td>
<td>3500</td>
<td>3500</td>
</tr>
<tr>
<td>2007-2008</td>
<td>4000</td>
<td>4000</td>
</tr>
<tr>
<td>2008-2009</td>
<td>4500</td>
<td>4500</td>
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<tr>
<td>2009-2010</td>
<td>5000</td>
<td>5000</td>
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</table>

Impact on 5-year total earnings: £491 (ns)

Note: Earnings include $0 for non-workers

ERAs ended for all by October 2007 (earlier for some)
ND25+: Long-term unemployed (mostly men)

Impacts on earnings (£)

Impact on 5-year total earnings: £1,814 ** (+ 11%)
Work incentives and housing subsidies

- Jobs-Plus
- NYC Work Rewards Demonstration
- New HUD Rent Reform Demonstration
Making work “pay” for everyone through new rent rules

• With traditional “30-percent-of-income” rule, earnings are implicitly “taxed” at 30%

• New rent rules: “Flat/fixed” rents (*with income-based rents as “safety net” if lose job*)

Combined with other program features

• On-site employment services

• Community support for work (*neighbor-to-neighbor strategy*)
Pooled average quarterly earnings for the 1998 cohort (full implementation sites)

Figure pooled 1

Mean Quarterly Earnings for the 1998 Able-Bodied Sample: 3 sites pooled
NYC Work Rewards Demonstration

Testing 3 employment interventions for recipients of Section 8 Housing Choice Vouchers

- **FSS only** (Family Self-Sufficiency: services + escrow)
- **FSS + Incentives**
- **Incentives** only

*Incentives modeled on UK ERA; external to rent rules (in contrast to Jobs-Plus)*

Separate samples from 2 NYC housing agencies

- **HPD**: Dept. of Housing Preservation and Development
- **NYCHA**: NYC Housing Authority
### Impacts on earnings by subgroups, 30 months

**Percent change relative to control group earnings**

<table>
<thead>
<tr>
<th></th>
<th>(HPD) FSS-Only</th>
<th>(HPD) FSS + Incentives</th>
<th>(NYCHA) Incentives-Only</th>
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<tbody>
<tr>
<td><strong>Full sample</strong></td>
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<td></td>
<td>††</td>
<td>††</td>
<td>†††</td>
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<tr>
<td></td>
<td>+3%</td>
<td>+3%</td>
<td>+8%</td>
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<tr>
<td><strong>SNAP subgroups</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Receiving at baseline</td>
<td>+15*</td>
<td>+9</td>
<td>+19***</td>
</tr>
<tr>
<td>Not receiving</td>
<td>-8</td>
<td>-3</td>
<td>-9</td>
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<tr>
<td><strong>Employment subgroups</strong></td>
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</table>
What if only change the rent rules (i.e., increase work incentive; no services)

- New demo getting underway for Section 8 housing voucher holders
- Designing alternative to current 30% rent rule
- 5-8 Moving to Work (MTW) housing authorities
- Randomized trial to assess impacts on work and self-sufficiency, and housing authority costs
Work incentives in a comprehensive “conditional cash transfer” (CCT) program

- Opportunity NYC—Family Rewards
- Family Rewards 2.0 (Social Innovation Fund)
Opportunity NYC—Family Rewards

The offer: Rewards in 3 domains

1. Children’s education
   • High attendance (95%)
   • Performance on standardized tests
   • Parents discuss test results with school
   • High school credits and graduation
   • Parent-teacher conferences; PSATs; library cards

2. Family preventive health care
   • Maintaining health insurance
   • Preventive medical and dental check-ups

3. Parents’ work and training
   • Sustained full-time work
   • Completion of education/training while employed
**Effects on employment and earnings**

### Employment

- **Average quarterly employment, yrs 1-3 (UI records)**
  - Program: 47.7%
  - Control: 56%
  - 13% increase
  - +6.4***

### UI Earnings

- **Total earnings, years 1-3 (UI records)**
  - Program: $36,912
  - Control: $37,506
  - $594

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![Bar Chart for Employment and UI Earnings](chart.png)
## Negative effects for less-educated subgroup

<table>
<thead>
<tr>
<th>Subgroup and Outcome</th>
<th>Program</th>
<th>Control</th>
<th>Impact</th>
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<tbody>
<tr>
<td><strong>HS diploma/GED at baseline</strong></td>
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<tr>
<td>Average quarterly employment, Years 1-3 (%)</td>
<td>56.3</td>
<td>55.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Average earnings, Years 1-3 ($)</td>
<td>48,320</td>
<td>48,406</td>
<td>††</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>-86</td>
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<tr>
<td><strong>No HS diploma/GED at baseline</strong></td>
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<td></td>
</tr>
<tr>
<td>Average quarterly employment, Years 1-3 (%)</td>
<td>36.2</td>
<td>39.2</td>
<td><strong>-3.1</strong></td>
</tr>
<tr>
<td>Average earnings, Y1-Y3 ($)</td>
<td>20,730</td>
<td>22,519</td>
<td><strong>-1,790</strong></td>
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</table>
New CCT Demonstration: “Family Rewards 2.0”

- Being tested in NYC and Memphis as a Social Innovation Fund (SIF) project
- Streamlined/modified incentives in same 3 domains
- Now has a family guidance component, including guidance on employment
  - Including guidance on employment ("incentives + services")
Work incentives through an expanded EITC in New York City

- A new Center for Economic Opportunity (CEO) experiment
- For single adults without children (or custody)
Expanded EITC Experiment in NYC

Current (2012) maximum EITC
- $5,891 with three or more qualifying children
- $475 with no qualifying children

NYC test: Expanded EITC for single, childless adults
- Max of up to $2,000/year if no qualifying children

• Sample recruitment: fall 2013
• First RCT to test EITC impacts
• Will this version of “incentives-only” work?
• If it leads to substantial income transfers without effects on work, is that also “success”? 
Conclusions
Lessons and reflections

General concept (wage supplementation) takes on even more importance in a future of so many low-wage jobs

Can’t always isolate effects of incentives per se

Programs with incentives have history of positive impacts, but uneven

- Can increase employment, earnings, and income
- But effects don’t always persist (control group catch up)
- Bigger and more persistent effects for some subgroups, but not consistent from project to project
- Usually do not lead to higher wage rates
- May be more effective when combined with services
Lessons and reflections (continued)

Too successful to ignore, but complicated patterns make application to policy difficult

Important to use evidence to improve design and implementation of incentives, and to continue testing

- **Size and frequency** of payments
- **Targeting** (if goal is impact on work effort)
- **Incentives-only vs. incentives + services**
- **Marketing**; applying behavioral economics principles
- How they work with different **structures and platforms**
  - TANF, housing subsidies, tax system (EITC), etc.
  - Change benefit rules vs. external bonuses
For more information

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