

The Impact of Encouragement and Assistance on Benefits Take-Up in the United States

Researchers:

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Sector(s): Finance, Social Protection

Location: United States of America

Target group: Adults Workers

Outcome of interest: Savings/deposits

Intervention type: Savings

AEA RCT registration number: <https://www.socialscienceregistry.org/trials/2468>

Most eligible workers who receive the Earned Income Tax Credit (EITC), a cash transfer program geared toward low-income workers with dependents, receive the credit as an annual lump sum payment, even though they are eligible to receive the credit in the form of monthly disbursements throughout the year (referred to as the Advance EITC). To test whether or not workers might benefit from receiving the EITC in the form of monthly payments rather than a lump sum, researchers reduced potential enrollment barriers to encourage workers to participate in the Advance EITC.

To test whether workers prefer the annual EITC payment because it encourages them to save, an additional treatment group (referred to as Advance EITC and 401(k) savings) received the same reduced enrollment barriers but were also encouraged to increase their participation in a 401(k) savings plan, a more direct way to save. Researchers found that those in the Advance EITC Only treatment group increased enrollment in the Advance EITC by a small amount. Those in the Advance EITC and 401(k) savings group had similar Advance EITC enrollment rate to the Advance EITC Only treatment group, and increased participation in 401(k) programs by a moderate amount.

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The EITC is one of the largest cash transfer programs in the United States. Many eligible workers—generally low-income earners with dependents—receive a share of their income through the EITC. Eligible workers can receive their payment either in the form of a lump sum payment at the end of the year, or as monthly disbursements throughout the year (referred to as the Advance EITC). However, each year only a small minority of workers (between 0.5 and 3 percent) choose the Advance EITC option.

Despite this low participation rate, theory suggests that receiving the Advance EITC may be beneficial for many low-income workers. Many eligible workers use their credit to pay off debt. Eligible workers hold, on average, \$2,700 in credit card debt, which typically has high interest rates. Receiving Advance EITC payments once a month, as opposed to the end of the year, may assist low-income workers in paying off costly credit card debt and may also provide workers with more flexibility around spending each month.

Low participation in the Advance EITC option could be explained by a lack of awareness about the Advance option, administrative barriers due to its disbursement through employers, procrastination in filling out paperwork to register for the program, or the potential stigma in the workplace around receiving welfare benefits. Workers may also prefer the annual lump sum payment as a

way to encourage themselves to save money until the end of the year.

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In the spring of 2006, researchers collaborated with a large-scale, nationwide retail firm with many EITC-eligible employees to test strategies to increase participation in the Advance EITC.

The study population included hourly employees at a subset of the retail outlets within the southern and western regions of the firm working an average of 25 hours per week and earning a median wage of \$7.50 per hour. The employees are 80 percent female, one-third married, and over half non-white—a relatively accurate reflection of the broader EITC-eligible population, which is concentrated among single, female-headed households and minorities.



Executives practice meditation during work. Photo: Shutterstock

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Researchers conducted a randomized evaluation to determine the impact of reducing barriers to enrollment for the Advance EITC and the 401(k) savings benefit on participation in the Advance EITC option and the 401(k) savings benefit. The evaluation consisted of two treatment groups and a control group.

Advance EITC Only treatment group. This group received an intervention that jointly reduced four types of barriers associated with participation in the Advance EITC.

- Information barriers: To overcome lack of awareness about the Advance EITC option, the treatment group was presented with information in the form of a flier and a video presentation that encouraged them to sign up. They also received the IRS form needed to sign up for Advance payments.
- Administrative barriers: Researchers also believed that there may be administrative obstacles on the employer's side that prevent eligible employees from enrolling in the Advance EITC, as the Advance EITC is disbursed through the employer. Researchers provided the store's human resources department with training and information about the Advance EITC program.
- Procrastination: To overcome procrastination hurdles, researchers require all employees to hand in paperwork indicating their enrollment preference. This requirement forces procrastinators to hand in paperwork.
- Stigma: To overcome potential stigma associated with receiving benefits, which may lead to lower take-up, researchers required employees to hand in paperwork, not just those that are interested in enrolling, making it more challenging to infer who is and is not eligible for the program.

Advance EITC and 401(k) treatment group. This group received the same intervention as the Advance EITC. In addition, they received encouragement to enroll in an employer-matched 401(k) savings plan. This treatment group was devised to test whether workers prefer the lump sum payment because it encourages them to save throughout the year.

Control group. This group has access to the Advance EITC and 401(k) enrollment options, but receives no additional encouragement or assistance to enroll.

Researchers measured the interventions' impact on Advance EITC participation rates and 401(k) participation rates and weekly contributions. They also measured employee tenure, wages, and weekly hours worked, as well as a number of demographic variables.

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The intervention had small positive impacts on Advance EITC participation for both treatment groups.

For the Advance EITC Only group, addressing the four potential barriers to Advance EITC take-up increased enrollment in the Advance EITC from 0.3 percent to 1.2 percent.

For the Advance EITC and 401(k) savings group, the interventions increased Advance EITC participation roughly identically to the Advance EITC Only group. In other words, there was no additional increase in Advance EITC participation by coupling the EITC encouragement intervention with the 401(k) encouragement intervention. However, the interventions increased 401(k) participation by four percentage points from a baseline of 46 percent.

These results imply that low participation in the Advance EITC option is not simply due to the four barriers addressed in the Advance EITC Only intervention. Rather, this low take-up rate may indicate that workers actively chose not to enroll in the Advance EITC for other reasons, such as concern about making back payments to the IRS or a desire to enhance short-term savings through the annual lump sum payment.