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MATERIAL HARDSHIP AND WELL-BEING OF U.S. HOUSEHOLDS AT THE END OF 2021

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INTRODUCTION

Over the past two years, the federal government has 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. Remarkably, a number of key metrics indicate that in large part because of this federal safety net response, U.S. households were in a better financial position in 2020 and much of 2021 than in 2019.[1]

Despite this good news, most recent reports on the U.S. economy have focused on concerns that the financial gains experienced by households are being undone by price increases. Inflation has increased to levels not seen since the early 1980s. As a result, surveys of U.S. households show low confidence in the economy, despite low unemployment, the widespread availability of jobs, and large wage gains.[2]

This brief returns to a series of measures of material hardship and financial well-being that we have followed since the early months of the pandemic, to see how American households were faring as of the most recent data available. We find that U.S. households—and especially low-income U.S. households—remained in a strong financial position at the end of 2021. Rates of material hardship worsened some in the final months of 2021 but remained comparable to 2020 levels. Available indicators of financial health and liquid assets of U.S. households remain substantially stronger than pre-pandemic levels.

In sum, though inflation remains of great concern to the American public, data indicate the economic and financial gains made by American households during the pandemic persisted through the end of 2021, despite rising prices. This is particularly true for low-income U.S. households. It is for this reason we argue that any discussion of inflation must be brought into conversation with, and balanced by, the historic success of the economic recovery, which has placed so many U.S. households in a strong financial position. This further means it will be important to track indicators of financial well-being and material hardship as the nation gets further away from pandemic safety net policies. Early data from 2022 suggest the expiration of COVID-19 safety net policies, in particular the expanded Child Tax Credit, may negatively impact the financial well-being of families in the year ahead.

KEY FINDINGS

- The COVID-19 era social safety net helped buffer many families against material hardship and the risk of poverty during a period of widespread joblessness and economic uncertainty.
- The number of Americans with poor credit scores fell to the lowest rate in at least 16 years in 2021.
- Available measures of liquid assets indicate low-income households had more cash on hand at the end of 2021 than in 2019, even after accounting for inflation.
- Though inflation remains a great concern, it should be placed in the broader context of the historic success of the COVID-19 pandemic economic recovery.
- Early evidence indicates that the end of monthly Child Tax Credit payments may lead to an increase in hardship and poverty during 2022.

MATERIAL HARDSHIP AT THE END OF 2021

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. Here we review changes in material hardship measures since reported hardship reached a low point in April 2021 following the passage of the American Rescue Plan Act of 2021 (ARPA). The Pulse survey is generally deployed twice per month, and we average reported rates in both waves in a given month to better capture long-term trends. In April, October, and December 2021, and January and February 2022, only one survey was deployed, so we report estimates from a single wave for those months.[4]

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] Between July and December 2021, the large majority of these households began to receive monthly payments through the expanded Child Tax Credit (CTC), in the amount of $300 for every child under 6 and $250 for every child age 6-17. Research finds that the early months of CTC payments saw declines in food insufficiency.[6] Monthly CTC payments expired at the end of 2021, and the expanded CTC has not been renewed by Congress for 2022.

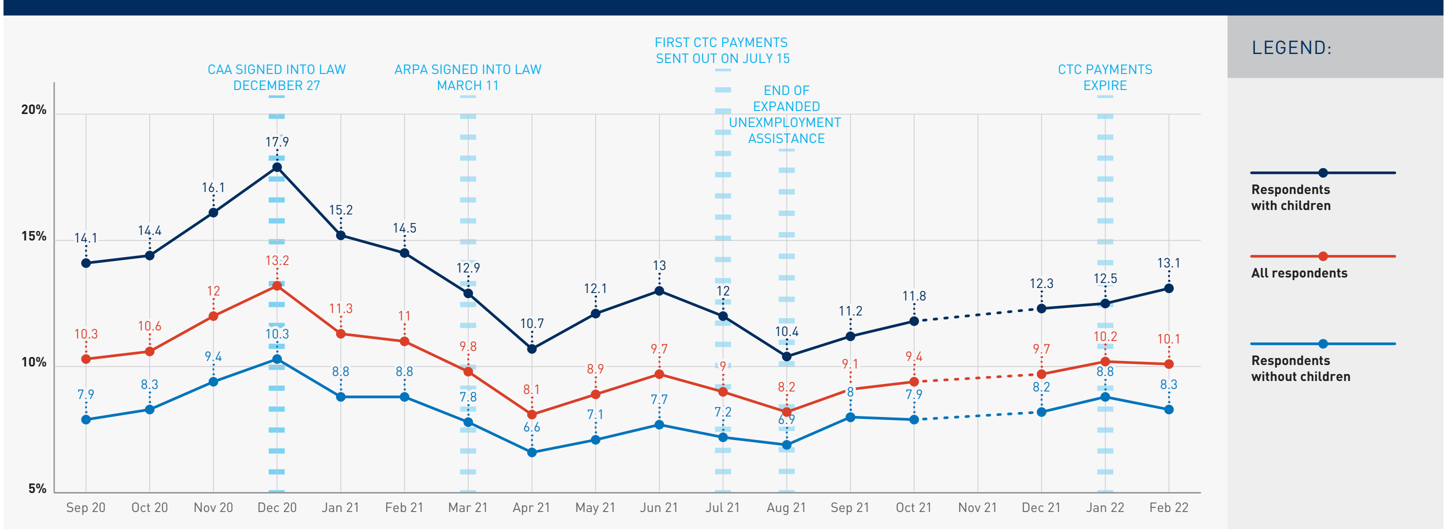
Our measure of food insufficiency[7] relies on a single question from the Pulse survey, which asks all respondents: *In the last 7 days, which of these statements best describes the food eaten in your household? Respondents then choose between: (a) Enough of the kinds of food (I/we) wanted to eat; (b) 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, though the rise has been less severe among adults with children.

FIGURE 1: SHARE OF RESPONDENTS REPORTING SOMETIMES OR OFTEN NOT ENOUGH FOOD IN PRIOR SEVEN DAYS

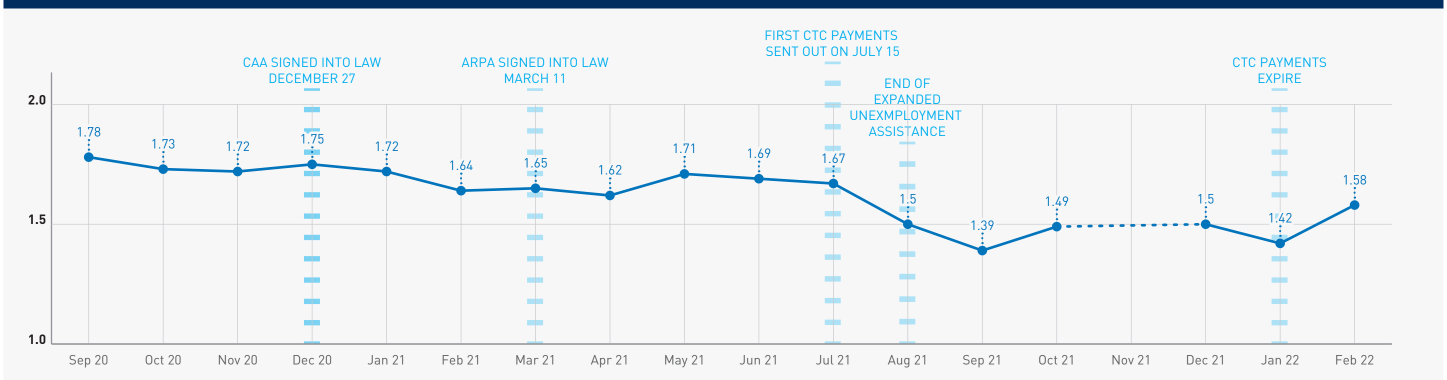


The potential impact of expanded CTC payments is apparent when we look at the ratio of food insufficiency rates over time between adults with children and those without (Figure 2). If this measure increases, it means the food insufficiency rate for adults with children is increasing relative to adults without children; if it declines, in means the food insufficiency rate for adults with children is declining relative to adults without children. If the ratio was equal to one, it would mean rates of food insufficiency for adults with children and adults without children were 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, where adults with children experienced higher rates of food insufficiency than adults without children, resulting in a high hardship 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. However, in February 2022—the first survey period following the absence of a monthly CTC payment since July 2021—food insufficiency increased for adults with children and decreased for those without, resulting in a marked rise in the hardship ratio.

For low-income adults with children (households with income below $25,000 in 2020), rates of food insufficiency at the end of 2021 sat well below fall 2020, helped by EIPs, Child Tax Credit payments, expanded SNAP benefits, non-CTC refundable tax credits, and a strong low-wage labor market (Figure 3). Food

FIGURE 2: RATIO OF FOOD INSUFFICIENCY RATES FOR ADULTS WITH CHILDREN VERSUS ADULTS WITHOUT



Note: This measure is the ratio of the hardship rate for adults with children versus adults without children. A higher ratio means there is a larger gap between the hardship rate for adults with children versus adults without children. If the ratio declines, it means this gap is narrowing.

FIGURE 3: FOOD INSUFFICIENCY RATES FOR ADULTS WITH CHILDREN AND ADULTS WITHOUT CHILDREN (<$25,000)

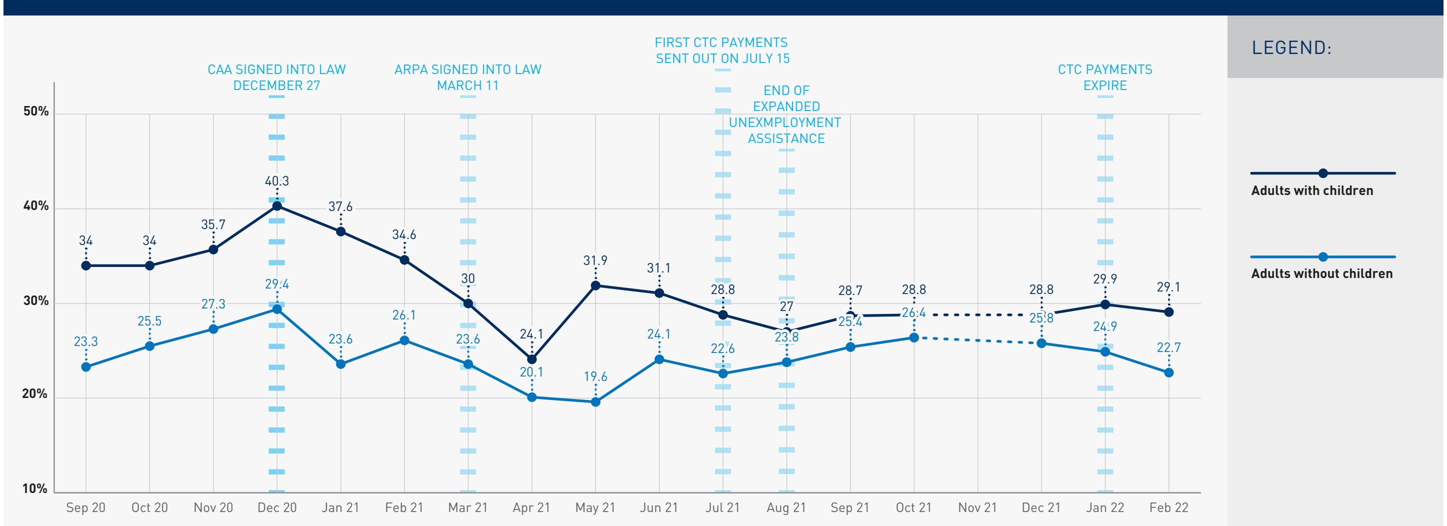
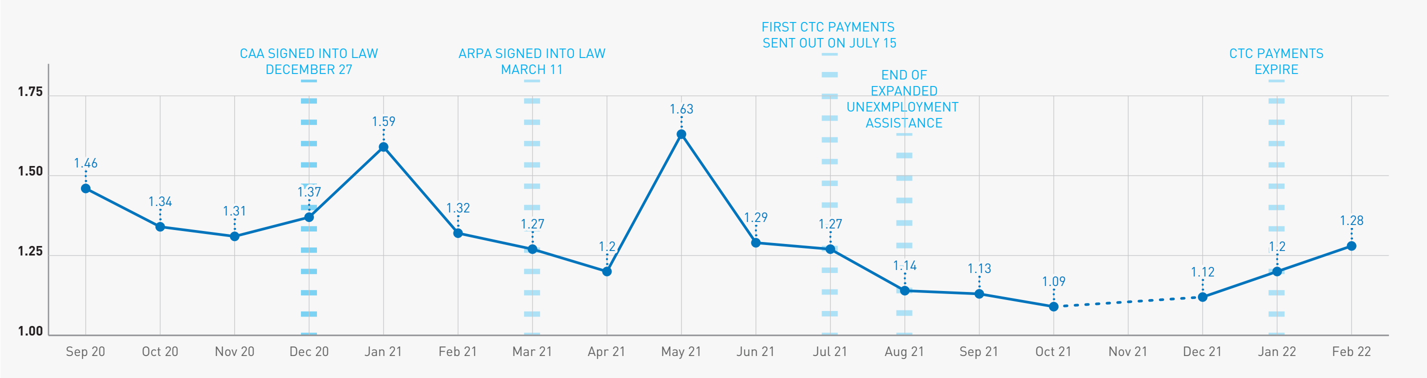
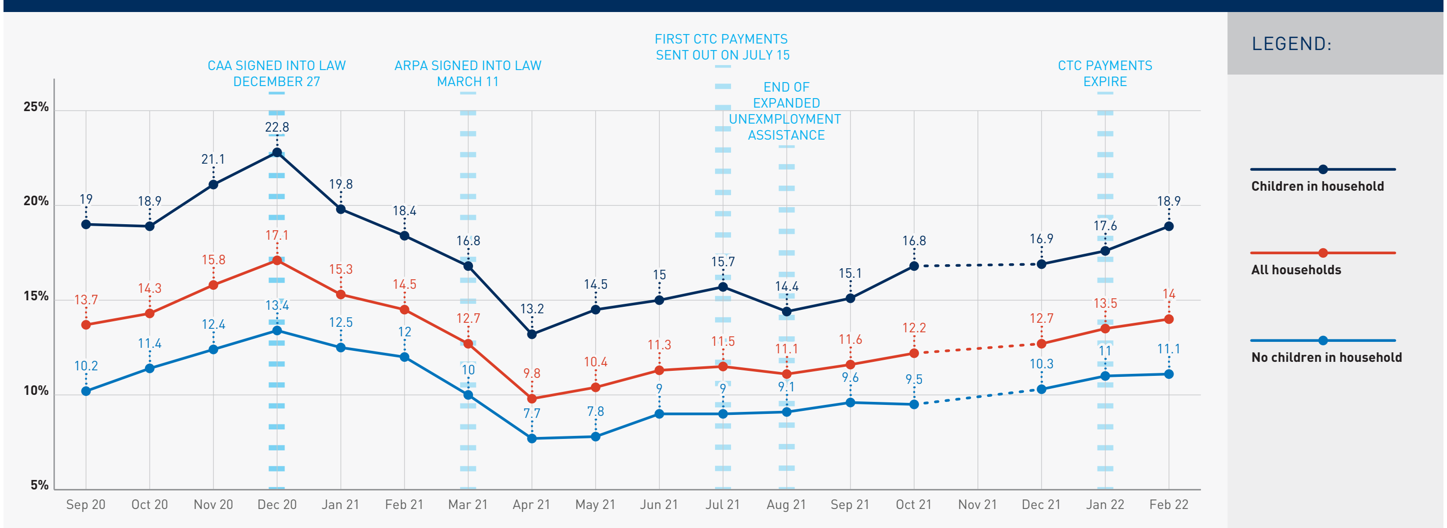


FIGURE 4: RATIO OF FOOD INSUFFICIENCY RATES FOR ADULTS WITH CHILDREN VERSUS ADULTS WITHOUT (<$25,000)



Note: This measure is the ratio of the hardship rate for adults with children versus adults without children. A higher ratio means there is a larger gap between the hardship rate for adults with children versus adults without children. If the ratio declines, it means this gap is narrowing.

FIGURE 5: SHARE OF RESPONDENTS REPORTING VERY DIFFICULT TO PAY FOR HOUSEHOLD EXPENSES IN PREVIOUS SEVEN DAYS



insufficiency rates for low-income adults without children are roughly where they were in fall 2020 and remained fairly stable through the end of 2021. As Figure 4 shows, the ratio between food insufficiency rates for low-income adults with children compared to those without falls dramatically after the deployment of monthly CTC payments, to just above one. Following the expiration of monthly CTC payments, we see food insufficiency rates remain relatively stable for low-income adults with children and decline for those without. Thus, the gap in food insufficiency rates between low-income adults with and without children returns to where it was prior to the distribution of CTC payments in the latter half of 2021.

FINANCIAL INSTABILITY

Looking at rates of financial instability over time in Figure 5, a similar pattern emerges, with rates rising slowly through the end of 2021 after reaching a low point in April 2021. For adults without children, rates of hardship at the end of 2021 are roughly similar to those in the fall of 2020, when households were still buoyed by supports provided by the first major COVID-19 relief bill, the CARES Act, passed in March 2020 supports. For adults with children, rates of financial instability are lower at the end of 2021 compared to the fall of 2020, after falling in the month following the rollout of CTC payments, but rising again following the end of expanded unemployment insurance. In the survey period following the expiration of CTC payments, the financial instability rate is steady for adults without children, but increases markedly for adults with children.

Taking both hardship measures into account, similar patterns emerge. Following the initial disbursement of CTC payments in July 2021, rates of food insufficiency and financial instability for adults with children fell, both in absolute terms and relative to adults without children. Hardship rates rise slowly across the board following the expiration of expanded unemployment assistance in early September 2021, but remain relatively stable compared to other periods in the pandemic, and food insufficiency for adults with children remains quite low relative to adults without children. In February 2022, following the expiration of monthly CTC payments, both hardship measures for adults with children increase, while remaining stable or declining for adults without children. While much attention has been placed on the impact of rising prices on the ability of families to pay for basic necessities, the impact of the expiration of monthly CTC payments is much clearer.

FINANCIAL HEALTH

Reports have shown that the average credit score of American adults improved significantly in 2020 and 2021 despite the loss of 22 million jobs in early 2020.[8] This stands in contrast to the Great Recession, when the average FICO score declined.[9] Since 2013, the average credit score of American adults has steadily improved, rising between one and four points per year before rising by *seven points* in 2020 and then rising further in 2021.[10] As of early fall 2021, reports showed that average credit card balances were down, as were mortgage delinquencies, and researchers have linked such outcomes to the expansion of cash transfers along with other policies.[11]

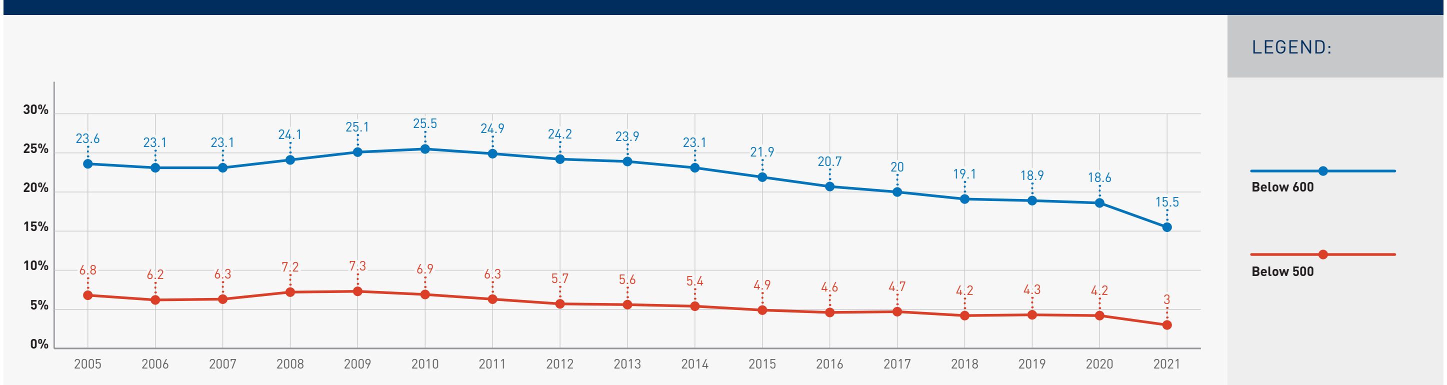
However, it is possible that these outcomes are driven by improvements in the financial health of higher-income Americans. That is, low-income Americans could still be hurt by the recession and see their financial health decline, even while the average credit score improves.

While income and credit are not perfectly correlated, we can get some understanding of gains among financially unstable households by looking at the share of U.S. adults with poor credit, defined here as a credit score under 600 (Figure 6).[12] For historical comparison, we find following the Great Recession, in April 2010, more than one-quarter of American adults had poor credit. That rate declines steadily in the years following, but was still at 20% in 2017. In contrast, the estimated proportion of Americans with bad credit fell in 2020 and then fell *sharply* in 2021, down to 15.5%, a decline of nearly 40% from the 2010 high. A FICO analysis also notes the overall improvement in the average credit score of U.S. adults is driven by improvements in the lower end of FICO scores, with rates remaining relatively stable among those with already good credit.[13] As one would expect, declining rates of poor credit correspond with fewer missed payments and lower levels of consumer debt.[14]

BANK ACCOUNT BALANCES

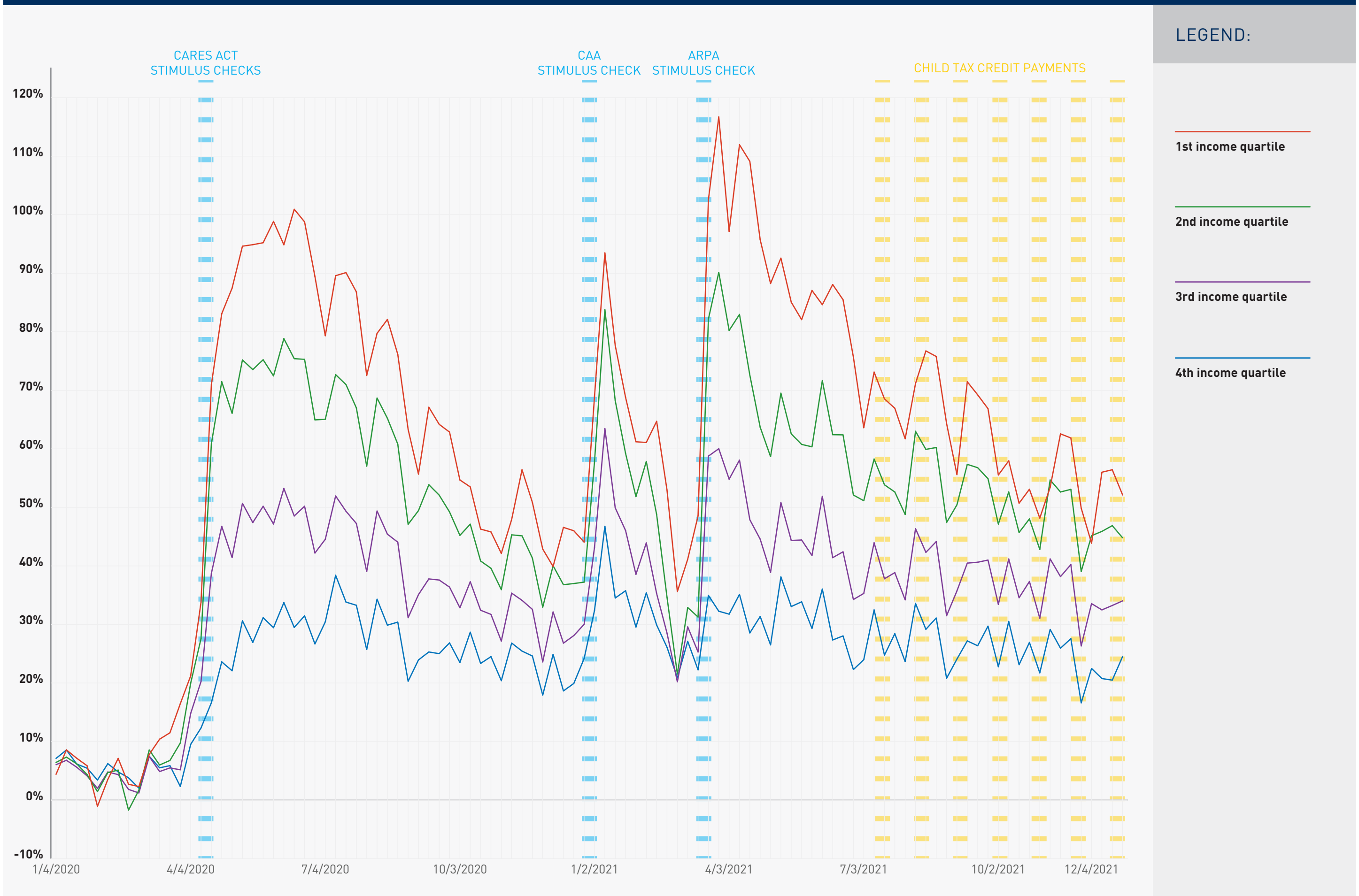
Other indicators also show signs of continued financial stability. A report from the J.P. Morgan Chase Institute tracks tens of millions of de-identified banking accounts. They found average checking account balances in December 2021 were up for all income groups relative to two years prior, with the greatest proportional increase found among families with low incomes, whose average balance was much higher at the end of 2021 than before the pandemic.[15] While they

FIGURE 6: SHARE OF U.S. POPULATION WITH FICO CREDIT



Source: https://www.fico.com/blogs/average-us-ficor-score-716-indicating-improvement-consumer-credit-behaviors-despite-pandemic

FIGURE 7: PERCENT CHANGE (RELATIVE TO 2019) IN MEDIAN WEEKLY CHECKING ACCOUNT BALANCES, BY INCOME QUARTILE, ADJUSTED FOR INFLATION



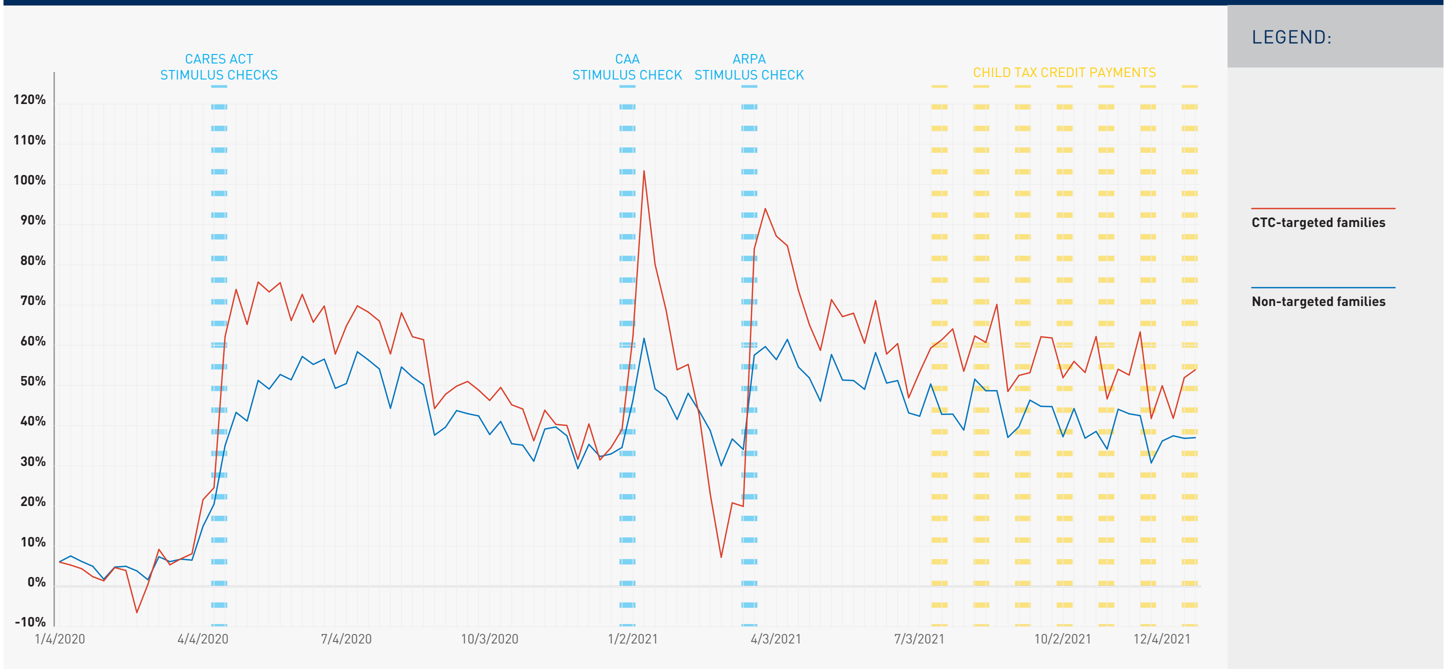
Source: J.P. Morgan Chase Institute, "Household Cash Balance Pulse: Family Edition," February 2022

Note: 1st income quartile (red) is the lowest income quartile, 4th income quartile (blue) the highest

present an encouraging picture of the financial well-being of U.S. households nearly two years into the pandemic, these figures are not adjusted for inflation, a potentially important issue given the rapid rise in prices over the past year. That is, with higher prices, a higher bank account balance may not necessarily translate to a real increase in financial well-being.

In Figure 7, we adjust all dollar figures from this series to January 2022 prices, using the historical monthly Consumer Price Index for all Urban Consumers (CPI-U), to better understand the extent to which rising prices might be eating into higher nominal bank account balances.[16] While adjusting for inflation reduces balance gains somewhat, we still find low-income households in a relatively strong financial position, with balances up more than 50% at the end of 2021 relative to pre-pandemic levels. Balances for this group peaked in March 2021—up nearly 120% compared to pre-pandemic levels—when we see rates of reported hardship drop. While some commentators suggested the cash buffer for low-income families was "dwindling" through fall 2021, average balances still sat well above those a year prior, aided by monthly Child Tax Credit payments.[17] Indeed, from July through December 2021, the period in which CTC payments were sent out, the "balance gains" for households receiving CTC payments held steady, while the gains for those not receiving CTC payments slowly began to decline.[18] Figure 8 shows the balance gains for CTC targeted households and non-targeted households, and one can clearly see the monthly balance gains spike for CTC targeted households each month when new payments

FIGURE 8: PERCENT CHANGE (RELATIVE TO 2019) IN MEDIAN WEEKLY CHECKING ACCOUNT BALANCES, BY TARGETED AND NON-TARGETED HOUSEHOLDS, ADJUSTED FOR INFLATION



Source: J.P. Morgan Chase Institute, "Household Cash Balance Pulse: Family Edition," February 2022

arrive, helping these households maintain their gains over time. This stands in sharp contrast to the rest of the pandemic period, when we see great volatility in the account balances of households with children, as they receive large balance increases with each round of stimulus checks, followed by large decreases as those payments are spent down more quickly than in childless households.[19] The consistency of the CTC payments seemed to have provided households with children a certain amount of stability.

DISCUSSION

Since the onset of the COVID-19 pandemic, numerous sources of data have told an unprecedented story of how the financial well-being of U.S. households was safeguarded during a period in which tens of millions lost work and an ever-changing virus has continued to drive economic uncertainty. While the story seems to be relatively straightforward, it is noteworthy because it represents a dramatic shift in the character of the U.S. social safety net. Over the past 25 years, the federal government has relied on a mix of means-tested or targeted income transfers that are often in-kind in form.[20] During the pandemic, lawmakers flipped this system on its head, implementing measures that were primarily cash-based and far more universal. In doing so, we mounted the most successful response to an economic crisis in our nation's history.

In addition to easing hardship, there is reason to believe the COVID-19 safety net has played a role in record job growth and wage increases for low-wage workers, further contributing to enhanced financial stability. During the Great Recession, the economy shed nearly 9 million jobs and left lasting scars on the U.S. labor market; it took a full six years before employment reached pre-recession levels.[21] The COVID-19 recession officially lasted only two months but more than 22 million Americans lost work. Since April 2020, however, more than 20 million jobs have been added. In just two years, employment has risen to 1.3% below pre-recession levels, a benchmark it took five years to reach after the onset of the Great Recession.[22] And February's unemployment rate fell below 4%, a threshold our economy did not reach in any month between January 2001 and April 2018.[23]

Despite these outcomes, in recent months concerns have mounted over rising prices. The question posed in this report is whether high inflation has neutralized the apparent success of the pandemic safety net. High inflation is indeed a cause for concern. This is particularly true for low-income households, who dedicate the largest share of their household budgets to necessities.[24] However, despite rising prices, our read of the data is that the pandemic safety net was a historic success, reducing hardship and poverty, stabilizing households, and jumpstarting the economic recovery. The gains remained evident at the end of 2021.

The question now is how the gains made by so many U.S. households will persist. While rising prices are a pressing concern, of greater concern may be the withdrawal of safety net supports that have placed so many U.S. households in such a strong financial position. The expanded Child Tax Credit was one element of the pandemic safety net that seemed poised to become a permanent part of our social infrastructure, seeing as how in just six months the provision delivered on its promise to reduce hardship and income poverty in households with children. Columbia University's Center on Poverty and Social Policy estimated the child poverty rate in December 2021 was 12.1%, down from 15.8% in June 2021, prior to the initial disbursement of monthly Child Tax Credit Payments. The estimated child poverty rate in January 2022, following the expiration of monthly CTC payments, rose to 17%, an increase of more than 40% in a single month.[25] Similarly, hardship rose for those with children in the first months following the expiration of the Child Tax Credit, but not for those without children. The gap in hardship rates between adults with children and those without, which narrowed considerably in response to CTC payments, began to widen again.

Thus, while we see little discernable evidence that rising prices have cut meaningfully into the gains made by so many U.S. households during the pandemic, the elimination of the expanded Child Tax Credit might. Indeed, though the COVID-19 safety net programs have been a historic success, early signs indicate that these gains may reverse the further away we get from them.

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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.

For a more detailed review of some of this data, see our previous briefs (below), and for a comprehensive analysis of the elements of the Covid-19 safety net and their impacts, see the recent report from the *Center on Budget and Policy Priorities* listed below.

CBPP Staff, "Robust COVID Relief Achieved Historic Gains Against Poverty and Hardship, Bolstered Economy," Center on Budget and Policy Priorities, February 24, 2022

Patrick Cooney and H. Luke Shaefer, "Material Hardship and Mental Health Following the Covid-19 Relief Bill and American Rescue Plan Act," *Poverty Solutions at the University of Michigan* (May 2021)

Patrick Cooney and H. Luke Shaefer, "Trends in Hardship and Mental Health in the United States at the End of 2020," *Poverty Solutions at the University of Michigan* (February 2021)

2 Neil Irwin, "Americans Are Flush With Cash and Jobs. They Also Think the Economy Is Awful," *The New York Times*, November 6, 2021.

3 U.S. Census Bureau, "Household Pulse Survey Data Tables."

4 Though our analysis focuses on the financial well-being of U.S. households at the end of 2021, we are including data from the January 2022 Household Pulse survey because data collection took place from December 27th 2021 to January 10th 2022.

5 National Academies of Sciences, Engineering, and Medicine. 2019. *A Roadmap to Reducing Child Poverty*. Washington, DC: The National Academies Press.

6 Paul R. Shafer, Katherine M. Guitierrez, Stephanie Ettinger de Cuba, Allison Bovell-Ammon, and Julia Raifman, "Association of the Implementation of Child Tax Credit Advanced Payments With Food Insufficiency in US Households," *JAMA Network Open* 5, No. 1 (2022)

7 This measure of food insufficiency differs from the U.S. Department of Agriculture's definition of food insecurity, which is assessed based on responses to a battery of questions related to food access.

8 Stefani Wendel, "State of Credit 2021: Rise in Scores Despite Pandemic Challenges," *Experian*, September 7, 2021

9 Elite Personal Finance, "Average Credit Score in America in 2022."

10 Ethan Dornhelm, "Average U.S. *FICO* Score at 716, Indicating Improvement in Consumer Credit Behaviors Despite Pandemic," FICO, August 17, 2021

11 Lisa Dettling and Lauren Lambie-Hanson, "Why is the Default Rate So Low? How Economic Conditions and Public Policies Have Shaped Mortgage and Auto Delinquencies During the Covid-19 Pandemic," *Board of Governors of the Federal Reserve System*, March 4, 2021.

12 Though poor credit is often defined as below 580, the threshold reported by FICO was 600

For analysis on the correlation between income and credit scores, see Rachael Beer, Felicia Ionescu, and Geng Li, "Are Income and Credit Scores Highly Correlated?" *Board of Governors of the Federal Reserve System*, August 13, 2018

13 Dornhelm, "Average FICO"

14 Ibid

15 J.P. Morgan Chase Institute, "Household Cash Balance Pulse: Family Edition," February 2022

16 In order to adjust the values, we used historical monthly Consumer Price Index for all Urban Consumers (CPI-U) obtained from the Bureau of Labor Statistics. Although the values in the report are provided at the weekly level, the CPI is not; therefore, we used the monthly CPI-U values as a proxy for weekly CPI values, assuming no appreciable differences. In other words, we assume that the CPI-U for a given week is the same as the CPI-U for that month overall.

We set our base period for adjusting values to be January 2022. Using the formula,

$$V_t = \frac{V_s}{CPI_s / CPI_t}$$

where $CPI_t = CPI_{Jan22} = 281.148$, V_t and V_s are median checking account values from January 2022 and the desired week respectively, and CPI_s is the CPI at the desired week, we can adjust the median account values from all other weeks as January 2022 US dollar values, allowing for consistent comparisons across all weeks.

In order to compute the **adjusted** percent change in account balances relative to 2019, we first used the median weekly account balance and unadjusted percent change to calculate the 2019 dollar value of the 2019 checking account balances. These 2019 balances were then adjusted for inflation according to the formula above. Afterwards, the adjusted percent change was computed using January 2022 dollar values.

17 Talmon Joseph Smith, "Americans' Pandemic-Era 'Excess Savings' Are Dwindling for Many," *The New York Times*, December 7, 2021. https://www.nytimes.com/2021/12/07/business/pandemic-savings.html

18 J.P. Morgan Chase Institute

19 Ibid

20 Kathryn Edin and H. Luke Shaefer, *$2.00 a Day: Living on Almost Nothing in America* (Boston: Mariner Books, 2016)

21 U.S. Bureau of Labor Statistics, Total Nonfarm employment, accessed from Federal Reserve Economic Data at the Federal Reserve Bank of St. Louis

22 Ibid

23 U.S. Bureau of Labor Statistics, Employment Situation, accessed from Federal Reserve Economic Data at the Federal Reserve Bank of St. Louis

24 Jeanna Smialek, "Inflation Has Arrived. Here's What You Need to Know," *The New York Times*, January 10, 2022.

25 "Monthly Poverty Data," *Columbia Center on Poverty and Social Policy*