

### 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 new evidence that an expanded EITC for single adults without dependent children could increase earnings and reduce severe poverty, while also promoting work.

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 – its primary current beneficiaries. For this group, the EITC has been shown to reduce poverty and increase income while also increasing employment.

### Key Findings

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

- **Increase post-tax 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 percent, 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 in the sample with more barriers to employment and among women.

### 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

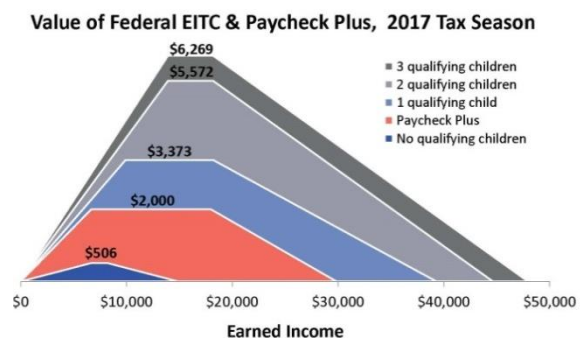


Chart reads: In 2017, a single worker without qualifying children who earned between \$1-\$14,880 could qualify for a federal EITC of up to \$506. A single worker in Paycheck Plus who earned between \$1-\$29,863 could qualify for a total tax time benefit of up to \$2,000. Source: Internal Revenue Service

## 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 rates and the use of free tax preparation services** for low-income individuals.

### Subgroups

- Effects on employment and earnings **were generally larger for women** over the course of the project.
- 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, though the findings suggest an expanded EITC may lead to **some reductions in anxiety and depression**.

### Employment Referrals

- Recognizing additional support may be needed, some participants were randomly assigned to receive referrals to employment services.
- Results suggest these **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. The findings provide new evidence that the tested change in federal tax policy could increase earnings and reduce severe poverty among low-income single adults, while also promoting work. 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 Behavioral Test within Paycheck Plus](#)