

### Paycheck Plus Pays Off for Low-Wage Workers

MDRC's September 2018 report presents final impact findings from Paycheck Plus in New York City. The results provide encouraging new evidence that an expanded EITC for single adults without dependent children could increase earnings, reduce severe poverty, and promote work. Other outcomes of interest such as household income and poverty showed no impact. However, the combined findings suggest an expanded EITC could benefit single adults.

For this study, about 6,000 low-income New Yorkers were randomly assigned in 2013 and 2014 to either a program group which was eligible for Paycheck Plus benefits or a control group which was not, but could still receive benefits through the current tax system. Members of the program group could qualify for a bonus payment of up to \$2,000 during each of the 2015, 2016, and 2017 tax seasons with earnings up to \$29,863. MDRC assessed participant outcomes over 4 years using a combination of surveys and administrative data.

This research builds on a robust body of evidence on the benefits of the federal EITC for single parents. For this group, the EITC has been shown to reduce poverty and increase income while also increasing employment.<sup>1</sup>

### Key Findings

In line with existing evidence on the EITC, Paycheck Plus was found to:

- **Increase post-tax individual earnings** by 6%, from average annual earnings of \$11,419 for the control group to \$12,054 for the program group;
- **Reduce severe poverty** by about 10%, from a 33% rate for the control group to 29% for the program group;
- **Modestly increase employment** by about 3%, with stronger effects found among men with more barriers to work and women.

1. See D. Neumark & P. Shirley (2018) "The long-run effects of the Earned Income Tax Credit on women's earnings." National Bureau of Economic Research Working Paper No. 24114.

### What is Paycheck Plus?

Paycheck Plus was a local demonstration project testing a simulated, expanded Earned Income Tax Credit (EITC) of up to \$2,000 for low-income single (unmarried) workers without dependent children in their tax household. The EITC is a federal tax credit that subsidizes workers, with each subsidy amount being determined by whether the worker has dependent children, the number of dependent children, and overall earnings. The initiative included a rigorous random assignment evaluation to inform policy discussions focused on poverty and work supports. NYC Opportunity launched the project in 2013 in partnership with the research firm MDRC, the NYC Human Resources Administration, City University of New York, and the Robin Hood Foundation. The project was also partially funded by the U.S. Department of Health and Human Services through a Section 1115 waiver coordinated by the New York State Office of Temporary and Disability Assistance to study outcomes for non-custodial parents.

### Paycheck Plus simulated an expanded EITC for low-wage workers and rigorously tested its effects

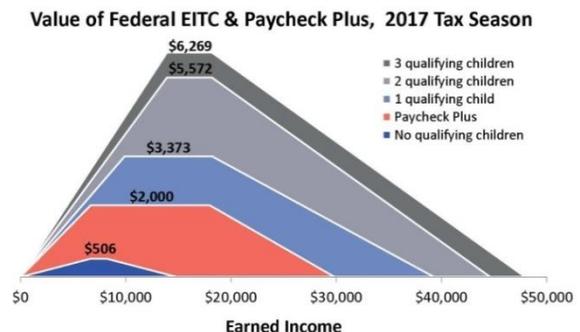


Chart reads: In 2017, a single worker without qualifying children who earned between \$1-\$14,880 could qualify for a federal EITC of up to \$506. A single worker in Paycheck Plus who earned between \$1-\$29,863 could qualify for a total tax time benefit of up to \$2,000. Source: Internal Revenue Service

## Design of Paycheck Plus

### Randomized Control Trial

The project included a rigorous evaluation where

**6,000**

participants were randomly assigned using a lottery-like process to one of the following groups.



A program group of

**3,000**

were eligible for an expanded total tax-time benefit of up to \$2,000



A control group of

**3,000**

were only eligible for benefits under the current tax system

### Simulation of Tax Policy

Paycheck Plus was not implemented using the tax system, but instead worked to simulate the effect of a tax credit – for example, the following could have happened in the 2017 tax season.



A program group member has 2016 earnings of

**\$9,360**

files taxes to receive a federal EITC payment of

**\$423**

and uses their tax return to separately receive a bonus payment from Paycheck Plus of

**\$1,577**

for total post-tax earnings of

**\$11,360**



A control group member has 2016 earnings of

**\$9,360**

files taxes to receive a federal EITC payment of

**\$423**

for total post-tax earnings of

**\$9,783**

## Additional Findings

### Tax Time Outcomes

- Most eligible participants successfully applied for and received bonus payments – the **average bonus received was \$1,400**.
- Paycheck Plus **increased tax filing and the use of free tax preparation services**.

### More on Income & Poverty

- The increase in participants' post-tax earnings **did not result in significantly higher household average income**.
- Though severe poverty was reduced, the **overall poverty rate was not changed**.

### Subgroups

- Effects on work and earnings **were generally larger for women**.
- In the final year, Paycheck Plus **increased employment among men with more barriers to employment by over 10%** (specifically non-custodial parents and those who had been formerly incarcerated).

### Secondary Outcomes

- Non-custodial parents in the program group were **12 percent more likely to make at least one child support payment** than their peers in the control group.
- The evaluation found **few impacts on additional outcomes**.

### Employment Referrals

- Recognizing more support may be needed, some participants were randomly assigned to receive referrals to employment services.
- Results suggest **referrals may enhance the employment effects** of Paycheck Plus.

## Looking Ahead

This demonstration project was designed to help inform national policy discussions focused on poverty and work supports. While mixed, the findings provide new evidence that the tested change in federal tax policy could increase earnings, reduce severe poverty, and also promote work among low-income single adults. With support from other funders, MDRC is currently furthering this research by replicating the test of an expanded EITC in Atlanta – a city with different demographic and labor market characteristics than New York City. Initial findings from Atlanta are expected in fall 2019.

### Further Reading:

♦ [2018 Final Impact Report](#) ♦ [2017 Interim Impact Report](#) ♦ [2015 Report on Embedded Behavioral Test](#)