

Paycheck Plus:

A New Antipoverty Strategy for Single Adults

By Rachel Pardoe and Dan Bloom

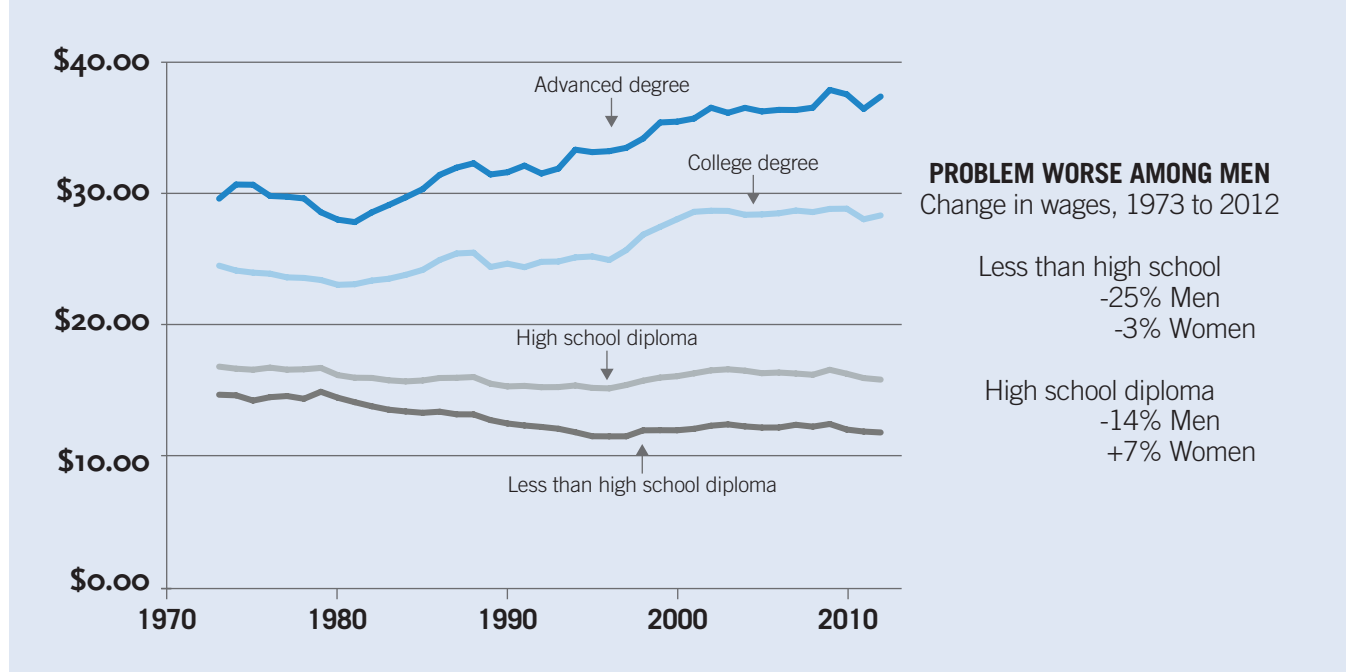
Over the past several decades, workers with college degrees have seen their wages rise substantially, in tandem with the nation's economic growth. However, wages for less-skilled workers, specifically those without a college education, have followed a dramatically different course. Many less-educated workers have faced increasing hardship as their wages stagnated over the past 30 years and some — particularly men — have seen their earnings fall sharply. This decline in the payoff to work has reduced employment and contributed to persistently high poverty rates and growing economic inequality. The federal Earned Income Tax Credit (EITC) supplements the earnings of low-wage workers and has become one of the nation's most effective antipoverty programs. However, because most of its benefits go to low-income workers with children, it only reaches a minority of low-wage workers.¹ Although low-income workers without dependent children are eligible for the EITC, benefits for this group are nominal in comparison with those received by families with children.

This brief describes Paycheck Plus, a pathbreaking demonstration project testing a new EITC-like earnings supplement for low-income single adults that aims to improve their economic circumstances while promoting employment. The

project recently completed its first milestone, recruiting and enrolling over 6,000 individuals, with half assigned at random to a program group eligible for the supplement and the other half assigned to a control group not eligible for the supplement. MDRC will follow both the program and control groups for several years, to assess the supplement's effects on economic well-being, work, and other outcomes. Funded by New York City's Center for Economic Opportunity (CEO) and the Robin Hood Foundation and managed by MDRC, the project is a direct response to the downward trend in employment, wages, and earnings among New York's and the nation's least-skilled workers. Paycheck Plus could serve as a national model and add to the current bipartisan discussion about supporting low-wage work, increasing the minimum wage, and expanding the EITC.

THE POLICY CONTEXT

Economic growth used to be linked to wage growth in the United States, but over the past few decades this relationship has fundamentally broken down. Although the Gross Domestic Product has more than doubled since the 1970s, wages for less-educated workers have stagnated; for male workers without college educations, wages have fallen sharply (see Figure 1). In 1973, the

FIGURE 1: REAL HOURLY WAGES, 1973–2012 (2012 DOLLARS)

SOURCE: Mishel, Bivens, Gould, and Shierholz (2012).

average male worker with only a high school education could earn enough to support a family just above the federal poverty line. In 2012, that same worker earned 14 percent less. In comparison, wages for men with college degrees grew substantially (by 16 percent).²

While childless workers are eligible for the EITC, the maximum amount they can receive is \$496.

Research suggests that declining wages are responsible, in part, for falling employment rates. In addition, falling wages at the lower end of the income distribution, in combination with increasing wages at the upper end, have contributed to growing economic inequality. Even more concerning is the fact that the economic disparities and increased hardship confronting low-wage workers may be long-term problems. The Bureau of Labor Statistics estimates that in 2020, five of the six occupations projected to have the most job growth will pay low wages.³

What can be done to address the problem of stagnant or declining real wages for less-skilled workers? Policymakers and researchers often turn to federal income support as a possible solution. The EITC, first established in 1975, is a refundable federal income tax credit that supplements the earnings of low-income workers. In 2012, the EITC lifted 6.6 million people out of poverty while promoting work and reducing the need for public assistance. However, the current system was created primarily to support low-income working families with dependent children.

Figure 2 provides a summary of the federal EITC by filing status and number of children.⁴ While single adults without dependent children (referred to henceforth as “childless workers”) are eligible for the EITC, the credit is capped at a maximum annual payment of \$496 (compared with more than \$6,000 for families with three

FIGURE 2: EITC BY NUMBER OF CHILDREN AND FILING STATUS, 2014

SOURCE: Urban Institute and Brookings Institution Tax Policy Center (2014).

NOTE: Those with “married, filing jointly” status can still claim, but the schedule is not discussed in this brief and therefore is not shown here.

children). It is consequently less effective than it might be at reducing poverty and increasing employment among childless workers.

The EITC for families with children has been expanded considerably since the early 1990s and has been found to have positive effects on single parents’ employment rates and incomes and on their children’s well-being.⁵ Similar results were found in MDRC’s Make Work Pay experiments, which tested whether offering earnings supplements would increase employment and income, raise children’s school performance, and improve family well-being among welfare recipients.⁶ Analyses by the Center on Budget and Policy Priorities suggest that in 2012 the most recent expansions of the EITC (through the 2009

American Recovery and Reinvestment Act) lifted an estimated 600,000 people out of poverty and reduced the severity of poverty for approximately 10 million people.⁷ Expansion of the EITC for childless workers has recently received bipartisan support; for example, Glenn Hubbard, chairman of the Council of Economic Advisors under President George W. Bush, noted recently that increasing the credit for childless workers would “augment the direct work incentive and help counter poverty among the working poor.”⁸ President Obama also proposed an expanded EITC for singles in his 2014 State of the Union Address.⁹

Will the supplement reduce poverty and material hardship? Will it increase work and boost earnings?

As part of other efforts to make work pay for low-wage workers, a number of states have moved to increase their minimum wages. In New York, for example, the minimum wage will increase from \$8.00 in 2014 to \$8.75 in 2015 and then to \$9.00 in 2016. President Obama, New York City Mayor Bill de Blasio, and others have proposed additional increases. Even with a higher minimum wage, the added boost of a more generous EITC for childless workers would further help to make work pay adequately.¹⁰ For example, at \$9 per hour, a person who works full time for the entire year will earn \$18,000. Paycheck Plus would add an additional \$2,000 in income, in effect turning a \$9-per-hour job into a \$10-per-hour job. In addition, as national policy a more generous EITC for childless workers would be indexed to inflation and would be well targeted to workers from low-income families.

PAYCHECK PLUS: A POTENTIAL SOLUTION

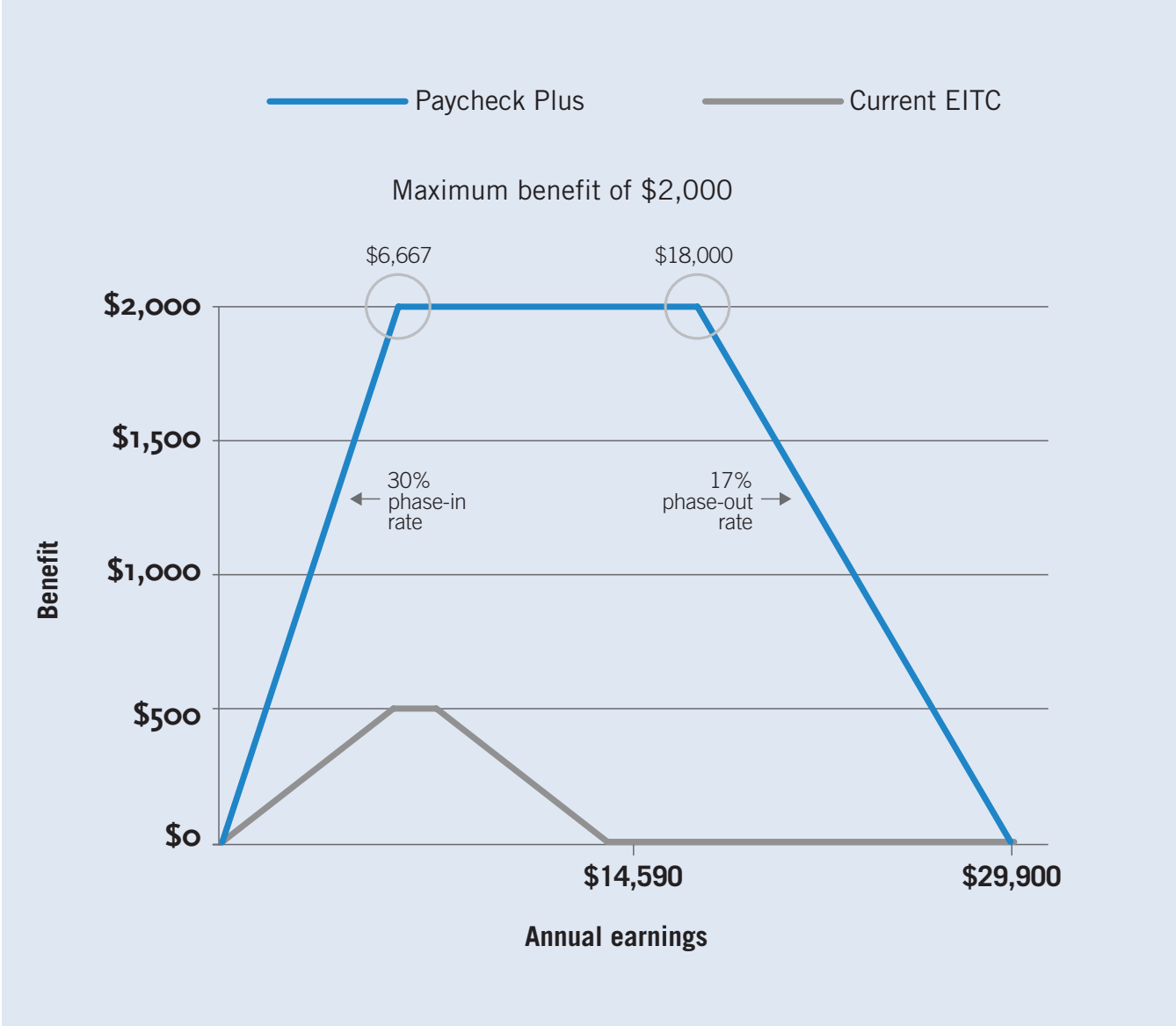
With funding from CEO and the Robin Hood Foundation, MDRC is developing rigorous evidence on the potential effects of an enhanced EITC for single adults. The Paycheck Plus pilot project is evaluating an EITC-like earnings supplement for low-income workers without dependent children that aims to improve their economic well-being while promoting employment. The project is also a timely addition to the national discussion on low-wage work and the minimum wage, given the increases in the minimum wage that began this year. New York City is not only an ideal site to investigate the value of an enhanced EITC on top of an increased minimum wage, its population — and thus the study's sample —

reflects the diversity of the low-wage workers who would be affected by federal policy changes.

The project recruited just over 6,000 individuals, half of whom were randomly selected to be eligible for the supplement: up to \$2,000 a year for three years, with the maximum payments targeted to those earning between \$6,667 and \$18,000. The other 3,000 study participants form a control group that is not eligible for the new supplement. MDRC will track both groups for several years to answer several key questions: Will the supplement reduce poverty and material hardship? Will it increase work rates and boost earnings? Will it increase child-support payments among noncustodial parents? Will it have an effect on criminal activity? Will it affect other outcomes such as public assistance receipt, marriage, or overall well-being?

As shown in Figure 3, the Paycheck Plus supplement mimics the federal EITC in that it has “phase-in” and “phase-out” rates comparable to the EITC for workers with children. Importantly, it offers a significantly more generous maximum benefit than the current EITC for childless workers (\$2,000 rather than \$496) and extends eligibility to individuals making up to \$29,863 (compared with only \$14,590 for the current EITC for childless workers). As with the federal EITC, all earnings will count when determining individuals' Paycheck Plus supplements, including income from self-employment and normal wages. Also following the model of the federal EITC, supplements will be calculated using the previous tax year's earnings: supplements will be issued in 2015, 2016, and 2017 based on

FIGURE 3: HOW PAYCHECK PLUS WORKS



SOURCES: Urban Institute and Brookings Institution Tax Policy Center (2014), Paycheck Plus design documents.

FIGURE 4: EFFECT OF EITC ON SINGLE ADULTS IN 2014

| | | |
|---------------------------------|------------------|--------------------------|
| PRETAX EARNINGS | \$ 11,650 | |
| CURRENT FEDERAL EITC | \$ 226 | |
| | +\$ 1,774 | PAYCHECK PLUS SUPPLEMENT |
| EARNINGS+EITC+SUPPLEMENT | \$ 13,650 | |

SOURCES: Urban Institute and Brookings Institution Tax Policy Center (2014), Paycheck Plus design documents.

About 70 percent of study participants worked in the year before they enrolled in the study, although nearly half of those who worked earned less than \$7,000 during the year.

earnings from 2014, 2015, and 2016 respectively.¹¹

Because participants receive more generous Paycheck Plus supplements the more they earn, up to \$6,667 (the incomes associated with those most likely to be marginally attached to the workforce), the demonstration is expected to provide incentives for employment for both unemployed and underemployed participants.

The Paycheck Plus supplement is designed to “top up” any credit an individual might receive from the existing childless worker EITC. An example of this can be seen in Figure 4. A single adult with no dependent children earning \$11,650 before taxes would receive \$226 from the federal EITC for childless workers. By participating in Paycheck Plus, he would receive an additional \$1,774 for a total of \$13,650, 15 percent more than under the current EITC.

RECRUITING PARTICIPANTS AND OPERATING THE PROGRAM

MDRC partnered with Food Bank for New York City (FBNYC) to implement Paycheck Plus. FBNYC was chosen for its firsthand experience with the federal EITC program as well as its history serving low-income New Yorkers. The organization coordinates an extensive network of community-based organizations and operates one of the city’s largest networks of Volunteer Income Tax Assistance (VITA) programs.¹² FBNYC was asked to direct outreach to potential participants, identify

and partner with organizations that could serve as recruitment sources, recruit and enroll individuals into the program, and coordinate the tax-preparation effort.

Individuals were eligible for Paycheck Plus if they met the following criteria at the time of enrollment: 1) resided in New York City, 2) planned to file their taxes as single, with no dependent children, 3) did not work or earned less than \$30,000 in the previous 12 months, 3) were between the ages of 21 and 64, 4) had a Social Security number, and 5) did not receive or plan to apply for Supplemental Security Income or Social Security Disability Insurance.¹³

FBNYC directed its outreach effort at organizations in its network and throughout the city that served populations eligible for Paycheck Plus. These included FBNYC’s former VITA clients, food pantries and soup kitchens, programs that serve formerly incarcerated people, workforce and job-training organizations, one-stop career centers, community colleges, fatherhood programs, and social service agencies. With support from New York City’s Human Resources Administration, letters explaining the study were sent to Supplemental Nutrition Assistance Program recipients and noncustodial parents. In addition, the study was advertised using various media outlets including local radio stations, city government websites (such as NYC 311), and Twitter, and through a community flyer campaign.

FBNYC began to recruit study participants at the end of September 2013, and reached the enrollment goal in just five months.

WHO IS IN THE STUDY?

The study sought to recruit a sample that reflects the diversity of low-wage workers, specifically targeting groups that face the most challenges, including noncustodial parents, formerly incarcerated people, and individuals with little or no earnings. By targeting recruitment this way, the study can generate results and lessons applicable to the broader population but also to the groups who may need the most support.

Table 1 shows selected characteristics of the study participants at the time of enrollment.¹⁴ The majority of study participants are male (59 percent), most are black (58 percent), and their average age is 37 years old. The majority of the sample had earned at least a high school diploma or a General Educational Development (GED) credential (78 percent).¹⁵

To help illuminate the effects of the supplement on recidivism (the rate at which formerly incarcerated people are arrested or returned to prison) and child-support payments, the study used recruitment methods designed to ensure adequate numbers of noncustodial parents and the formerly incarcerated. Both groups are known to be particularly difficult to recruit into community-based programs.¹⁶ About 12 percent of study participants report being noncustodial parents and 18 percent report having ever been incarcerated.

The study also aimed to recruit those marginally attached to the workforce — individuals who earned no income or very little income in the prior year (defined as up to \$18,000) — as a means of analyzing the supplement’s ability to increase employment. This group may include individuals who

have not worked in many years, as well as those who have only recently experienced unemployment due to the “Great Recession” and the slow economic recovery that has followed. While over 97 percent of the participants had been employed at some time in the past, only about 71 percent had held employment in the year before they enrolled in the study, and nearly half of those who did work earned less than \$7,000 during the year. About 45 percent were working at the time of enrollment, but only 24 percent were working full time, and the average weekly earnings were only \$292.

Although the Paycheck Plus sample is similar to the national population of low-income adults without dependent children in some ways, it is less educated and racially dissimilar. In 2012, for example, nationally the majority of low-income singles without dependent children were white and over age 35 — while the Paycheck Plus sample is predominantly black. Nonetheless, the diversity of the Paycheck Plus sample will allow the results to inform a national policy.

NEXT STEPS FOR PAYCHECK PLUS

Follow-up data will be collected and analyzed starting in early 2014. Administrative records data will be used to assess effects on earnings, employment, and child-support payments. The evaluation will also include a 32-month follow-up survey to measure outcomes that are not captured in records data — for example, job characteristics, material hardship, involvement in the criminal justice system, marriage, and family formation.

All participants are encouraged to file their taxes for free at one of FBNYC’s VITA centers.

TABLE 1: BASELINE CHARACTERISTICS

| CHARACTERISTIC | TOTAL |
|--|-------|
| GENDER (%) | |
| MALE | 59.1 |
| AVERAGE AGE (YEARS) | 37 |
| RACE/ETHNICITY (%) | |
| HISPANIC | 29.9 |
| WHITE/NON-HISPANIC | 6.4 |
| BLACK/NON-HISPANIC | 57.8 |
| OTHER | 5.9 |
| EARNED AT LEAST A HIGH SCHOOL DIPLOMA OR GED CERTIFICATE (%) | 78.3 |
| HAS ANY CHILDREN UNDER AGE 19 NOT LIVING AT HOME (%) | 11.9 |
| EVER CONVICTED OF A FELONY (%) | 16.7 |
| EVER INCARCERATED IN JAIL OR PRISON (%) | 18.1 |
| EVER EMPLOYED (%) | 97.4 |
| EMPLOYED IN THE PAST YEAR (%) | 70.5 |
| EARNINGS IN THE PAST YEAR (%) | |
| \$0 | 29.5 |
| \$1–\$6,666 | 28.1 |
| \$6,667–\$11,999 | 16.3 |
| \$12,000–\$17,999 | 13.2 |
| \$18,000 or higher | 12.9 |
| CURRENTLY WORKING (%) | 45.2 |
| WORKING FULL TIME ^a (%) | 23.8 |
| AVERAGE WEEKLY EARNINGS, AMONG THOSE CURRENTLY WORKING (\$) | 292 |
| SAMPLE SIZE | 5,937 |

SOURCE: MDRC calculations using Paycheck Plus Baseline Information Form data.

NOTES: Includes sample members randomly assigned between September 27, 2013 and February 18, 2014.

Percentages for some categories may not add up due to rounding or missing values.

Among the full sample, 39 individuals (0.66 percent) are missing the Baseline Information Form. The sample for this table is less than 6,000 because some individuals withdrew from the study after enrolling and others failed to provide signed informed-consent forms.

^aThe measure refers to working 30 hours or more per week.

Over the course of the implementation period (through 2017), FBNYC will send regular reminders to the Paycheck Plus group about the program, specifically noting that participants can only claim the supplement if they work and file taxes. In addition, in an effort to assess the most effective means of increasing study participants' knowledge and engagement, the study will evaluate various messaging and design approaches for these reminders. This substudy will take place through the Behavioral Interventions to Advance Self Sufficiency Project (BIAS), run by MDRC for the U.S. Department of Health and Human Services and designed to explore how tools from behavioral science can be used to improve the well-being of low-income children, adults, and families.¹⁷ Separately, as an embedded test, a randomly selected subset of individuals eligible for the Paycheck Plus supplement will also be given referrals to employment services. This second embedded study will assess whether the supplement combined with modest employment assistance has larger effects on income and employment than the supplement by itself.

Additional policy briefs about the demonstration will be published in early 2015 and early 2016, followed by an interim impact report in 2017 and a final impact report in 2018. MDRC is also considering an expansion of the study to a second city. Testing the supplement's effects in a setting that is demographically, economically, and geographically distinct from New York City will strengthen the evidence and make the findings more broadly applicable.

The Paycheck Plus project will provide important lessons on policies designed

to assist low-wage workers — an often overlooked group. Unlike other economic groups, who have felt the benefits of the nation's growing economy, many low-wage workers have seen their wages stagnate or even fall. While the minimum wage and other policy proposals geared to low-wage working adults are currently on the national agenda, there is little real evidence about what works or about how to target programs. The Paycheck Plus project will provide groundbreaking data to inform policy and help millions of working Americans.

NOTES

¹ Cooper (2013).

² Mishel, Bivens, Gould, and Shierholz (2012).

³ Lockard and Wolf (2012).

⁴ Individuals filing as “married, filing jointly” can also claim the credit. Benefits for married couples are not shown in Figure 2.

⁵ Berlin (2007); Edelman, Holzner, and Offner (2006); Scholz (2007); Eissa and Hoynes (2006); Holt (2006); Dahl and Lochner (2012).

⁶ Michalopoulos (2005); Miller et al. (2008).

⁷ The American Recovery and Reinvestment Act temporarily increased benefits for families with three or more children, and allowed married couples to continue receiving benefits at somewhat higher income levels. The latter expansion was designed to reduce the loss in benefits, or penalty, some couples face when they marry. Center on Budget and Policy Priorities (2014).

⁸ Hubbard (2014).

⁹ Obama (2014).

¹⁰ Bernstein and Parrott (2014).

¹¹ If an individual has child-support debt, the Paycheck Plus supplement will be intercepted to help pay off this debt.

¹² The VITA program, a national initiative sponsored by the Internal Revenue Service, employs volunteers to provide free income-tax preparation to people who make \$52,000 or less. FBNYC's VITA program completes approximately 35,000 tax returns every year for low- to moderate-income New Yorkers.

¹³ If an individual marries during the study but does not claim dependent children, he or she will still be eligible for the Paycheck Plus supplement based on his or her earnings. The rationale for this rule is so that the program does not create disincentives to marry. If someone gains dependent children over the course of the study, Paycheck Plus will continue to “top up” any federal EITC for which he or she is eligible. However, given that the federal EITC for families with children is much more generous than Paycheck Plus, most of these individuals will probably receive no supplement from Paycheck Plus.

¹⁴ There are no systematic differences between research groups, as one would expect in a random assignment study.

¹⁵ In 2014, New York discontinued its use of the GED in favor of the Test Assessing Secondary Completion.

¹⁶ MDRC’s Parents Fair Share Evaluation also faced significant challenges in recruiting noncustodial parents for a community-based program, and found that success was contingent on the involvement of child-support agencies. See Miller and Knox (2001).

¹⁷ For more information about the Behavioral Intervention to Advance Self Sufficiency Project, visit www.mdrc.org.

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CHANGE SERVICE REQUESTED

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