MATERIAL HARDSHIP AND WELL-BEING OF U.S. HOUSEHOLDS IN 2022

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By Patrick Cooney and H. Luke Shaefer

INTRODUCTION

For the past two years, we have reported on rates of material hardship experienced by U.S. households, to better understand the economic impacts of the COVID-19 pandemic and government aid efforts. Over this period, the federal government passed and implemented a set of unprecedented and robust cash-based safety net measures - most notably expanded unemployment insurance (UI), a series of economic impact payments (EIPs), and the expanded Child Tax Credit (CTC)— to support U.S. households during a period of widespread joblessness and economic uncertainty. In large part because of these measures, U.S. households, and households with children in particular, were in a better financial position in 2020 and 2021 than in 2019.[1] In 2021, the child poverty rate, as measured by the Supplemental Poverty Measure (SPM), fell to 5.2%, the lowest rate on record, representing a nearly 60% decline since 2019.

Despite rising inflation in the final months of 2021, data suggest U.S. households remained in a relatively solid financial position through the end of that year, with credit scores and inflation-adjusted bank balances higher than historical averages, and stable rates of material hardship. However, through the first half of 2022, U.S. households have faced rising prices while Congress allowed the final element of the pandemic safety net – the expanded Child Tax Credit – to expire in January.

This brief returns to our consistent set of material hardship and financial well-being measures, to see how American households are faring in the face of rising prices and the full withdrawal of pandemic safety-net supports. We find rates of material hardship have increased throughout 2022, particularly sharply in June and July. Rates of food insufficiency and financial instability for low-income adults are now higher than at any other point during the pandemic, with one-third of low-income adults reporting sometimes or often not having enough food in the prior seven days, and 41% of this group reporting that it was very difficult to pay for basic household expenses. The gap in the food insufficiency rate between households with children and those without—which narrowed significantly in the latter half of 2021 while the expanded Child Tax Credit was in effect—has widened back near pandemic highs. Inflation-adjusted checking account balances for low-income households, while still above 2019 levels, are now well below their 2021 peak. Average credit scores, though still relatively high, have stagnated, in contrast to the year-to-year increases we have seen over the past decade, and the sharp improvements we saw in 2021.[2] These signals of financial distress are present despite an unemployment rate that has sat below four percent since February 2022.

Throughout the pandemic, we have seen rates of material hardship in U.S. households fall or rise in tandem with government action or inaction, and have argued that policymakers should closely watch measures of material hardship, and respond accordingly. Most importantly in this regard, after seeing historic progress against child poverty in 2021, the metrics we track suggest these gains are reversing in 2022. Reinstatement of the expanded Child Tax Credit could go a long way towards reducing hardship faced by U.S. households with children, and ensuring the financial gains many households experienced during the pandemic are not lost.

KEY FINDINGS

- In August 2022, rates of material hardship were at or near pandemic highs
- Rates are particularly high for low-income adults, and adults with children
- Inflation-adjusted bank account balances are down from 2021 highs, but remain above 2019 levels
- Well-designed cash transfer can help relieve hardship without meaningfully contributing to inflation

MATERIAL HARDSHIP THROUGH AUGUST 2022

Since late April 2020, the U.S. Census Bureau has fielded the Household Pulse survey to better understand how American households are dealing with the public health and economic impacts of the COVID-19 pandemic.[3] Surveys include a battery of questions related to employment, income, savings, spending, financial stability, food security, and mental health.

In the early months of the pandemic, rates of material hardship were stable despite the loss of tens of millions of jobs, as households were buttressed by Economic Impact Payments (EIPs, sometimes referred to as stimulus checks) and expanded unemployment insurance (UI) included in the CARES Act passed in March 2020. We saw hardship rise in the latter months of 2020 in the face of Congressional inaction, before declining precipitously following the passage of a second relief package in December 2020, which included another round of EIPs and expanded UI. Rates declined further following the passage and implementation of the American Rescue Plan Act (ARPA), which included another round of stimulus checks, expanded UI, and an expanded Child Tax Credit, which sent modest monthly cash payments to most U.S. households with children beginning in July 2021. Recent evidence suggests these payments to households with children cut the number of hardships faced by these households by 17%, and reduced food insecurity among very low-income households by nearly one-third.[4]

Looking across all households, in the last six months of 2021 we see hardship rates gradually rise in the face of countervailing economic forces – a recovering labor market and monthly CTC payments set against rapidly rising prices and the expiration of expanded UI – but on the whole the average U.S. household remained on solid financial footing. Official government estimates of child poverty and food insecurity in households with children fell to historic lows in 2021.

Here, we extend our series to report rates of material hardship through August 2022. We report rates of food insufficiency and financial instability for all adults, adults with children in the home, and adults with no children in the home. We focus on the experiences of adults with children in particular because these households have experienced higher rates of hardship historically and throughout the pandemic, and because children are particularly vulnerable to the long-term impacts of poverty and food insecurity.[5] In addition, as we reported in a prior brief, we see the gap in hardship rates between households with children and those without diminish following the implementation of expanded CTC payments beginning in July 2021, a sign that these payments were enhancing financial stability for households with children. Here we analyze this gap following the expiration of those payments in January 2022. We also report hardship rates by income, grouping all adults – parents and non-parents – together to obtain a sufficiently large sample.

Our measure of food insufficiency[6] relies on a single question from the Pulse survey, which asks all respondents: *In the last 7 days, which of these statements best describes the food eaten in your household? (a) Enough of the kinds of food (I/we) wanted to eat; (b) Enough, but not always the kinds of food (I/we) wanted to eat; (c) Sometimes not enough to eat; and (d) Often not enough to eat.* We count all those who responded there was sometimes or often not enough to eat in the prior seven days as having insufficient access to food.

Our measure of financial instability relies on the question: *In the last 7 days, how difficult has it been for your household to pay for usual household expenses, including but not limited to food, rent or mortgage, car payments, medical expenses, student loans, and so on?* We chart the share of adults who say it has been very difficult to pay for usual household expenses.

FOOD INSUFFICIENCY

In Figure 1, we see rates of food insufficiency rise in the final months of 2020 before dropping precipitously following the passage of the COVID-19 relief bill in December 2020 and ARPA in March 2021. In the early months of 2021, households were also aided by receipt of 2020 refundable tax credit payments. After reaching a low point in April 2021, food insufficiency rises slightly through June 2021 before falling again, gradually for adults without children but steeply for adults with children. The steeper decline for adults with children follows the first expanded Child Tax Credit payments. Food insufficiency rates rise slowly after August 2021, timed with the expiration of expanded unemployment assistance and rising consumer prices, though perhaps moderated by a rapidly recovering labor market and, among adults with children, monthly CTC payments.

From January through August 2022, however, we see food insufficiency increase considerably. In August 2022, 11.5% of adults reported food insufficiency, up 42% since an April 2021 low, and up nearly 13% since the beginning of the year. For adults with children, the rise was steeper. In August, 15.3% of adults with children reported food insufficiency in their household, an increase of roughly 22% from the start of the year, when monthly CTC payments were discontinued.

In Figure 2, we look at rates of food insufficiency by income. For the lowest income households, those earning less than $25,000 per year, food insufficiency reached its lowest point in April 2021, when one in five low-income adults reported food insufficiency in their household. In August 2022, the rate of food insufficiency for low-income households reached its highest point during the pandemic period, with one in three low-income adults reporting food insufficiency. We also see increases in food insufficiency rates across a range of incomes.

Figure 1: Share of respondents reporting sometimes or often not enough food in prior seven days

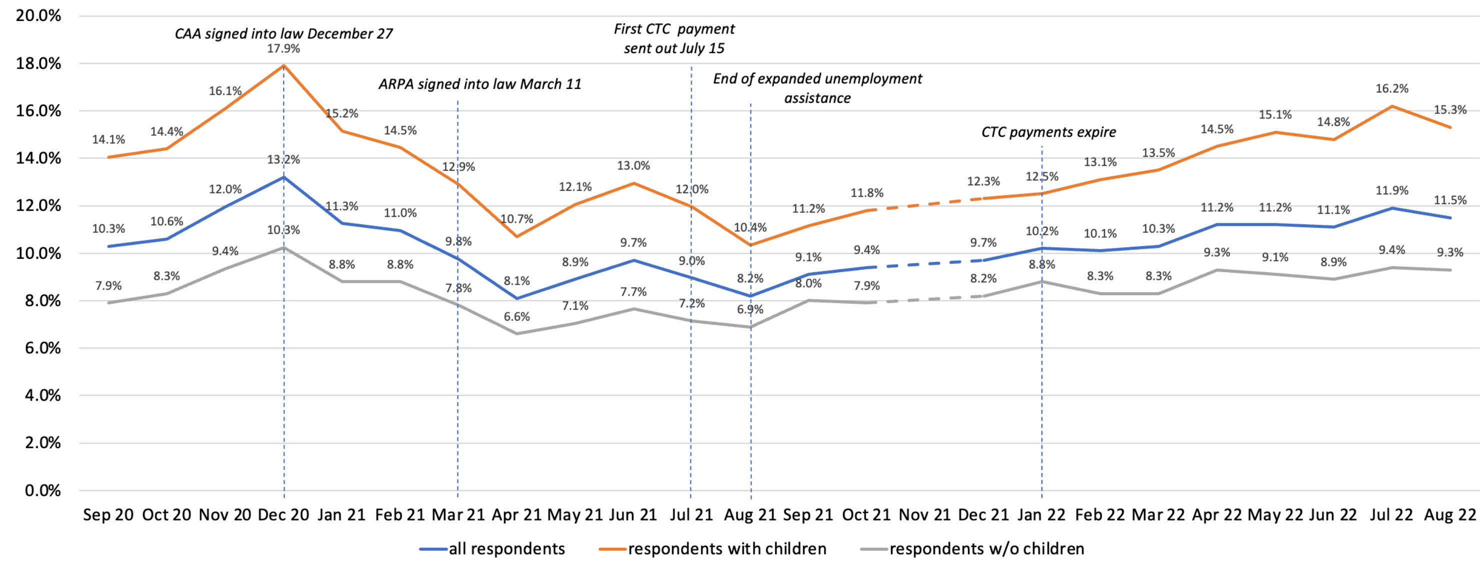
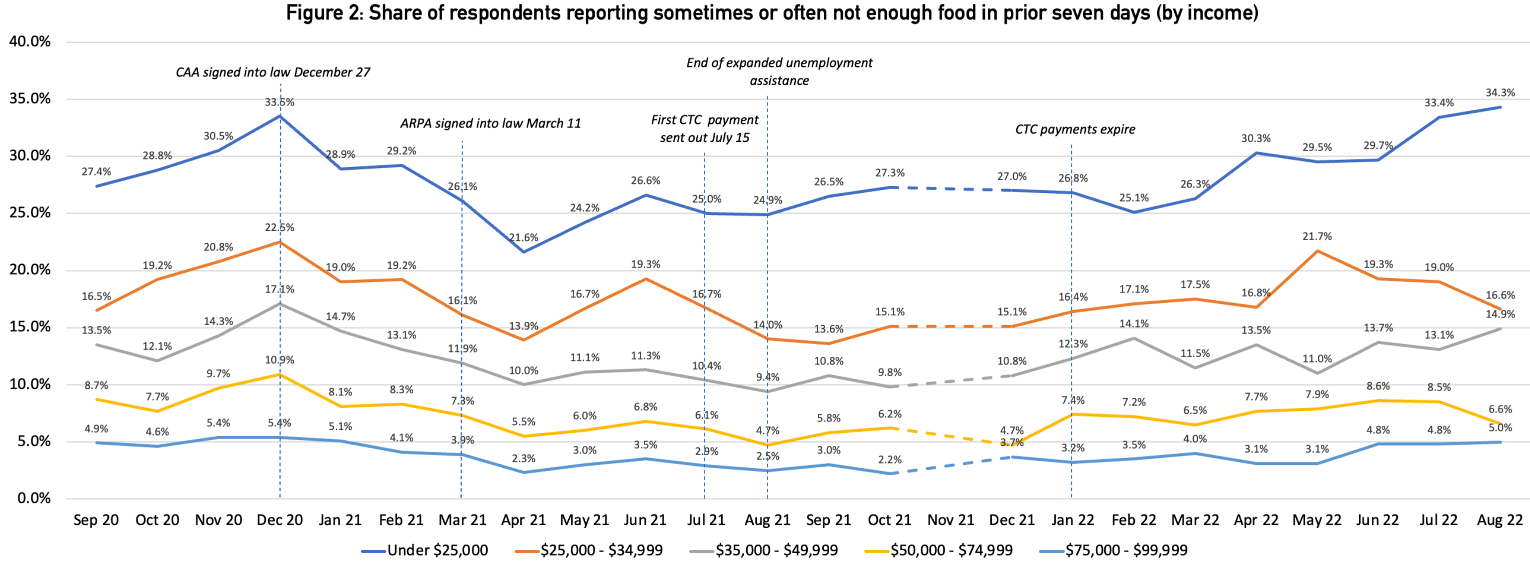


Figure 2: Share of respondents reporting sometimes or often not enough food in prior seven days (by income)

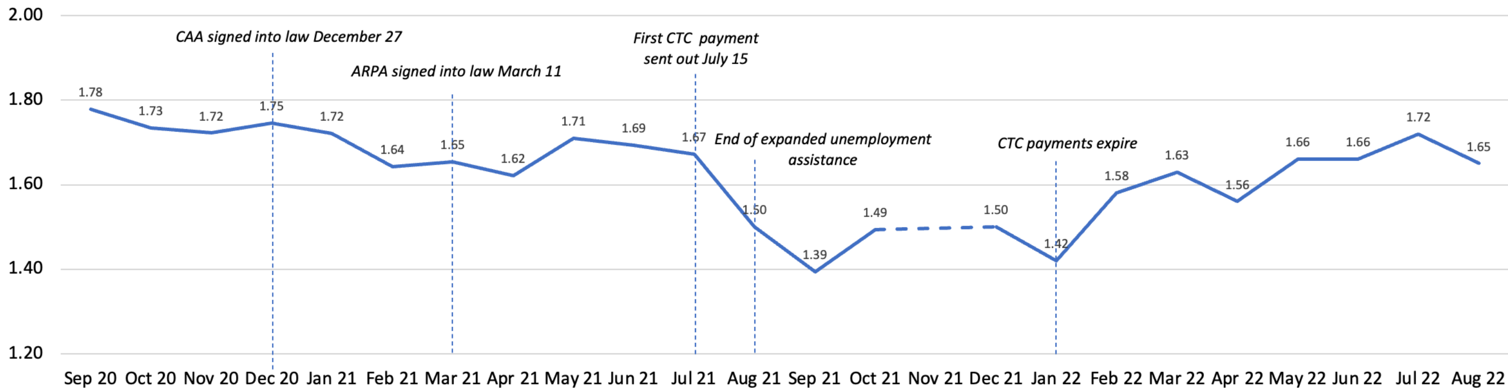


Finally, in Figure 3, we look at the ratio of food insufficiency rates over time between adults with children and those without, allowing us to better isolate the impact of expanded CTC payments. If this measure increases, it means the food insufficiency rate for adults with children is increasing relative to adults without children; if it declines, it means the food insufficiency rate for adults with children is declining relative to adults without children. If the ratio is equal to one, it would mean rates of food insufficiency for adults with children and adults without children are the same.

Throughout the pandemic, and even following robust relief packages in December 2020 and March 2021, a stubborn gap persisted between food insufficiency rates for adults with children and those without, resulting in a high food insufficiency ratio. After July 2021, however, this ratio declines as the gap between hardship rates narrows considerably, and remains relatively low through the end of 2021, during the period in which the vast majority of adults with children received monthly Child Tax Credit payments.

Beginning in the new year, after CTC payments ended, this ratio shoots back up, as food insufficiency for families with children begins to rise faster than for those without. The resulting figure displays a brief trough, in which relative food insufficiency rates for adults with children fall sharply and remain low as families receive monthly CTC payments through the end of 2021, before rising again to where they were prior to the implementation of the expanded CTC. These observational findings match those in a recent analysis controlling for a number of covariates, which found a 25% increase in food insufficiency among households with children between between January and July 2022, a statistically significant increase relative to households with no children.[7]

Figure 3: Ratio of food insufficiency for adults with children versus those without



FINANCIAL INSTABILITY

Rates of financial instability follow a pattern similar to what we see with food insufficiency (Figure 4), rising slowly through the end of 2021 after reaching a low point in April 2021, and then rising considerably from January to August 2022. In August 2022, 18.6% of U.S. adults reported having a very difficult time paying for usual household expenses, a 90% increase from April 2021, and a 38% increase from the beginning of 2022. One in four adults with children reported that it was very difficult to pay for usual household expenses in August, reflecting an increase similar in scale to that of all adults.

In Figure 5, we look at rates of financial instability by income. In August 2022, 41% of adults with a household income under $25,000 report having a very difficult time paying for usual household expenses in the previous seven days, a 75% increase from the April 2021 low point, when just 24% reported financial instability. This rise in financial instability for low-income households may be related to the discontinuation of CTC payments – recent research from Poverty Solutions found that across the six months expanded CTC payments were dispersed, roughly 75% of low-income households put the payments towards household bills.[8] While financial instability is disproportionately impacting low-income households, the increase in reported rates of financial instability is actually highest for households with incomes between $75,000 and $100,000, for whom the rate of financial instability more than doubled between April 2021 and August 2022. For all income groups, the rise has been particularly sharp since April 2022, as households were perhaps supported by the receipt of refundable tax credits early in the year.

Another sign of increased financial instability can be found in a recent analysis of FICO credit scores. In August 2022, FICO reported that the average credit score in April 2022 remained at 716 – historically high, but well below the trend of increasing scores we have seen since 2014.[9] Behind the stagnant average rating, analysis finds slight increases in missed payments and consumer debt.[10]

Taken in sum, we see rates of material hardship rising steadily but slowly through the latter months of 2021 and the early months of 2022, before rising more sharply in recent months. During the period in which hardship rates were rising slowly, prices for basic goods were increasing rapidly, though rising household costs were likely moderated by continued employment growth and, for households with children, continued receipt of the expanded Child Tax Credit. In recent

Figure 4: Share of respondents reporting very difficult to pay for household expenses in previous seven days

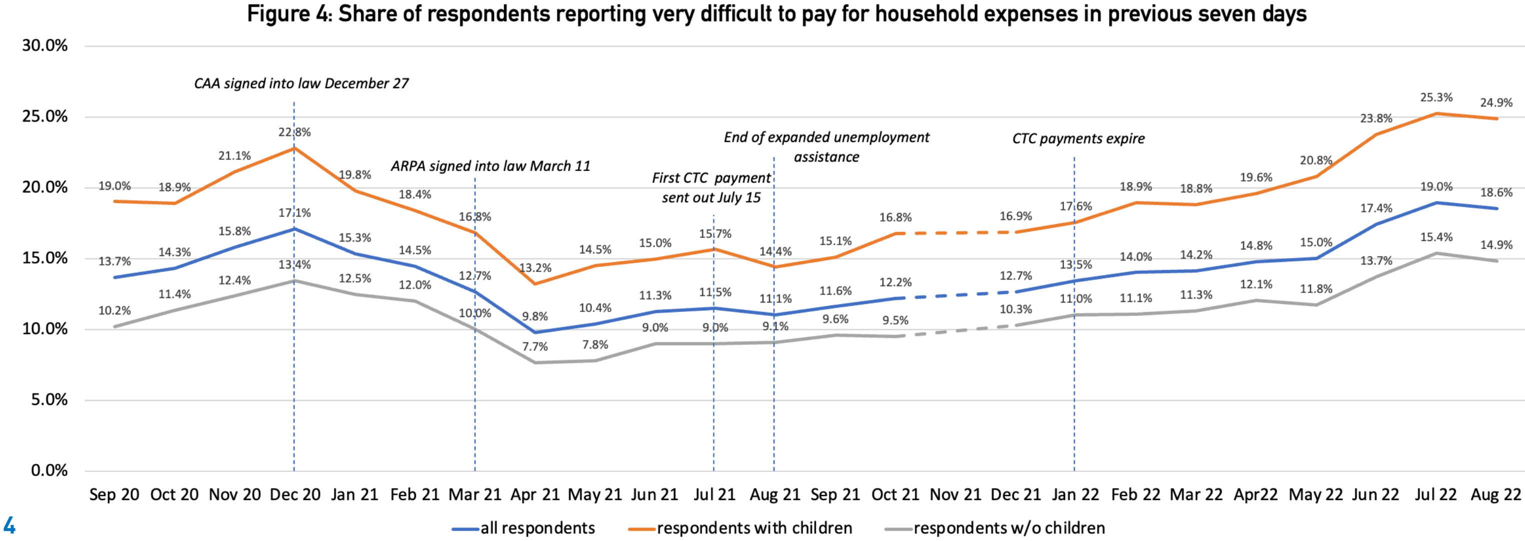
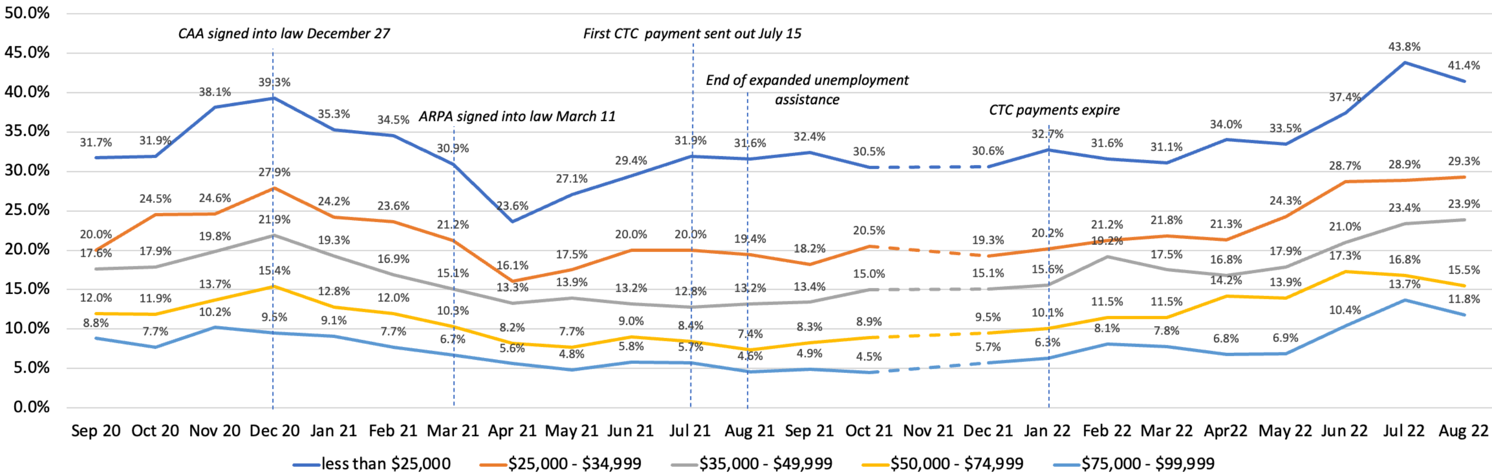


Figure 5: Share of respondents reporting very difficult to pay for basic expenses in previous seven days



months, hardship has jumped upward despite a still strong labor market, as prices remain high and all pandemic-era cash transfer programs have ended.

BANK ACCOUNT BALANCES

Since the start of the pandemic, the J.P. Morgan Chase Institute (JPMCI) has been tracking millions of deidentified banking accounts, to better understand the state of financial well-being. In our last brief, we reported that at the end of 2021, inflation-adjusted account balances for low-income households, though down from a high-point in early April 2021, were still up more than 50% compared to pre-pandemic levels.[11] In the final months of 2021, average inflation-adjusted balances were slowly declining, aligning with slowly rising hardship data from that same period. But the data also show a spike in the relative account balance of CTC-receiving households timed with the receipt of monthly CTC payments, a sign that perhaps these payments were helping to sustain still relatively high balances, particularly for lower-income households.

The latest report from JPMCI tracks balances through June 2022, offering more insight into the financial well-being of U.S. households following the discontinuation of monthly CTC payments, while prices continued to surge. In Figure 6, we see that inflation-adjusted account balances fell in the early months of 2022, but then began to rise slowly, perhaps reflecting continued strong job growth over this period. Though these slowly rising bank balances may seem

Figure 6: Percent Change (Relative to 2019) through June 2022, by Income Quartile (Adjusted for Inflation)

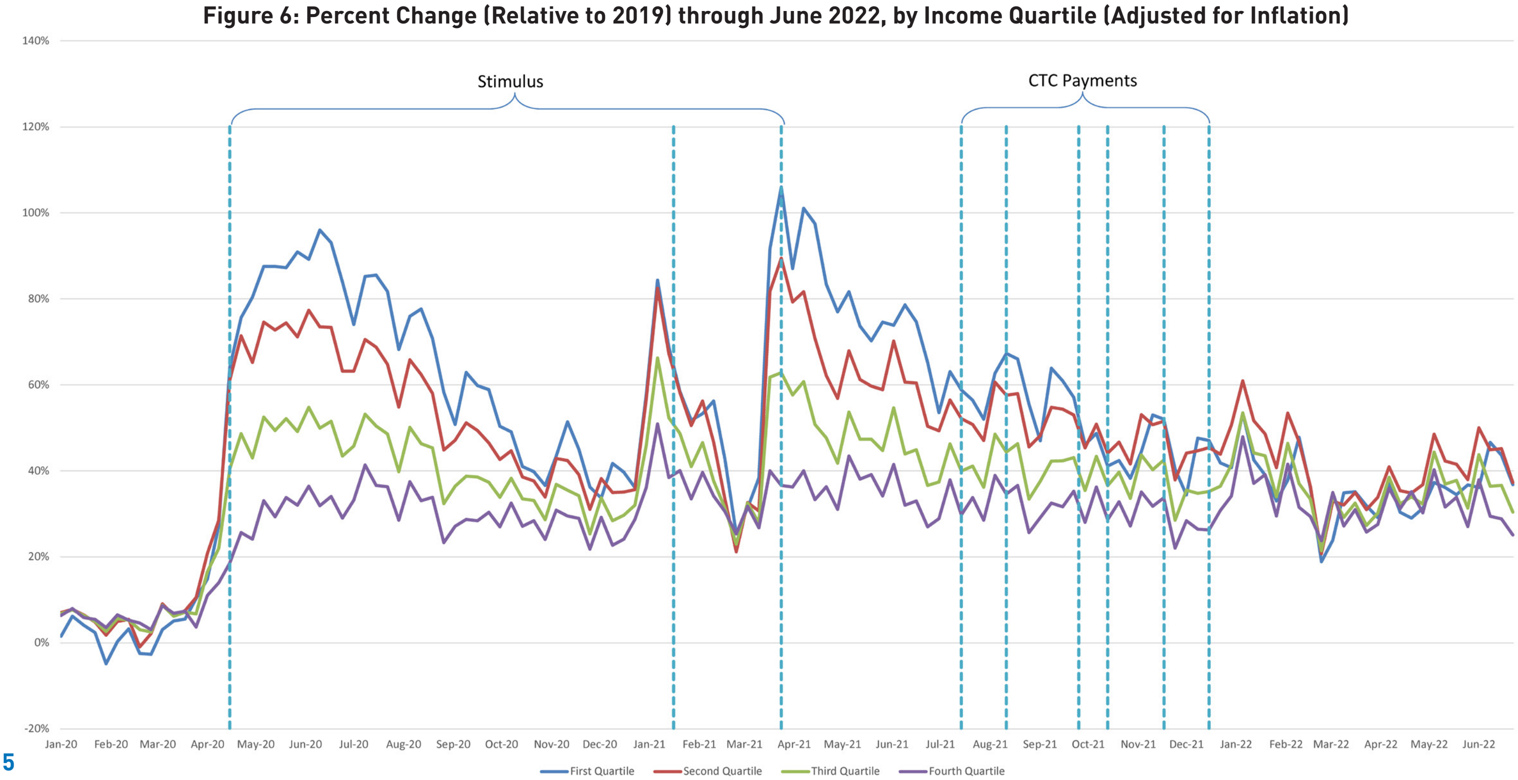
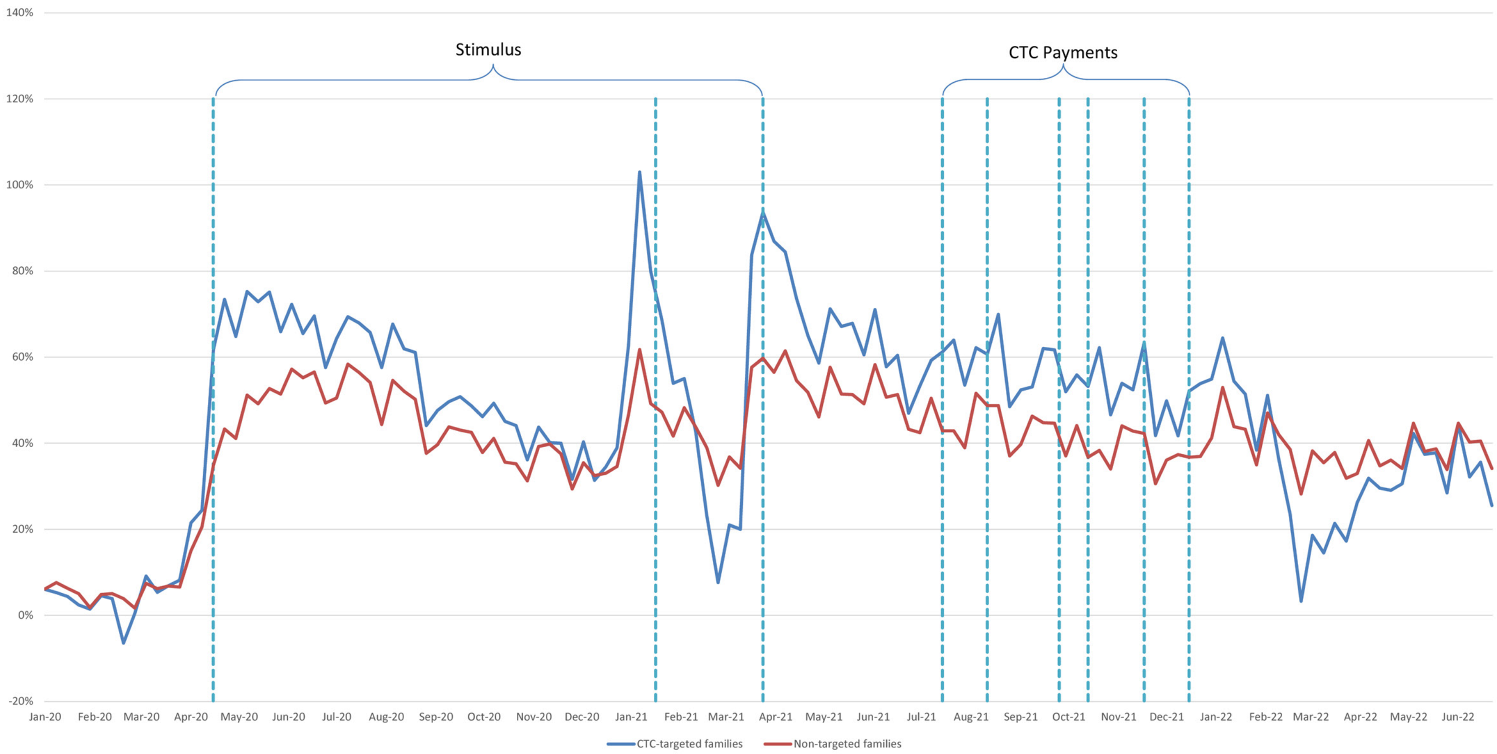


Figure 7: Percent Change (Relative to 2019) through June 2022, by CTC Recipiency (Adjusted for Inflation)



incompatible with rising hardship rates, relative bank balances for low-income households are now close to 40% above 2019 levels, which is roughly the level they were in December 2020, when hardship rates reached their previous pandemic peak. During the periods in which we see rapidly declining hardship, account balances are 80% – 100% above 2019 levels, highlighting just how critical a role income supports played in stabilizing low-income households during the pandemic, as well as the high levels of hardship faced by low-income households absent those supports, even in a strong economy.

Also in the JPMCI data (Figure 7) we are able to see the effect of the withdrawal of the expanded Child Tax Credit in particular. Based on CTC recipiency in July, August, and September 2021, JPMCI identified "CTC-targeted" households – essentially, households with children – to compare their average balances with non-targeted households. Following the implementation of the expanded CTC, we see the gap in relative balances widen – with households with children achieving higher relative balances than those without – and remain consistent, as households with children were buttressed by monthly CTC payments.

Then, in January 2022, following the discontinuation of monthly CTC payments, we see inflation-adjusted bank balances drop considerably for CTC-targeted households, and remain below those of non-targeted households through June 2022, aligning with increasing hardship for households with children relative to those without.

DISCUSSION

For much of the pandemic, we have been documenting how the pandemic safety net has enhanced financial stability for tens of millions of U.S. households in the face of an unprecedented crisis. While the traditional safety net in the U.S. is narrowly defined, in-kind, and focused on households with the lowest incomes, federal policymakers flipped this system on its head during the pandemic, introducing measures that were cash-based, unrestricted, and nearly universal. Through analysis of Household Pulse data, we have seen rates of material hardship decline rapidly following the implementation of these measures, as the flexibility and speed of cash supplements allowed families to quickly put money towards food and other necessities.[12] In addition, we saw how a robust cash-based safety net propped up consumer demand, preventing the economy from falling into a deep recession, and setting the stage for a rapid economic recovery.[13]

When viewed in sum, the data suggest the average U.S. household with children, and average low-income household with children in particular, was in a better financial position in 2021 than they had been for a long time, maybe ever. In 2021, just 5.2% of children were deemed poor by the Supplemental Poverty Measure, which takes into account non-cash safety net benefits and tax credits. This is by far the lowest rate on record – nearly 60% lower than the rate in 2019.[14] In addition, the share of households with children that were food insecure in 2021 was also at an historic low.[15] These official government estimates are joined by a range of other indicators of material hardship and financial stability that we have been tracking throughout the pandemic – Pulse data, credit scores, bank balances, and self-perceived economic stability – all pointing in the direction of unprecedented financial stability for U.S. households.[16]

In 2022, however, improvements in these indicators have stagnated or begun to reverse course. The rates of material hardship we have been tracking throughout the pandemic are now at some of their highest rates compared with any point over the past two years.

Many commentators have expressed concern that the same cash transfer policies that supported households during the pandemic also drove rising inflation, leading to our current predicament.[17] While most economists believe the influx of relief dollars played some role in increasing consumer demand, they also point to a number of other factors – the pandemic, supply chain breakdowns, and the war in Ukraine – that have restricted supply and driven up prices.[18] Furthermore, any discussion about rising prices must take into account the strength of our economic recovery, which was also supported by pandemic era income supports.[19] While rising prices are now placing households in financial distress, less government relief during the pandemic could have meant a protracted recession and an extended period of widespread unemployment.[20]

While we cannot say for certain what drove the current bout of inflation, when it will subside, or how many Americans would still be unemployed absent robust relief, what we can say for certain is that hardship is rising in American households, and government has a role to play in relieving that hardship.

One clear avenue for action is to revive the expanded Child Tax Credit. Data shows that low and middle-income families receiving CTC payments in 2021 largely spent the funds on necessities, like food and utilities.[21] Reinstating the expanded CTC, under a monthly payment model, would lead to an immediate decline in material hardship in U.S. households. It is also unlikely to meaningfully add to existing inflation; in April, more than 130 economists signed an open letter noting that the expanded CTC was "too small to meaningfully increase inflation across the whole economy."[22] And while a central critique of the expanded CTC was that it would reduce work rates among recipients, empirical analyses have found no disemployment effects resulting from the policy.[23]

Throughout the pandemic, we have been urging policymakers to take seriously the data on material hardship provided by the Census Bureau's Household Pulse Survey, as well as other real-time data on material hardship and financial well-being. This data was particularly critical given the uncertainty wrought by the pandemic, but is just as important now given the high rate of inflation, as unemployment rates and wages become unreliable proxies of well-being in the face of rising costs for basic necessities. In 2020 and 2021, as we battled a global pandemic that disrupted every facet of our lives, we saw how the government can take action to improve the lives of millions of Americans. Thus far, in 2022, as the pandemic haltingly recedes from the forefront and we regain some semblance of normalcy, we have seen how quickly those gains can be reversed, when government fails to take an active role in supporting the financial stability of U.S. households.

ABOUT THE AUTHORS

Patrick Cooney is the assistant director of economic mobility at the University of Michigan's Poverty Solutions, a university-wide initiative that partners with communities and policymakers to find new ways to prevent and alleviate poverty through action-based research.

H. Luke Shaefer is the faculty director of Poverty Solutions, the Hermann and Amalie Kohn Professor of Social Justice and Social Policy, and a professor of social work.

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ENDNOTES

1 In making the judgment that the average U.S. household, and particular low-income U.S. households, were better off in 2020 and 2021 than they were in 2019 we rely on a handful of sources that are consistent across those years. First, income poverty as measured by the Supplemental Poverty Measure was 2.7 percentage points lower in 2020 than in 2019, and is projected to be even lower in 2021. Similarly, though elevated in the latter half of 2020, Columbia University's Center on Poverty and Social Policy's estimates of monthly income poverty averaged 12.6% in 2021, down from a pre-pandemic estimate of 15.5% in January 2020. Researchers at the Urban Institute, using their Well-Being and Basic Needs Survey, found rates of material hardship fell between December 2019 and December 2020. The Federal Reserve's Survey of Household Economics and Decisionmaking (SHED) suggests by a number of measures U.S. households were at least as well off or better off than in 2019. And in this brief, we review data showing improved bank account balances and credit scores for all U.S. households, low-income U.S. households, and adults with poor credit. We also acknowledge that there were a number of ways in which the Covid-19 safety net failed to consistently support U.S. households (e.g., delays in receiving unemployment insurance and delays in passing a second relief bill in 2020). However, on the whole the evidence strongly suggests the average U.S. household and low-income U.S. household in particular was better off in 2020 and 2021 than in 2019.

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