

Progression and retention in the labour market: what have we learned from IWC and ERA?

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Executive summary

Key findings

Time-limited in-work benefits can help increase the probability of moving into paid work and also improve job retention.

We examine the effectiveness of two time-limited in-work benefits. These were introduced in Great Britain in the early to mid 2000s and were known as 'in work credit' (IWC) and the 'Employment Retention and Advancement demonstration' (ERA).

The positive impacts of these benefits persisted after the benefits stopped being paid.

Four years after first being eligible for payments, IWC has led to one additional lone parent being in paid work out of every 100 who could have received it, and ERA has led to four additional lone parents being in paid work out of every 100 who could have received it.

Encouraging full-time work seemed to be much more effective than encouraging part-time work.

Some lone parents offered incentives to work part-time cut their hours in response. Encouraging part-time work had a very small impact on retention. Encouraging full-time work had a much larger impact, although we cannot discount that some of this was due to other aspects of the ERA programme.

Policymakers wanting to improve job retention and progression, or implement universal credit's in-work conditionality, should consider the role of financial incentives alongside personal advice.

We endorse Matthew Taylor's recent conclusion: 'There is currently a lack of understanding about what progression really is, let alone what works best in supporting people to achieve it.... Government should seek to develop a better understanding of what progression at work is and [how] public policy levers influence it. Building on the trials to date, Government should work with external providers to determine what really works in supporting individuals to obtain better quality – and not just more – work.'

Our research is an excellent demonstration of the power of rich, linked administrative data, and of the DWP's Work and Pensions Longitudinal Study (WPLS) in particular.

It is only with administrative data that we can trace individual lone parents both while they are claiming out-of-work benefits and as they move into paid work. Ours is one of the first projects to use the administrative data in the WPLS on the hours worked per week, which are provided when individuals claim tax credits, as a measure of employment.

1. Introduction

In-work benefits or tax credits are well established in many countries as an effective policy for increasing labour supply and tackling poverty. However, because in-work tax credits can be paid indefinitely, they are expensive. In comparison, time-limited in-work credits that are paid to former welfare recipients who move into paid work should be considerably less expensive because they are only paid for a few years, at most. And, by conditioning on previous receipt of welfare, they may also be better targeted on low-potential-wage individuals than conventional tax credits.

During the 2000s, the Department for Work and Pensions introduced several versions of such benefits, alongside the more traditional 'working tax credit' (and its predecessor, 'working families' tax credit' or WFTC). This briefing note summarises findings from our research, funded by the Nuffield Foundation, that looked at two of these time-limited in-work credits, known as 'in work credit' (IWC) and the 'Employment Retention and Advancement demonstration' (ERA).¹ Both of these programmes featured cash payments that could be paid to lone parents who had previously been on welfare and then moved into paid work. Although both have been evaluated previously,² our new research made use of previously unavailable administrative data on hours worked by lone parents, and also sought to compare the two programmes directly by estimating their impacts in a single model, with the same method and on the same target group. In doing so, our work adds to the limited international evidence on the effectiveness of time-limited credits, most of which comes from a Canadian programme known as the Self-Sufficiency Project, where evidence suggests that the incentives had little or no long-term impact on employment or wages.³

Our research sought to discover whether time-limited in-work credits can lead to sustained increases in employment, and whether it matters whether we incentivise part- or full-time work. Our answer to both questions is yes. We find that both time-limited credits got more lone parents off welfare and into paid work, and especially so for ERA, the credit that was conditional on full-time work. Once in paid work, both programmes incentivised lone parents to stay in employment, and the increase in employment persisted even after payments stopped. Second, we find that whether the policy incentivised part- or full-time work was extremely important. Paying an in-work credit to those working 16 or more hours per week modestly increased part-time work, but slightly

¹ We also held a workshop in May 2017 at which we presented the findings of this project and discussed what we do and do not know about how to encourage retention. We are very grateful to the Nuffield Foundation for hosting this, to Kate Bell for chairing it and to David Finch and Ashwin Kumar for speaking. We have drawn on the discussion at that event in this briefing note, but, recognising that the event was held under Chatham House rules, we have not credited individuals.

² This previous evidence is in R. Hendra, J. A. Riccio, R. Dorsett, D. H. Greenberg, G. Knight-Hierro, J. Phillips, P. K. Robins, S. Vegeris and J. Walter, with A. Hill, K. Ray and J. Smith, *Breaking the Low-Pay, No-Pay Cycle: Final Evidence from the UK Employment Retention and Advancement (ERA) Demonstration*, DWP Research Report 765, 2011, for ERA (see also R. Dorsett, 'The effect of temporary in-work support on employment retention: evidence from a field experiment', *Labour Economics*, 2014, 31) and in M. Brewer, J. Browne, H. Chowdry and C. Crawford, *The Lone Parent Pilots after 24–36 Months: The Final Impact Assessment of In-Work Credit, Work Search Premium, Extended Schools Childcare, Quarterly Work Focused Interviews and New Deal Plus for Lone Parents*, DWP Research Report 506, 2009, for IWC, both reporting results from comprehensive DWP-funded impact evaluations.

³ See D. Card and D. Hyslop, 'Estimating the effects of a time-limited earnings subsidy for welfare-leavers', *Econometrica*, 2005, 73, 1723–70.

reduced full-time work. However, paying a credit only to those working 30 or more hours a week led to more lone parents working full-time, fewer not working at all and fewer working part-time.⁴

But our research is not just relevant to the evidence base on financial incentives, tax credits and labour supply. ERA (explicitly) and IWC (implicitly) were also intended to be policies to encourage retention and progression (or 'advancement', as ERA refers to it).

These are important policy aims of the current government (as well as previous ones). The recent report to the current government produced by Matthew Taylor concluded that

There should be a greater focus in national and local policy on supporting people not just to enter the labour market but to remain in work and to progress to better quality employment.⁵

This is not a radical conclusion to draw. Indeed, achieving a labour market that encourages job retention and delivers jobs with progression seems to be a policy aim shared by organisations across the political divide. For example, the Joseph Rowntree Foundation wrote in 2016 that

We could solve poverty by supporting people to gain the skills and capabilities to find a job and progress once in work; [and] creating more jobs offering at least a Living Wage, with greater job security and opportunities for progression.⁶

And a 2015 report on low pay published by the Centre for Social Justice mentions progression several times in its policy recommendations:

... larger businesses should be expected to identify progression routes and training opportunities for low-paid employees.... Government should focus on increasing work incentives in the Universal Credit, as this is specifically focused on the low-paid and greatly increases incentives to work and to progress.... Universal Credit claimants should be expected to develop 'Progression Plans', setting out detailed steps to boost skills and progress.... Payment by results should also be used to incentivise advisers to achieve progression.⁷

⁴ The policies examined by our research were implemented during the 2000s, a time when the labour market was reasonably buoyant. On the other hand, the policies were targeted at lone parents, a group who, at the time, were able to remain on out-of-work benefits until their children were 16. We deliberately excluded lone parents who were affected by the transition of lone parents from income support (IS) to jobseeker's allowance (JSA). For a review of that policy, see S. Avram, M. Brewer and A. Salvatori, 'Can't work or won't work: quasi-experimental evidence on work search requirements for single parents', IZA Institute of Labour Economics, Discussion Paper 10106, 2016, <http://ftp.iza.org/dp10106.pdf>.

⁵ *Good Work: The Taylor Review of Modern Working Practices*, Department for Business, Energy & Industrial Strategy, 2017, <https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices>.

⁶ *We Can Solve Poverty in the UK*, Joseph Rowntree Foundation, <https://www.jrf.org.uk/file/49544/download?token=uL5tBSQ5&filetype=download>.

⁷ D. Skelton, *Tackling Low Pay*, Centre for Social Justice, 2015, http://www.centreforsocialjustice.org.uk/core/wp-content/uploads/2016/08/CSJJ3147_Tackling_Low_Pay.pdf.

The major development in welfare policy since the period covered by our data is the roll-out of universal credit (UC). This is significant because it will mean that the DWP is paying benefits to significant numbers of families who are already in paid work, but also because UC has introduced the idea of ‘in-work conditionality’ (whereby claimants in employment but not earning ‘enough’ will be expected to undertake activities to increase their earnings). The DWP is also trying to improve the evidence base, principally through an ongoing In Work Progression randomised control trial (RCT), in which about 15,000 workers will be randomised into one of three groups.⁸

Our research did not have reliable measures of the earnings of those in paid work (which is one way to measure progression), but our findings are relevant to debates about retention and progression generally. Specifically, our contribution is to suggest that financial incentives can play a role in encouraging retention and progression. Overall, though, and in the light of the discussions at our workshop on what we know about retention and progression, we will conclude by echoing one of the conclusions of Matthew Taylor’s review:

... there is currently a lack of understanding about what progression really is, let alone what works best in supporting people to achieve it...
Government should seek to develop a better understanding of what progression at work is and [how] public policy levers influence it. Building on the trials to date, Government should work with external providers to determine what really works in supporting individuals to obtain better quality – and not just more – work.

In the remainder of this note, Section 2 gives details of the two policies that we examined. Section 3 outlines what impacts we expected to find and briefly describes the data and method we used. Section 4 summarises the findings of our research and Section 5 discusses potential reasons for the different effects of the policies that we studied. Section 6 summarises the lessons from the project’s workshop held in May 2017 and Section 7 concludes.

⁸ <https://www.gov.uk/government/publications/developing-in-work-support-for-people-claiming-universal-credit/universal-credit-in-work-progression-randomised-control-trial>.

2. Two potential policies for increasing work and retention

Our research examined the effectiveness of two time-limited in-work benefits. These policies were introduced in the early-to-mid 2000s by the then Labour government and were known as ‘in work credit’ and the ‘Employment Retention and Advancement demonstration’. We provide details of these policies below.

In work credit

In work credit (IWC) was available to lone parents in the UK who had been receiving out-of-work benefits (such as income support) for a continuous period of 12 months or more and who then moved into paid work of at least 16 hours per week. It was payable at a rate of £40 per week (and, from July 2007, £60 a week in London). Payments stopped after 12 months, or if the lone parent stopped working (very short periods out of work were overlooked), or if the lone parent re-claimed out-of-work benefits. The payments were made weekly in arrears and were not means-tested, nor taxable, nor did they count as income for the purpose of other means-tested welfare benefits or tax credits. Repeat claims of IWC were allowed, but only if a lone parent spent a further 12 months on out-of-work benefits to regain potential eligibility. Over a four-year period from April 2004, IWC was gradually rolled out across all of Great Britain (not Northern Ireland), and we took advantage of this staggered roll-out in our empirical work. In 2010–11, the government spent around £110 million on payments of IWC.⁹ It was scrapped by the coalition government, and new claims ceased in October 2013.¹⁰

The Employment Retention and Advancement demonstration

The Employment Retention and Advancement demonstration (ERA) was a randomised intervention that aimed to deliver the ‘next step’ in welfare-to-work policy. It targeted three groups, but we consider only the group of non-working lone parents who were claiming income support (IS) and had volunteered for the New Deal for Lone Parents (NDLP) labour market programme. Inflow into ERA took place between 2003 and 2005.

If individuals were randomised to receive ERA, they were eligible for a range of support to help them into work and progress while in work. One part of this support was a retention bonus – a payment of £400 in each 17-week period, paid if they worked full-time (30 hours or more) for at least 13 weeks in the 17-week period. Participants could receive at most six such payments, which would cover a maximum period of two years. Payments would also stop 33 months after being randomised into the programme.

Unlike IWC, ERA did not require the lone parents to have been out of work for at least 12 months before receiving the payments: they simply had to have been receiving IS and have volunteered for NDLP. ERA also provided ‘Advancement and Support Advisers’, who advised participants on how to secure long-term work with advancement and progression. In addition, there were a series of incentives to undertake training: £1,000 for

⁹ See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/603005/outturn-and-forecast-spring-budget-2017.xlsx.

¹⁰ See Department for Work and Pensions, ‘In work credit: official statistics’, May 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/310740/iwc-may14.pdf.

fees of courses undertaken while working at least 16 hours per week, as well as a training bonus, paid at £8 per hour (up to a maximum of £1,000) if completed within 33 months after randomisation. We discuss these aspects later.

3. Estimating the impact of IWC and ERA on employment and job retention

Both IWC and ERA increased the incentive for potentially eligible lone parents to move into paid work, and then to stay in work, at least for the period in which the extra benefits were being paid. But there were also some subtle incentives created by the policies, due to the different hours of work needed to qualify to receive the different payments. For example, because receipt of IWC was conditioned on working at least 16 hours a week, IWC incentivised individuals to work part-time (16–29 hours per week) rather than full-time (at least 30 hours per week). This was because they now received more money working part-time than they would have previously, and therefore they were now less likely to want to work full-time, due to an ‘income effect’. Alternatively, a non-working lone parent might decide not to hold out for a full-time job offer if she could find a part-time job and receive the IWC payments to top up her income. On the other hand, because receipt of ERA was conditioned on working 30 or more hours a week, ERA increased the incentive to work full-time and made part-time work considerably less attractive than full-time work.

To account for these different features of the two programmes, we used administrative data that were able to tell us which of the following four different economic activities a lone parent was doing at any time – receiving out-of-work benefits; in part-time work and receiving tax credits; in full-time work and receiving tax credits; and a residual ‘none of the above’ – as well as who had received IWC and ERA.¹¹ We then used a model that estimated how the policies affected the probabilities of moving between these four different economic activities. By doing this, we were able to split the overall impact of the programmes into two parts: that due to the increased incentives to find paid work and that due to the effectiveness of the policies at keeping people in paid work (or retention). To make the comparison between IWC and ERA more meaningful, we restricted our attention on the effect of IWC (and ERA) to those who participated in the New Deal for Lone Parents programme and followed them in our data from the point at which they joined NDLP.

Because the two policies were introduced in different parts of Great Britain at different times (and because ERA had a fully-random comparison group), we were able, in effect, to compare the behaviour of lone parents who were potentially eligible for the programmes with the behaviour of lone parents who were not, using a variant of the ‘differences-in-differences’ approach. Although the administrative data to which we had access covered all lone parents who have ever received IS, the complexity of the model meant that we used data on a sample of 10,000 individuals so that the model could be estimated in a reasonable time.

¹¹ We used administrative data on spells of benefit and tax credit receipt by lone parents, called the Work and Pensions Longitudinal Study, which was made available by the Department for Work and Pensions.

4. How did IWC and ERA affect job entries and job retention?

This section presents the key findings of our work. Full results can be found in Brewer and Cribb (2016).¹²

Figure 1 shows the estimated impact of being potentially eligible for IWC on the likelihood of being in work. The black points show the impact of IWC on the likelihood that lone parents were in any sort of paid work, and how this changed over time for individual lone parents. It shows, for example, that out of every 100 lone parents who were potentially eligible to receive IWC – by which we mean that these lone parents had been receiving IS for at least 12 months and so could have claimed IWC had they moved into paid work – IWC had induced close to one more of them to be in work after 36 months. The solid bars show that this overall impact hides two offsetting impacts: of these 100 hypothetical lone parents, IWC seems to have encouraged two more to work part-time, but one fewer to work full-time. In other words, out of every 100 lone parents who were potentially eligible

Figure 1. Effect of IWC on probability of being in paid work (full-/part-time), by months since first potentially eligible for IWC



Note: Paid work of less than 16 hours per week is not included. The estimated impacts of IWC on part-time and full-time work are not statistically significantly different from zero at the 5% level.

Source: Table 2 of M. Brewer and J. Cribb, 'Lone parents, time-limited in-work credits and the dynamics of work and welfare', IZA Institute of Labour Economics, Discussion Paper 10414, 2016, <http://ftp.iza.org/dp10414.pdf>.

¹² M. Brewer and J. Cribb, 'Lone parents, time-limited in-work credits and the dynamics of work and welfare', IZA Institute of Labour Economics, Discussion Paper 10414, 2016, <http://ftp.iza.org/dp10414.pdf>.

to receive IWC, two more worked part-time as a result of IWC, one of whom would otherwise have worked full-time and one of whom would not otherwise have worked.¹³

In contrast, Figure 2 shows that ERA had a much larger impact on employment than IWC, despite the payments being lower on a weekly basis (although they could be claimed for up to two years rather than at most one year). At its strongest, out of every 100 lone parents who were potentially eligible to receive ERA (by which we mean that these lone parents had volunteered for NDLP and so could have claimed the ERA retention bonuses had they moved into full-time work), almost seven more lone parents were in work after 24 months. This impact then declines, but even at 48 months – and this is 15 months after the last point lone parents could receive a bonus – the impact of ERA on the likelihood of lone parents being in work is still large, with over four more lone parents in work out of every 100.

The fact that ERA was only paid if lone parents were in full-time work is important. In fact, the programme increased the proportion in full-time work by up to 8.7 percentage points at its peak, 6.6 percentage points of which would otherwise not have been in paid work and 2.1 percentage points of which would have been in part-time work. All of the estimated impacts of ERA shown here are statistically significantly different from zero.

Figure 2. Effect of ERA on probability of being in paid work (full-/part-time), by months since first potentially eligible for ERA

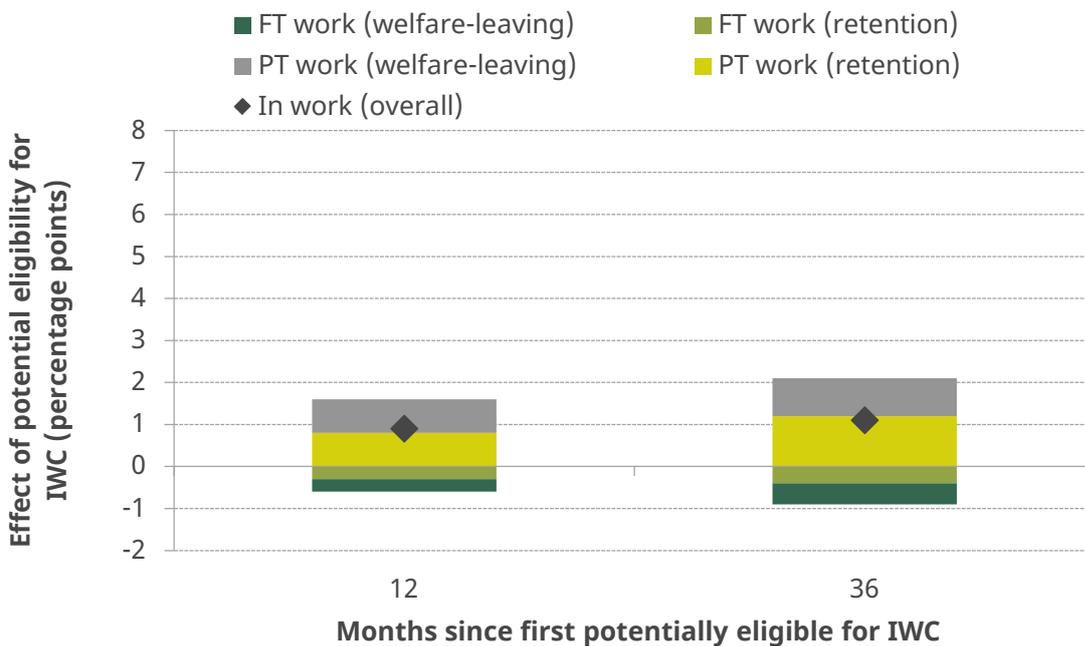


Note: Paid work of less than 16 hours per week is not included. All the estimated impacts of ERA on part-time and full-time work are statistically significantly different from zero at the 5% level.

Source: Table 6 of M. Brewer and J. Cribb, 'Lone parents, time-limited in-work credits and the dynamics of work and welfare', IZA Institute of Labour Economics, Discussion Paper 10414, 2016, <http://ftp.iza.org/dp10414.pdf>.

¹³ These small effects are not statistically significant, although they are in line with the official evaluation of IWC, which used a simpler method and so was able to use the entire data set. See M. Brewer, J. Browne, H. Chowdry and C. Crawford, *The Lone Parent Pilots after 24–36 Months: The Final Impact Assessment of In-Work Credit, Work Search Premium, Extended Schools Childcare, Quarterly Work Focused Interviews and New Deal Plus for Lone Parents*, DWP Research Report 506, 2009.

Figure 3. Welfare-leaving and retention effects of IWC on full-time (FT) and part-time (PT) paid work



Note: Paid work of less than 16 hours per week is not included. The estimated impacts of IWC shown in this figure are not statistically significantly different from zero at the 5% level, with the exception of the effects on part-time work due to job retention at 12 and 36 months, which are both significantly different from zero at the 5% level.

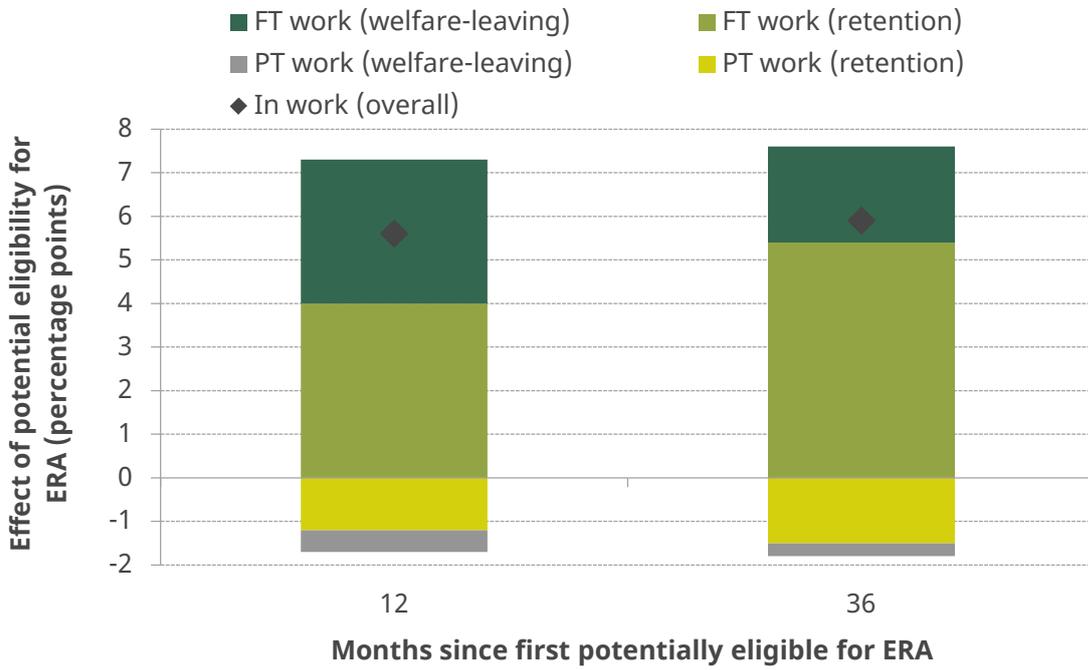
Source: Tables 3 and 4 of M. Brewer and J. Cribb, 'Lone parents, time-limited in-work credits and the dynamics of work and welfare', IZA Institute of Labour Economics, Discussion Paper 10414, 2016, <http://ftp.iza.org/dp10414.pdf>.

Figures 3 and 4 break down the overall impact of the policies on employment (whether full- or part-time) into that attributable to the policies' initial impact on encouraging lone parents to leave welfare (or to move into paid work) and that due to the policies' impact on encouraging lone parents to stay in work (job retention). They show this breakdown at two points in time: 12 and 36 months after first becoming potentially eligible. Figure 3 shows that, of the modest impacts on employment that IWC had, roughly half of the impacts after 12 months were due to the welfare-leaving impact and half due to job retention.¹⁴ The retention effect seems to have become slightly more important over time.

Figure 4 shows the 'welfare-leaving' and 'retention' effects of ERA. After 12 months, most (4.0 percentage points out of 7.3 percentage points) of the impact on full-time work was due to ERA encouraging job retention (rather than encouraging initial job entry). The fraction increased over time, such that by 36 months, 5.4 percentage points of the 7.6 percentage point effect was explained by higher job retention, even though the programme had ended by this point. The figure also shows that the main reason for lower part-time employment was that ERA reduced retention in these part-time roles (i.e. that it encouraged recipients to move from part-time to full-time work and discouraged them from moving from full-time to part-time).

¹⁴ The negative contribution that is attributed to 'FT work (retention)' means that, amongst IWC recipients, more moved from full-time work to part-time work (or fewer moved from part-time to full-time) than would otherwise have done so.

Figure 4. Welfare-leaving and retention effects of ERA on full-time (FT) and part-time (PT) paid work



Note: Paid work of less than 16 hours per week is not included. All the estimated impacts of ERA shown in this figure – with the exception of the ‘PT work (welfare-leaving)’ effects – are statistically significantly different from zero at the 5% level.

Source: Tables 7 and 8 of M. Brewer and J. Cribb, ‘Lone parents, time-limited in-work credits and the dynamics of work and welfare’, IZA Institute of Labour Economics, Discussion Paper 10414, 2016, <http://ftp.iza.org/dp10414.pdf>.

5. Why was the impact of ERA so much greater than that of IWC?

Unfortunately, it is not clear from this research alone exactly why the impact on employment and retention was so much larger for ERA than it was for IWC – even though in both cases the lone parents we examined have all volunteered to be part of the New Deal for Lone Parents programme which was designed to prepare them for paid work. There are a number of possible reasons, which we discuss in this section.

One reason could be that, if full-time work is inherently more likely to lead to retention and progression, then, by encouraging full-time work rather than part-time work, ERA contributed to significantly higher retention. It is generally accepted that full-time work is better than part-time work, in that it is more likely to last and more likely to lead to wage growth.¹⁵ But this cannot be the entire story, as our research shows that ERA also had larger ‘welfare-leaving’ effects (i.e. it increased the flow of lone parents off welfare and into paid work in the first place) than IWC.

A second reason for the larger employment effects from ERA may be that the financial incentives to work (the retention bonuses) were provided alongside incentives to undertake training (i.e. payments to reimburse training fees, and training bonuses). Table 1 shows that a significant amount of training was undertaken by those who were randomised into the ERA group: 18% of all ERA participants received a training bonus or reimbursement of fees, and this figure was 34% amongst those who moved into full-time work (though this should not be read as evidence that training itself increases employment and retention). These payments averaged almost £800 amongst those who received a payment.

Table 1. Receipt of payments for training fees and training bonuses by lone parents potentially eligible for ERA

Outcome	Those who moved into full-time work	Those who did not move into full-time work	All
Received a training bonus or reimbursement of training fees	34%	10%	18%
Mean payment amongst those receiving a payment	£823	£752	£797
Mean payment (including those not receiving a payment)	£278	£72	£140

Source: Authors’ calculations using the Work and Pensions Longitudinal Study.

¹⁵ For example, R. Blundell, M. Costa-Dias, C. Meghir and J. Shaw, ‘Female labour supply, human capital and welfare reform’, *Econometrica*, 2016, 84, 1705–53, find that the wage return to experience for part-time work, even for highly educated women, was close to zero, whereas there were strong returns to full-time work. It was certainly the view of the team that designed ERA in the UK that full-time work produces greater returns than part-time work: for their assessment of the evidence at that time, see annex 1 of S. Morris, D. Greenberg, J. Riccio, B. Mitra, H. Green, S. Lissenburgh and R. Blundell, *Designing a Demonstration Project: An Employment Retention and Advancement Demonstration for Great Britain*, Government Chief Social Researcher’s Office (GCSRO), Occasional Paper 1, 2004.

It is important to consider whether the forms of training are likely to lead to sustained growth in wages. Previous evidence has suggested that while there are ‘significant and substantial average wage returns to a wide range of level 3 [vocational] qualifications’ (equivalent to A levels), the returns on level 2 qualifications (equivalent to GCSEs) are lower and, in some cases, non-existent.¹⁶ However, using the data on training payments in the Work and Pensions Longitudinal Study, only 6% of those for whom there are data on the training undertaken mention a level 3 course, while 9% mention a level 2 qualification. Interestingly, the most frequent single course mentioned was payments for driving lessons and tests (17%). Other courses mentioned included beauty courses (6%), secretarial (6%) and first aid (5%). Although these courses may not therefore seem like the kind of courses that encourage substantial wage growth once in paid work, they may provide a higher probability of finding a job.

A third possibility is that the larger employment effects from ERA might be because the financial incentives to work (the retention bonuses) were provided alongside personalised support and advice from Advancement and Support Advisers (ASAs; these played a similar role to standard Jobcentre Plus Personal Advisers). As with the restriction to full-time work, this was a design feature of ERA that was built in deliberately because it was thought it would increase the chances that individuals would stay in work and progress.¹⁷ And there are plausible reasons why regular contact with advisers would have increased the impact of ERA on retention: the meetings with their ASA might have reminded claimants of the value of the retention payments, and the meetings might have given ASAs the opportunity to provide advice or support to encourage retention (in which case our estimated impacts would overstate the pure impact of financial incentives alone).

Unfortunately, the findings of this study do not tell us how much of a contribution any of these three factors made to the larger impact of the ERA programme.

¹⁶ See A. Jenkins, C. Greenwood and A. Vignoles, ‘The returns to qualifications in England: updating the evidence base on level 2 and level 3 vocational qualifications’, Centre for the Economics of Education (CEE), Discussion Paper 89, 2007, <http://cee.lse.ac.uk/ceedps/ceedp89.pdf>.

In contrast, F. Buscha and P. Urwin, *Estimating the Labour Market Returns to Qualifications gained in English Further Education using the Individualised Learner Record (ILR)*, Department for Business, Innovation and Skills, 2013, <http://dera.ioe.ac.uk/17619/1/bis-13-849-estimating-labour-market-returns-to-qualifications-gained-in-english-fe-using-individualised-learner-record-ilr.pdf> find substantial wage returns to level 2 (and 3) vocational qualifications. However, their methodology involves comparing individuals taking courses that achieve the qualification with those taking the course who do not achieve it. There may well be important unobservable differences between these achievers and non-achievers, which would lead to upward bias to the estimated returns.

¹⁷ ‘The R&A [retention and advancement] bonus is intended to reinforce the other elements of the policy package offered to customers under the ERA Demonstration Project. To encourage customers to attend face-to-face contact with their Adviser (ASA), the ASA will be responsible for authorising payment. To encourage customers to meet with their ASA a minimum of once every four months, the R&A bonus payments will be assessed on a pattern of rolling 17-week periods and customers cannot receive payment, even if they are eligible in all other respects, unless they attend scheduled meetings with their ASA’ (pages 14–15 of S. Morris, D. Greenberg, J. Riccio, B. Mitra, H. Green, S. Lissenburgh and R. Blundell, *Designing a Demonstration Project: An Employment Retention and Advancement Demonstration for Great Britain*, Government Chief Social Researcher’s Office (GCSRO), Occasional Paper 1, 2004).

6. Lessons from the workshop

The project's findings were shared at a workshop hosted by the Nuffield Foundation in May 2017, at which we discussed what we do and do not know about how to encourage retention. The event was held under Chatham House rules, and so we cannot credit individuals, but the following points were made:

- 'Progression' means different things to different policy actors, and may mean entirely different things to low-paid workers (or may not be something that they desire). For example, progressing from an insecure zero hours contract to a guaranteed hours contract is now something that some low-paid workers desire, even if it leaves their average earnings unchanged.
- In certain low-paying sectors (e.g. retail), an increase in hourly wage within an organisation is sometimes possible only if workers take on considerably more responsibilities and/or agree to work full-time. For some, these conditions are not worth the small increase in gross pay, and particularly not if the small pay rise is partially offset by reductions in entitlements to means-tested benefits or tax credits.¹⁸
- It is still not known whether the best way to provide financial incentives to progress is with conditional cash payments that lead to kinks and cliff-edges, or to keep a smooth gain-to-work profile. Likewise, we do not really know which of regular or one-off payments are better at encouraging progression.
- Data on progression come mainly from household panel surveys (the British Household Panel Survey (BHPS) and Understanding Society), administrative data on annual earnings (the Annual Survey of Hours and Earnings (ASHE) data set) and, for short-run retention, from the Labour Force Survey. It is difficult to make cross-national comparisons of progression in the labour market. It is also difficult to tell whether workers are progressing less than they used to.
- Research shows that lone parents who progress – in the sense of seeking jobs with more hours of work – are much more likely to change employers than those who do not.¹⁹ This suggests that employers whose workforce is affected by in-work conditionality might face trade-offs between higher turnover and offering greater opportunities for progression.
- IWC and ERA substantially increased the pay-off to work, as none of the extra income was offset by reductions in other benefits or tax credits. Even after the introduction of universal credit, the financial pay-off to increasing earnings for individuals in low-income families remains weak.
- Jobcentre Plus Personal Advisers have historically not been incentivised or encouraged to think about progression, but the roll-out of UC should mean that they both have an

¹⁸ K. Ussher, *Improving Pay, Progression and Productivity in the Retail Sector*, Joseph Rowntree Foundation, 2016, <https://www.jrf.org.uk/report/improving-pay-progression-and-productivity-retail-sector>.

¹⁹ R. Blundell, M. Brewer and M. Francesconi, 'Job changes and hours changes: understanding the path of labor supply adjustment', *Journal of Labor Economics*, 2008, 26, 421–53, DOI: 10.1086/588245.

interest in considering it, and the introduction of in-work conditionality should mean that they have a tool that allows them to influence it.

- Although increasing skills is often put forward as a policy to support labour market progression, there is evidence of considerable over-education (or under-utilisation of existing skills and qualifications) amongst some young people and some newly-returned-to-work mothers.

7. Summary and discussion

Our research adds to the large body of evidence on how financial incentives and tax credits can encourage people to work more. Because we were able to use richer administrative data on hours worked than were available when IWC and ERA were first evaluated, our results add to the understanding of these two programmes too.

We also draw three important broader conclusions for those considering how best to encourage and increase retention and progression in the labour market:

- First, even time-limited in-work benefits can have important impacts on job retention, and the positive impacts of the policies are not necessarily limited to the period in which the benefits can be paid.
- Second, although we cannot say for certain why ERA was much more effective than IWC, it is clearly important to think carefully about the design and operation of policies affecting financial incentives. Policymakers should therefore explore to what extent financial incentives, significant advice and obligations to engage are complementary – rather than substitutable – at increasing employment and progression once individuals are in paid work. It will be interesting to see the results of the current DWP trials on in-work progression (testing different intensities of contact between UC recipients who are in work and Jobcentre Plus staff) alongside our results.
- Third, rules regarding hours of work are extremely important in driving behaviour, and policymakers should think about what type of work they want to encourage and should design the financial incentives accordingly. Our results do not help resolve the long-running question about the merits of a work-first approach regardless of the quality of the job, but they do show that some lone parents offered incentives to work part-time do cut their hours in response and that encouraging part-time work has very small impacts on retention.

Our research is an excellent demonstration of the power of rich, linked administrative data, and of the DWP's Work and Pensions Longitudinal Study (WPLS) in particular. It is these data that gave us the ability to trace individual lone parents from the point at which they had spent 12 months on welfare benefits or had joined the NDLP programme, through their journey into paid work. Ours is one of the first projects to use the administrative data in the WPLS on the hours worked per week, which are provided when individuals claim tax credits, as a measure of employment. Although the usefulness of this measure has been reduced since 2010 (as tax credits have been cut back so that fewer families are entitled to them and as universal credit replaces them), we hope that our work inspires other researchers to use the available data more fully (all of our syntax is available on request from jonathan_c@ifs.org.uk).