THE NEW SCHOOL Schwartz Center for Economic Policy Analysis

POLICYNOTE

HOW EXPANDING EITC WILL BENEFIT 1.5 MILLION LOW-INCOME OLDER WORKERS

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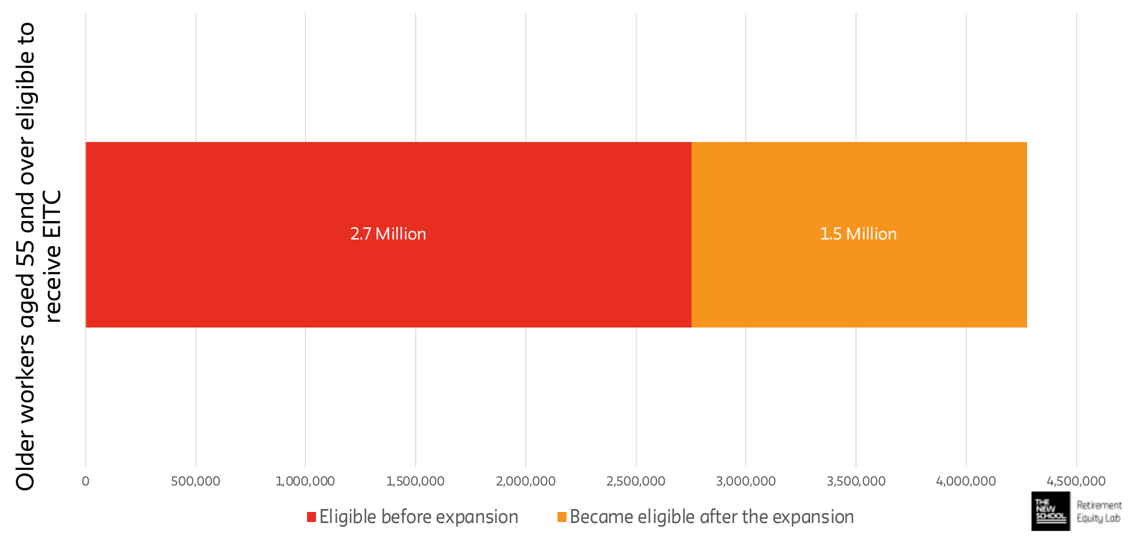
ELEVATOR PITCH

A popular cash transfer program credited with lifting millions out of poverty, the Earned Income Tax Credit (EITC) also reduces wages for non-college educated workers, particularly older workers. Meanwhile, eligibility rules have long prevented most older workers from receiving EITC benefits at the same rate as their younger counterparts. Expanding EITC benefits permanently would offset some of these lost earnings and help stabilize older workers' earnings. In 2021, Congress enacted a temporary EITC expansion—and our research shows that a permanently expanded EITC would benefit millions of older low-income workers.

KEY FINDINGS

- EITC subsidizes low-wage work and suppresses wage growth for non-college educated workers, especially workers over 55.
- Permanently expanding the EITC will help offset earning losses caused by the EITC. This includes approximately 1.5 million low-income older workers.
- Over the next ten years, the share of older workers over age 65 will increase by 50%, translating to an additional quarter million workers becoming eligible for the expanded EITC.

Figure 1: Expanding EITC Will Give an Additional 1.5 Million Older Workers Access to Benefits



Source: Authors calculations based on Annual Social and Economic Supplement of Current Population Survey (CPS-ASEC), extracted from IPUMS-CPS, University of Minnesota, www.ipums.org Note: See the technical appendix for the definition of eligibility. Based on our estimates, among older workers aged 55 and over who were eligible to receive EITS, 2.4 million received the credit. Projections do not take into account increase in older workers labor force participation as a result of expansion.

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EITC'S NEGATIVE EARNINGS EFFECTS ON LOW-WAGE OLDER WORKERS EXCLUDED FROM ITS BENEFITS

The EITC is one of the largest and most successful federal poverty-reduction programs in the United States. However, this important program comes with a significant drawback. Our research suggests that by incentivizing more people to work in the low-wage labor market, the EITC reduces wage growth. In practice, the policy may fall short of its redistributive goals. The EITC ostensibly goes to low-paid workers' households, but economic dynamics occurring behind the scenes steer benefits to employers.

First, employers benefit from the EITC because the employer doesn't have to raise wages to get more workers. Second, the subsidy allows employers to suppress wage growth and hold on to workers because EITC benefits help low-wage workers absorb job-ending shocks better (events such as injury or illness, family and childcare responsibilities, or transportation difficulties), thus reducing their turnover rates.

In our analysis we have divided states into high-supplement states (providing add-on refundable credits that are greater than 20 percent of the federal credit) and low-supplement states (providing less than 20 percent of add-on credit or no add-on credit). Research confirms that higher EITC leads to lower rates of turnover and more stable employment, but also propels lower wages among workers without a college education—with older workers. experiencing more severe wage losses.[i]

Using a state-by-state comparison, our research shows that wage growth is affected by low-wage supplements. EITC supplements differ by state; California has the highest EITC supplement, Montana the smallest based on dollars refunded; some states provide no supplement at all (such as Alabama and Kentucky).

State EITCs build on the federal credit to enhance the benefits for eligible workers. Because workers suffer wage losses from the net increase in labor supply and decrease in turnover, we observed a more pronounced dampening effect on wage growth in states that have high state based EITC supplements. From 1991 to 2019, older non-college educated older workers in states with low or no supplement credit experienced a 9.2% increase in their real hourly wages. But during the same period real hourly wages for older workers without a college degree who resided in high supplement states decreased by 3.1%.[ii] This difference in wage growth clearly indicates the negative impacts of the EITC on a vulnerable population—low-paid older workers who, until the recent temporary expansion of EITC due to the Covid-19 pandemic, were largely ineligible to receive the credit. Other estimates show that on net, employers capture $0.36 of every dollar spent on EITC payments through reduced wages.[iii]

WHAT IS THE EARNED INCOME TAX CREDIT (EITC)?

The EITC is the largest means-tested cash transfer program for low-income families in the United States. By providing working parents with refundable tax credits that vary based on family size and income, the program incentivizes work while providing significant cash supplements to the working poor. The amount of the credit depends on family structure and is calculated on a sliding scale that starts relatively small at low levels of income, increases up to a certain point where it plateaus, then phases out as a worker's income rises.

The EITC suppresses pretax wages of all low-income workers, but those who claim the credit are compensated for this loss. In contrast, ineligible low-income workers miss out on receiving the EITC to compensate for their lost wages. These ineligible workers, therefore, must absorb the impact of these market forces through reduced earnings. Not only are they excluded from the EITC, they also work for wages that are depressed relative to what they would have earned in the absence of the EITC. Therefore, the EITC cannot achieve its intended redistributive effects without reforming this inequity.

Most older workers aged 55 and over are not eligible to receive the credit because they do not have young children and/or do not meet the low earning threshold (see technical appendix able A1 for detailed eligibility criteria.)

HOW EITC EXPANSION BENEFITS 1.5 MILLION OLDER WORKERS

Expanding the benefits to include workers without qualifying children, abolishing the upper age limit, and increasing refunds would enable 1.5 million older workers (aged 55 and up) to benefit from the EITC. Before the expansion, childless workers below age 25 and over age 65 were not eligible to receive the credit even if they were extremely low income. Since 95% of workers above 55 do not have minor children, the temporary expansion of childless EITC benefits helps a large group of older workers.[v]

Over the next ten years, the share of older workers over age 65 will increase by 50 %, translating to an additional quarter million workers becoming eligible for the expanded EITC.[vi]

AMONG OLDER WORKERS, WOMEN AND PEOPLE OF COLOR BENEFIT THE MOST FROM EITC EXPANSION

THE TEMPORARY EITC EXPANSION

In March 2021, Congress expanded the EITC in its Covid-19 relief bill. Before the expansion, the EITC available to workers without children and non-custodial parents (between the ages of 25 to 65) was small and phased out at very low incomes. In 2020, the maximum credit for an adult between ages 25 and 65 without children was $538, phasing out at $15,820.[iv]

The enactment of the American Rescue Plan roughly tripled the benefits for childless adults and temporarily expanded eligibility to workers older than 65 and workers 19-25 who aren't students. The income cap for single individuals increased to $21,000 for single individuals and $27,300 for married couples filing jointly.

The older workers in low paid jobs who will benefit from the expansion are disproportionately women and people of color. More than half (56%) of older beneficiaries from the expanded EITC are women. More than a quarter of older beneficiaries are nonwhite.

The current temporary expansion of EITC benefits targets the economic impacts of the pandemic. The Covid-19 pandemic and recession have hit workers in low-wage occupations differently.

Those working in the restaurant industry, for example fast-food workers, have faced high levels of unemployment, while people working in the healthcare industry such as home health and personal care aides were considered essential and have continued to work despite facing a high risk of illness.

The temporary expansion of EITC helps many older workers in both groups. It will boost the income of many older workers receiving low pay despite doing essential work such as janitorial and in-home health services. For those who have been unemployed, expanded EITC benefits will provide an income boost once they are able to return to work. Low-wage occupations that are projected to experience the most job growth and employment gains by 2029 represent a good mixture of "essential" occupations and occupations that have faced high unemployment rates due to the pandemic. Many of these occupations employ older female workers and a considerable share of workers in these occupations receive EITC benefits. Expanding EITC benefits (both in amount of benefits and eligibility) will directly improve their incomes (see Table 1).

Table 1: Share of Older EITC Recipients Employed in Low-Wage Occupations with Most Job Growth Projection			
Low-wage Occupations With the Most Job Growth	**Share of Workers over 55**	**Share of Women among Older Workers**	**Share Receiving EITC among Older Workers**
Total, all occupations	**24%**	**51%**	**3%**
Home health and personal care aides	34%	92%	20%
Fast food and counter workers	8%	51%	10%
Cooks	15%	67%	15%
Medical assistants	11%	98%	9%
Laborers and freight	16%	27%	11%
Landscaping and groundskeeping workers	23%	9%	19%
Nursing assistants	19%	94%	25%
Janitors and cleaners	34%	38%	8%
Waiters and waitresses	8%	70%	18%
Construction laborers	19%	5%	12%

Source: Data from the U.S. Bureau of Labor Statistics' Occupational Employment Statistics program, Employment Projections program, and the Annual Social Economic Supplement to the Current Population Survey (2020).

Note: Wage data cover non-farm wage and salary workers and do not cover the self-employed, owners and partners in unincorporated firms, or household workers.

POLICY RECOMMENDATIONS

1. PERMANENTLY EXPAND THE EITC TO INCLUDE OLDER WORKERS

The EITC's eligibility rules reflect the socio-economic and policy environment when it was enacted in the 1970s and need to be updated to fit today's labor market and include a wider range of workers.[vii] Over the next decade, the share of older workers over 65 will increase by 50%, translating to an additional quarter million workers becoming eligible for the expanded EITC.

The US Census estimates that the share of the 65 and older population will reach over 20% in 2030, an increase from 13% in 2010.[viii] The labor participation of older workers has also steadily increased. Thus, without a permanent EITC expansion that ends age restrictions, an increasing share of the US population will be unable to access this key cash assistance program. Such trends further underscore the need to make the EITC expansion permanent.

2. INCREASE THE MINIMUM WAGE AND BOLSTER UNIONS

Although a more robust EITC for childless workers would partially offset the negative wage effects, these expansions are unlikely to prevent the expansion of low-paid jobs due to the subsidy that benefits employers. Expanding the EITC must accompany other measures to raise wages directly, such as stronger unions and higher minimum wages at federal, state, and local levels.

APPENDIX

We have used the Annual Social Economic Supplement to the Current Population Survey to estimate the number of older workers who will benefit from the expansion of the EITC. We calculate the number of childless workers over the age of 55 with incomes that previously would have prevented them from receiving any EITC benefits (note that regardless of income, childless workers above 65 were not eligible to receive the credit before). Income eligibility rules for the EITC depend on workers' adjusted gross income. Therefore, to determine workers' income we have considered their total personal income (or losses) `from all sources. For married individuals we have also included the total income of their spouses. Since EITC eligibility and benefit levels depend on workers' tax filing status, they are grouped into different categories based on their marital status. Detailed information about how income levels and phase-in/-out rates have changed after the expansion can be found in the following table:

Table A1: EITC Benefits for Childless Individuals

	Minimum Income for Maximum Credit	Maximum Credit	Phase-out Range for Childless Individuals		Phase-out Range for Childless Couples Filing Jointly	
			Beginning Income	Ending Income	Beginning Income	Ending Income
Before Expansion	$7,100	$543	$8,880	$15,980	$14,820	$21,710
After Expansion	$9,820	$1502	$11,610	$21,200	$17,550	$27,300

Source: Crandall-Hollick (2021) and SCEPA's calculations.
Note: "Ending Income" for each group is calculated based on their "Beginning Income" and their phase-out rates.

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ENDNOTES

[i] Davis & Farmand (2021).
[ii] Ibid.
[iii] Rothstein (2010)
[iv] Internal Revenue Service (2021).
[v] Author's calculations from Current Population Survey -Annual Social and Economic Supplement (CPS-ASEC).
[vi] Authors calculations based on U.S. Bureau of Labor Statistics, civilian labor force summary: https://www.bls.gov/emp/tables/civilian-labor-force-summary.htm.
[vii] Shvedov and Schramm (2020)
[viii] Ortman, Velkoff, and Hogan (2014)

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