

Employment Retention and Advancement (ERA) demonstration: The Impact on Workers' Outcomes

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The issue

Launched in 2003, the Employment Retention and Advancement (ERA) scheme was designed to test the effectiveness of a unique combination of services to help both unemployed individuals who have entered work as well as low-paid workers remain and progress in work. The innovative package of support once in work combined job coaching and advisory services with a new set of financial incentives rewarding sustained full-time work, as well as the completion of training or education courses whilst employed.

Three groups traditionally characterised by a weak labour market position and low job attachment were eligible for ERA: long-term unemployed people over the age of 25 who were mandated to start the New Deal 25 Plus (ND25+) programme, lone parents who had volunteered for the New Deal for Lone Parents (NDLP) programme, and lone parents who were already working part-time and receiving Working Tax Credit (WTC).

The effectiveness of the ERA programme, which operated in six regions across the UK between October 2003 and October 2007, has been carefully evaluated through a large-scale randomised control trial.

ERA was designed to make a difference to employment chances and earnings over a period of years and the experimental design offers a very reliable way to test whether this has indeed been the case. However, it cannot directly address questions that relate to the impact of ERA on any outcome which is only defined conditional on being in work – such as wage rates, hours, fringe benefits, other job quality measures and wage progression. This is because the ERA programme itself may influence who it is that works (and who it is that stays in work). In this case, the sub-sample of ERA

participants who have found (and retained) work might have different observed and unobserved characteristics from the sub-sample of controls who have found (and retained) work. If these different characteristics in turn affect other outcomes conditional on employment such as wage rates, a simple comparison of workers from the programme and from the control groups will suffer from post-random assignment (RA) selection bias. An assessment of ERA's impacts on advancement has thus to rely on more complex non-experimental methods. This is particularly important since as the programme's name suggests, advancement was one of the key ERA objectives.

Research objectives

The report aims at estimating the impact of ERA on a number of measures of retention and advancement of workers.

For the two lone parent groups, research questions include the impact of offering ERA services and incentives on remuneration (monetary wages and non-pecuniary benefits), work hours (including workers' chances to work full-time as opposed to part-time), other measures of job quality (mainly in terms of job stability, workers' responsibilities at work, promotions and opportunities for promotions, workers' own assessment of their jobs), workers' chances of combining work with training as well as of achieving formal qualifications, workers' patterns of engagement with Jobcentre Plus, workers' advancement behaviour (in terms of any step taken while working to help improve work situation or earnings, as well as to find another job), workers' future training and work aspirations and a few indicators of overall well-being.

For NDLP and WTC workers, ERA impacts have been assessed both two and five years after RA. While both are discussed, focus is on impacts at year 5 as they are key in understanding whether ERA has had any impact that lasted beyond the period of ERA participation. Covering more than two years post-programme, impacts at year 5 offer a sufficiently long post-programme period to assess whether the financial incentives and adviser support provided under ERA were enough to have a lasting impact on placing and keeping its participants in well-paying and good quality jobs, or else whether any effects faded away once that support was withdrawn.

For the ND25+ group, the report had to rely on administrative records alone, and has considered the more limited question of whether the availability of ERA incentives and services has affected the tax year earnings of ND25+ workers, with workers being defined as those with positive earnings in the relevant tax year(s). Earnings have been evaluated for four tax years, covering 1-2, 2-3, 3-4 and 4-5 years after RA. Focus is on ERA impacts after the programme has ended, that is 4-5 years post RA (corresponding to the 2008/09 tax year).

Types of non-experimental analyses

ERA's impacts on workers' outcomes have been estimated under alternative assumptions on the process of selection into work.

- Assuming that selection into employment is the same for ERA and control group members.
Indirect support for this assumption can be obtained by considering whether all relevant characteristics that are observed are balanced between ERA and control group workers.
- Controlling for observable differences between ERA and control group workers.

Under the assumption that the only outcome-relevant differences between the two groups of workers are those which are captured in the many characteristics observed in the data (such as age, gender, education, duration on benefit, labour market history), one can use the wage outcomes of those control group workers who are observationally similar to the ERA workers to estimate what the wage outcomes of the former would have been had they not received ERA.

- Recognising that ERA workers may differ from control group workers in important ways that the analyst cannot directly observe.

Under a set of assumptions, one can not only test whether this is in fact the case, but experiment with a control function approach to allow for this residual bias.

Key findings

The report has extensively analysed the impact that ERA has had on a variety of outcomes experienced by working members of the NDLP and WTC target groups, as well as on the tax year earnings of working members of the ND25+ target group.

- ERA appears to have had a sizeable impact on workers' **hours** – in particular in terms of encouraging full-time work – for both lone parent groups during the programme period. For NDLP workers, though, such impact has subsequently faded away, as participation in full-time work has caught up among control group workers. By contrast, ERA appears to have induced WTC workers to work longer hours (and indeed to work full-time) well into the post-programme period. It thus seems that the time-limited in-work support offered by ERA was able to encourage a permanent move to full-time only among the group of lone parents who were already in part-time work at the time of RA.
- ERA has had no impact on NDLP or WTC workers' employment **retention**, as measured by the share of the five follow-up years spent in employment. (There is some weak evidence of a positive impact on retention for NDLP workers whose children were aged five to six years at RA.)
- For both lone parent workers, ERA has had no impact on hourly **wages** either during or after the programme. (There is some indication that ERA might have increased wages for NDLP workers in Wales through increased job mobility.)
- In the absence of a wage impact, any impact on **weekly earnings** would need to be driven by impacts on hours worked. Even though the impact on hours was found to persist post-programme for the WTC workers, it was relatively small (+1.1 hours/week), not allowing the corresponding impact on weekly earnings (+£9.3) to reach statistical significance.

- There is no evidence of improved **job quality** as a result of ERA for NDLP workers both during and after the programme. For WTC workers, the overall impression is that ERA did not affect job quality in any dimension except for a sustained increase in sick pay eligibility.
- ERA impacts on the take-up of **training** while in work and on workers' attainment of qualifications were found to critically differ between the two lone parent groups.
 - For NDLP workers, ERA appears to have only changed the timing of training: ERA has increased training among workers while the programme was operational, but during the post-programme period, the workers from the control group have been catching up, so that overall, between RA and five years, ERA has had no impact on training take-up. It would thus seem that ERA has mostly led to a **reallocation** over time of training activities that would have taken place in any case over the five years. Furthermore, ERA failed to foster the attainment of qualifications among workers. An exception appear to be NDLP workers in North East England, a district where ERA has affected workers mainly through human capital acquisition channels (having undertaken education/training while in work and having obtained relevant qualifications since RA), while it has strongly discouraged taking steps towards advancement, in particular towards increasing one's hours.
 - While the increase induced by ERA on WTC workers' participation in training was entirely concentrated during the time when ERA's training incentives were available, WTC workers from the control group did not fully catch up. As opposed to NDLP workers, at least over a five-year follow-up period, the ERA-induced training of WTC workers thus appears to have indeed been additional, suggesting that ERA succeeded in encouraging training among those in work over and above what they would have done anyway over such a comparatively long time horizon. Furthermore, there seems to have been an impact on the attainment of work-related qualifications which was sustained after the end of the programme.
- No impact on any **advancement** measure was detected for NDLP workers either during or after the programme. ERA has by contrast given rise to a significant increase in the advancement efforts of WTC workers both during and, most crucially, after the programme. In particular, a sustained effect has been uncovered on the likelihood that WTC workers tried to increase working hours and have taken steps to look for a better job with a different employer. ERA does not however appear to have affected their **future** advancement intentions. Thus, though ERA's impact on workers' advancement behaviour appears to have lasted until the fifth year post RA, it might in fact have come to an end.
- As to the **well-being** of workers five years after RA, ERA appears to have raised overall life satisfaction for NDLP workers, leaving their self-assessed financial situation, health, parental involvement in their child and the child's well-being unaffected. The evidence for WTC workers at year 5 is by contrast quite mixed, as while no adverse impact could be detected on self-reported health, ERA did appear to decrease the proportion of workers reporting that their child's life was going very well.
- Some **impact heterogeneity** has been uncovered for NDLP workers, with ERA at times displaying larger effects (even in absolute terms) for more disadvantaged subgroups.
 - Non-white workers appear to have experienced much larger and more favourable impacts than white workers, enjoying increased hours, weekly earnings (via increased hours only), training take-up and experience (gained in full-time jobs).
 - Through specific advice and/or the training bonus, ERA seems to have encouraged the most disadvantaged group (with at most GCSE qualifications, without work in the three years prior to RA and with at least one barrier to employment) to aim at entering the labour market via a part-time job and to focus on improving their skills via training. For this group, there is also weak evidence of an increase in hourly wage.
 - Finally, it is interesting to note that ERA impacts appear to have been driven by the low-education group of WTC workers and by the high-education group of NDLP workers.

- For both lone parent groups, no significant ERA impact could be detected on the **yearly earnings** of workers in any tax year post RA.
- The **yearly earnings** of those ND25+ participants who were employed in any of the tax years considered have not been affected by ERA. This finding might not be very surprising given the absence of an effect for lone parent workers and once it is considered that at the time of RA the ND25+ group was facing far more severe labour market disadvantages and higher barriers to work, in addition to being the most hard-to-help group.

Conclusions

While ERA has significantly increased the employment chances of the ND25+ group for most of the follow-up period, no impact could be detected on the earnings of those in employment.

ERA appears to have had only two effects on NDLP workers: an increase in hours worked while the programme was in operation which disappeared once participation in full-time work caught up among control group workers, and a reallocation over time of training activities that would have taken place anyway over the five-year follow-up period. For NDLP workers ERA has thus accelerated changes that in time would have occurred anyway, but has not any long-term impacts.

For WTC workers, by contrast, the impact on hours was sustained, and so was the impact on advancement efforts in terms of increasing one's working hours and in terms of job mobility. Furthermore, ERA appears to have induced a net increase in training take-up together with a sustained increase in the attainment of work-related qualifications. There is however no evidence to suggest that such increased training participation, concomitant rise in qualifications, renewed advancement efforts, enhanced job mobility and indeed the increased incidence of full-time work and attendant increase in work experience among workers have actually translated into demonstrable work advancement in terms of higher wages or an otherwise improved job quality.

Indeed, for either lone parent group no lasting nor temporary impact could be detected on hourly wages, on weekly earnings, on job quality, on yearly earnings or on the time spent in employment, all outcomes that one would expect to see increase if there were an effect on retention and advancement.

A final comment relates to the delicate issue of whether having induced WTC lone parent workers to increase their hours and work full-time has had any adverse consequence on their children. Although ERA appears to have reduced the proportion of WTC workers reporting that their child's life was going very well, the mechanisms behind such an impact remain unclear, as workers' overall life satisfaction was left unaffected and indeed the time they reported spending helping their child with homework appears to have been increased.

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