A look back at In Work Credit and ERA: do financial incentives encourage retention?

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Nuffield Foundation, 24 May 2017
Lone parents do respond to conventional in-work (tax) credits
What was the thinking?

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- Time-limits are commonly applied to out-of-work benefits (e.g. unemployment insurance, TANF in the US), but less so to in-work benefits
  - Major exception: Self Sufficiency Project (SSP) in Canada

Brewer and Cribb (2017)
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  - Major exception: Self Sufficiency Project (SSP) in Canada
- In Work Credit (IWC) and the Employment, Retention and Advancement (ERA) programme both piloted in UK in 2000s
  - Previous work shows both increase flows off welfare and into work; we probe impacts on job retention
In Work Credit: policy detail

- **Eligibility**: Lone parents who had received an out of work benefit for 12+ months and were a lone parent with dependent child upon entering work


- **Work Conditions**: Must work 16+ hours a week to receive IWC

- **Benefit Amount**: £40 per week

  - £60 pw in London from July 2007

- **Payments ended**:
  1. if they claimed an out-of-work benefit
  2. if out of work for more than 5 weeks
  3. after 52 weeks of claiming IWC

Brewer and Cribb (2017)
IWC & ERA and retention
24 May 2017
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2006-07 tax and benefit system, national minimum wage, 1 child, no childcare, council tax = £15.86 per week, includes Housing Benefit covering rent of £60 per week.
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ERA: policy detail

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  - Lone parents must have been living in one of the 5 “ERA districts”
  - Given opportunity to take part in ERA then randomised into treatment and control groups
  - Randomised into ERA between December 2003 and November 2004
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- Payments ended:
  1. after 24 months of ERA receipt (max payment = £2,400)
  2. when ERA program ended (33 months after randomisation)
Data

- Work and Pensions Longitudinal Study (WPLS): an administrative data composed of multiple data-sets that include:
  - receipt of Income Support and other DWP benefits, self-reported hours from tax credit records, receipt of IWC ERA
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- Construct a monthly panel indicating whether the individual was BEN/PT/FT/NOTA
- Allow for transitions to depend on:
  - Age, sex, number of children, age of youngest child, ethnicity, duration in spell, area, time, local unemployment rate.
Key results

- Being eligible for IWC makes transitions to PT work more likely, and transitions to FT work less likely.
- Being eligible for ERA makes transitions to FT work (a lot) more likely.
- Receiving ERA makes transitions out of FT work (a lot) less likely.
- Being eligible for or receiving ERA makes transitions to PT work less likely.
- General: more likely to leave welfare for work (and more likely to stay in work) when youngest child is older, fewer children, lower local unemployment rate.
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Economic status since first potentially eligible for IWC

Brewer and Cribb (2017)

Proportion

Months since first potentially eligible for IWC

Full-time work, Part-time work, On welfare, Other
## Effect of In Work Credit

<table>
<thead>
<tr>
<th>Number of months since first potentially eligible for IWC</th>
<th>Effect of IWC on economic activity (ppt)</th>
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<tr>
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<td>On welfare</td>
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<tr>
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- Full-time work
- Part-time work
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0 6 12 18 24 30 36 42 48

Institute for Fiscal Studies
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Summary and conclusion

- Clear differences between programmes’ impacts
  - ERA increases % in FT work, and there is a clear retention effect
  - IWC has much smaller impacts
  - Hours rules important

- Can this be explained?
  - Awareness of ERA higher?
  - ERA recipients had other support?
  - F/T work better than P/T for retention?

- Financial incentives may have role to play, but:
  - Expensive (although raise incomes)
  - ERA aimed at work-ready group on NDLP
  - IWC much less effective as retention tool

[Shameless plug] Great showcase for DWP’s administrative data, now available through ADRN
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