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Need-Tested Benefits: Children and Poverty

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Need-Tested Benefits: Children and Poverty

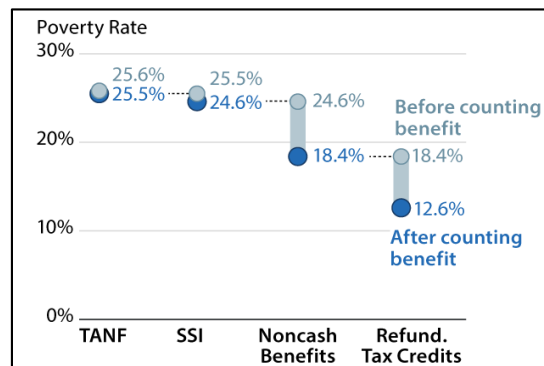
For families with children, the years immediately preceding the COVID-19 pandemic were characterized by high rates of employment for parents and historically low poverty rates for children. In 2017, 95% of all children lived in families with earned income from work. Yet, in that year many families relied, in part, on need-tested benefits to escape or reduce the severity of poverty. Need-tested programs by definition require an individual or family to meet a test of financial need to qualify for benefits. The child poverty rate under the Supplemental Poverty Measure (SPM) without counting the income from need-tested benefits would have been 25.6% in 2017. Need-tested benefits cut the child poverty rate in half, to 12.6%.

Need-tested benefits are provided to families in different forms, cash or noncash. In general, cash can be used to purchase any good or service to help meet families' basic needs. Noncash benefits are restricted to purchasing a particular good or service (e.g., food, housing, and child care). Cash and noncash benefits are generally provided to families on an ongoing (usually monthly) basis. One form of need-tested benefits generally not provided to families on an ongoing basis are refundable tax credits targeted to lower-income persons: the Earned Income Tax Credit (EITC) and the refundable portion of the child credit, the Additional Child Tax Credit (ACTC). Under policies in place before 2021, all refundable tax credits were paid as lump sum payments that were part of tax refunds received in the following year, and these tax credits were not available to families without earnings.

The figure below shows poverty rate reduction attributable to need-tested benefits for children based on 2017 income and prior to the policies put in place to address the economic impact of the COVID-19 pandemic. It adds, in sequence, income from the two cash public assistance programs (the Temporary Assistance for Needy Families [TANF] block grant and Supplemental Security Income [SSI]), noncash benefits, and refundable tax credits. The figure shows that most of the poverty rate reduction was attributable to noncash benefits and refundable tax credits: benefits either restricted to the purchase of certain goods and services or paid the following year in a lump sum and not available to meet ongoing needs in 2017.

Poverty Rates for Children, Before and After Counting Need-Tested Benefits

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic



Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

The figure shows a relatively small role for the cash public assistance programs in reducing child poverty. Also, it should be noted that for the comparatively small group of children in families without earnings (5% of all children), the post-benefit poverty rate was 67.1%.

Examining how need-tested benefits affected families before the pandemic is relevant to the legislative debate in 2021 because some policies that addressed the effects of the economic fallout of the pandemic were either ad-hoc (e.g., *stimulus checks*) or are scheduled to expire. One policy response to the pandemic was to provide cash to households. For families with children, the American Rescue Plan Act of 2021 (P.L. 117-2) expanded the child tax credit to non-earners and very low earners in addition to providing a portion of the credit as monthly advance payments for July 2021 to December 2021. These cash payments—not specially targeted to low-income families, but available to them—represent a departure from pre-pandemic aid. Prior to the pandemic, most lower-income families with children generally relied on earnings from work for their ongoing cash, which was most often supplemented by noncash benefits and lump sum payments of refundable tax credits received as part of tax refunds.

Contents

Introduction	1
Child Poverty Before Counting Need-Tested Benefits	2
Children in Families with Earned Income.....	2
Children in Families Without Earnings.....	4
Need-Tested Benefits and Child Poverty Rates	5
Child Poverty Rates Were Halved When Need-Tested Benefits Were Included in Income.....	6
Need-Tested Benefits Reduced the Aggregate Poverty Gap by Two-Thirds.....	8
Median Poverty Gaps.....	9
Policy Implications.....	11

Figures

Figure 1. Poverty Rates for Children in Families With and Without Earnings, Before Need-Tested Benefits Were Counted.....	3
Figure 2. Poverty Rates for Children, Before and After Counting Need-Tested Benefits	6
Figure 3. Aggregate Poverty Gaps for Families with Children, With and Without Earnings, Before and After Counting Need-Tested Benefits	9
Figure 4. Median Poverty Gaps for Families with Children, Before and After Counting Need-Tested Benefits	10
Figure 5. Median Poverty Gaps for Families with Children, With and Without Earnings, Before and After Counting Need-Tested Assistance	11

Tables

Table 1. Selected Characteristics of Families with Children, Without Earnings, by Family Type.....	4
Table 2. Poverty Rates for Families With Children, With and Without Earnings, Before and After Counting Need-Tested Benefits.....	7
Table A-1. Children in Families with Earnings Below the Poverty Thresholds, by Work Experience During 2017.....	13
Table A-2. Children in Families with Earnings Below the Poverty Thresholds, by Whether an Adult Lost Weeks of Work to Unemployment During 2017	14
Table A-3. Children in Families with Earnings Below the Poverty Thresholds, by Whether an Adult Lost Hours of Work to Part-Time Work While Desiring Full-Time Work During 2017.....	14
Table A-4. Children in Families with Earnings Below the Poverty Thresholds, Based on the Educational Attainment of Adults in the Family, 2017.....	14
Table A-5. Children in Families with Earnings Below the Poverty Thresholds, Based on the Age of Adults in the Family, 2017.....	15

Table A-6. Children in Families with Earnings Below the Poverty Thresholds, Based on the Racial/Ethnic Composition of the Family 15

Table A-7. Children in Families with Earnings Below the Poverty Thresholds, by Number of Children in the Family, 2017 16

Table B-1. Change in the Child Poverty Rate Attributable to Each Program or Program Group..... 17

Appendixes

Appendix A. Earnings and Child Poverty..... 13

Appendix B. Change in the Poverty Rate from Each Need-Tested Benefit or Group of Benefits 17

Contacts

Author Information 17

Introduction

For families with children, the years immediately preceding the Coronavirus Disease 2019 (COVID-19) pandemic were characterized by high rates of employment for the adults and historically low poverty rates for the children.¹ While the economic fallout from the pandemic heightened interest in the economic insecurities faced by some families with children and prompted policy responses to them, even before the pandemic many families with children relied on need-tested benefits to either escape or reduce the severity of their poverty.² Need-tested programs by definition require an individual or family to meet a test of financial need to qualify for benefits. Generally, to be eligible for need-tested assistance, family income must be below a certain dollar threshold and some programs also require the value of assets to be below a certain amount.

This report builds upon the analysis in CRS Report R46825, *Need-Tested Benefits: Impact of Assistance on Poverty Experienced by Low-Income Families and Individuals*. Based on the Supplemental Poverty Measure (SPM)³ in 2017, the child poverty rate absent the income from need-tested benefits would have been 25.6%. Need-tested benefit and refundable tax credit policies in place before the COVID-19 pandemic and its economic fallout were estimated to reduce child poverty for that year by about half, to 12.6%. Before the pandemic, most of the poverty reduction from need-tested benefits was attributable to noncash benefits and refundable tax credits, rather than ongoing cash assistance.

Examining how need-tested benefits affected families before the pandemic is relevant to the legislative debate in 2021. One policy response to the pandemic was to provide cash to households. This included three rounds of economic impact payments (*stimulus checks*), enhanced unemployment insurance, and an expansion and advance monthly payment of the child tax credit. Under current law, the enhanced unemployment insurance has expired. In the fall of 2021, Congress is debating extending the expansion and advance monthly payment of the child tax credit.

The need-tested benefits discussed in this report that reduced child poverty are cash assistance from the Temporary Assistance for Needy Families (TANF) block grant and Supplemental Security Income (SSI); nutrition assistance from the Supplemental Nutrition Assistance Program (SNAP), school meals programs, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); housing assistance; energy assistance; child care subsidies; and the

¹ A review of characteristics and trends in child poverty can be found in Greg Duncan and Suzanne Le Menestrel, eds., *A Roadmap to Reducing Child Poverty*, National Academy of Sciences, Engineering and Medicine, 2019. The study also includes a review of the literature on how poverty affects the development of children as well as some policy proposals to further reduce child poverty.

² See CRS Report R46823, *Need-Tested Benefits: Who Receives Assistance?*, which examines benefit receipt for selected need-tested programs: Medicaid and the State Children's Health Insurance Program (CHIP), the Supplemental Nutrition Assistance Program (SNAP), housing assistance, public assistance funded under the Temporary Assistance for Needy Families (TANF) block grant, Supplemental Security Income (SSI), child care subsidies, and the refundable tax credits. It is estimated, based on 2017 income and pre-pandemic policies, that 57% of all children received at least one of these need-based benefits. The most commonly received benefits were from Medicaid/CHIP, SNAP, and the refundable tax credits.

³ For a discussion of the research Supplemental Poverty Measure (SPM), see CRS Report R45031, *The Supplemental Poverty Measure: Its Core Concepts, Development, and Use*.

refundable tax credits—the Earned Income Tax Credit (EITC) and the refundable portion of the child credit, the Additional Child Tax Credit (ACTC).⁴

Data and Methods Used in This Report

This report is one in a series that uses augmented Census Bureau data on income and poverty in 2017 to provide an example of how a future year might look if the economy and policies revert back to their pre-pandemic states; 2017 is used because this is the year for which the Congressional Research Service (CRS) has created the augmented data. The augmented data are from or associated with the Transfer Income Model, version 3 (TRIM3), funded primarily by the Department of Health and Human Services (HHS) and maintained at the Urban Institute. The data from TRIM3 were used to correct data from the Census Bureau, which is well known to under-report benefit income. TRIM3 data were used for SNAP, SSI, TANF, housing assistance, and child care subsidies. TRIM3 data were unavailable for the other need-tested benefits, so the Census data were used for them.

The year 2017 was deep into the previous economic expansion (year 8 of a 10-year expansion), but not the year of peak economic activity. The data for 2017 may provide a sense of how need-tested benefits would affect families and individuals after the pandemic ends, should the economy continue to recover and temporary policy changes expire. However, the experiences in future years are unlikely to match those of 2017 exactly.

The policies estimated are generally those that were in place in 2017. The one exception is the federal income tax code, particularly the child tax credit. Estimates of poverty (such as those used in this report) reflect estimates of refundable tax credits based on the year for which they are calculated rather than the year they are paid. An expanded child tax credit was enacted in the 2017 tax revision (commonly referred to as the Tax Cuts and Jobs Act [TCJA, P.L. 115-97]), effective for tax year 2018. This report estimates receipt of the refundable tax credits as if the TCJA were in effect in 2017. This is to provide a better sense of how policies may affect incomes once the temporary measures adopted to respond to the COVID-19 pandemic expire.

For more information on the data and methods, see CRS Report R46824, *Need-Tested Benefits: Technical Companion to Selected CRS Reports on Need-Tested Benefits Receipt by Families and Individuals*.

Child Poverty Before Counting Need-Tested Benefits

To illustrate the effects of need-tested benefits income on the poverty status of families with children, this report discusses income minus the need-tested benefits described above. This pre-assistance poverty measure is *not* meant to describe what the U.S. economic situation would look like if need-tested benefit programs did not exist—if they did not, many things (e.g., behavior, consumption patterns, overall living standards) would be different. The comparison of estimated pre-assistance and post-assistance poverty among children is an analytic approach designed to show the relative contribution of need-tested benefits versus other sources of income (e.g., market income) to the living standard achieved by families with children under current law.

Children in Families with Earned Income

The year 2017 was the eighth full year of the 2009 to 2020 economic expansion, and was characterized by comparatively high employment rates and low unemployment rates. In that year, 94.5% of children lived in families⁵ that had earned income from work.

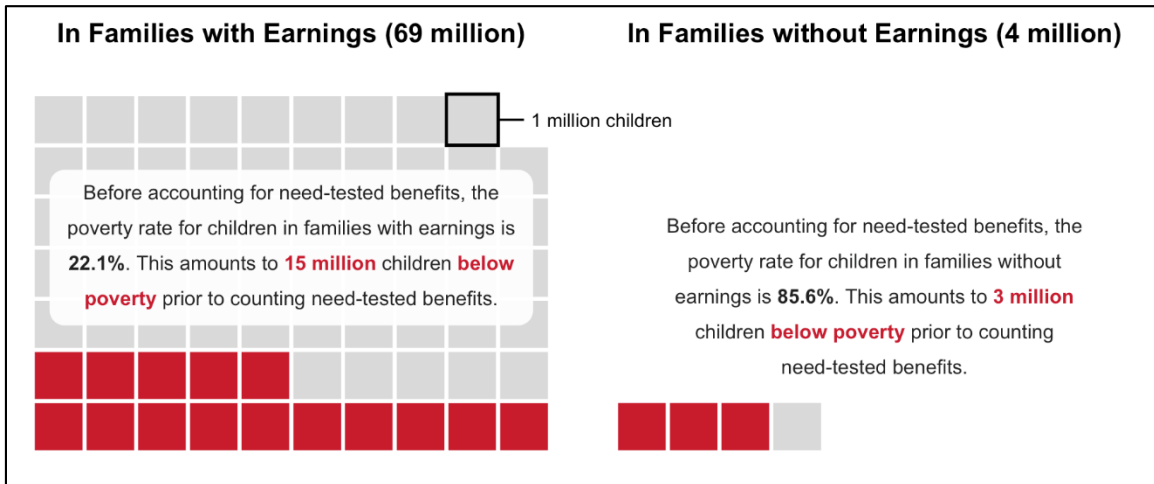
⁴ This report does not address how the value of Medicaid or other health coverage affects family well-being. Under the SPM, the value of health insurance is not counted as income. Rather, the SPM subtracts out-of-pocket medical expenses from income. Health care needs are also not included in the SPM poverty thresholds.

⁵ This report uses the SPM definition of *family*, which includes cohabiting couples. Analyses that use the Census

Figure 1 shows both the pre-assistance child poverty rate and the number of children who were in families with pre-assistance incomes below poverty in 2017. It shows that the poverty rate before counting need-tested benefits was 22.1% for children in families with earnings and 85.6% for children in families without earnings. However, because most children were in families with earnings, most children who had income below poverty without counting need-tested benefits were in families with earnings.

Figure 1. Poverty Rates for Children in Families With and Without Earnings, Before Need-Tested Benefits Were Counted

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic



Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

Notes: Percentages were computed based on unrounded numbers and hence might differ slightly from those computed by the population numbers rounded to the nearest million.

Thus, in the pre-pandemic year of 2017, high rates of work among parents (95% of children lived in families with earnings) occurred together with one in four children being in families with incomes below poverty absent need-tested benefits. Though it is beyond this report's scope to detail why income before need-based benefits failed to exceed the poverty level for that proportion of children, several factors (outlined in the **Appendix A** tables) provide some explanation:

- Among families with earned income, it often took two parents working, and at least one working full-time all year, to have earnings above the family's poverty threshold. Earnings were more likely to be below the poverty threshold for children in two-parent families with only one working parent (even full-time all year), single-parent families, and families where no parent worked full-time all year (e.g., both parents worked part-time) (see **Table A-1**).
- Even in a year well into an economic expansion, some parents experienced unemployment or involuntary part-time work. Children of parents with these

Bureau's official definition of *family*, which comprises individuals living together related by blood or marriage, tend to produce slightly lower percentages of children living in families with earnings. Under the official definition, the earnings of an unrelated cohabiter are not counted.

situations over the year were more likely to be in families with below-poverty earnings (see **Table A-2** and **Table A-3**).

- Family earnings were more likely to be below the poverty threshold in families where the adults lacked a college credential, the adults were either young or older (i.e., over 55), or the family had non-White members. Large families were also more likely to have below-poverty earnings than smaller families (see **Table A-4**, **Table A-5**, **Table A-6**, and **Table A-7**).

Children in Families Without Earnings

In 2017, an estimated 4.1 million children (5% of all children) were in families with \$0 in reported earnings. This is a small group compared to children in families with earnings, and a heterogeneous group (see **Table 1**). However, it is a group with a relatively high pre-assistance poverty rate. When income from need-tested benefits was not counted, an estimated 85.6% of children in families with no earnings had family incomes below the poverty line in 2017.

Among the children who lived in families with no reported earnings, a little more than half (2.4 million out of 4.1 million) were in single-parent families. The second largest group (0.8 million) were in two-parent families and the third largest group (0.6 million) were in families where no parent of the child was present. Families with children and no reported earnings were also characterized by having a family member who had disabilities (35.8%), had retired or was receiving survivors benefits (19.3%), or was an adult student (18.2%).

Table 1. Selected Characteristics of Families with Children, Without Earnings, by Family Type
Based on 2017 Data

Family Type	Total Children	Share of Children Living in Families Without Earnings That Included ...				
		An Individual Who Received Disability Benefits	An Individual Who Received Retirement or Survivors Benefits	An Adult Student	An Infant	Any of the Preceding
Two parents	803,164	31.2%	18.2%	26.7%	8.7%	65.3%
Single mother	2,410,089	31.2	14.3	18.2	10.4	60.8
Single father	279,179	58.0	15.6	6.3	12.0	76.1
No parent	612,168	49.6	41.9	12.3	4.3	86.7
Total	4,104,600	35.8	19.3	18.2	9.2	66.5

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

Notes: Children may fall into more than one of these groupings. Individuals who received disability benefits include those estimated to have received Supplemental Security Income (SSI) benefits by the TRIM3 model, or reported to have received Social Security disability benefits or private disability benefits. TRIM3 estimates of SSI receipt are used because SSI benefits are under-reported on surveys. For a description of how TRIM3 estimates SSI receipt, see <https://boreas.urban.org/documentation/SSI/Main.php>.

Need-Tested Benefits and Child Poverty Rates

Under the policies in place before the COVID-19 pandemic, need-tested benefits were estimated to reduce the child poverty rate from 25.6% when not counting the income from need-tested benefit programs to 12.6% after benefits were counted. This is based on the SPM that counts the value of noncash benefits as well as the impact of federal and state taxes, including counting the value of refundable tax credits that are accrued over a year.

For the purposes of this report, need-tested benefits are classified into three groups based on their form (cash or noncash) or timing:

- **Ongoing cash assistance, with benefits generally paid on a monthly basis.** Families with children are eligible for ongoing cash from the TANF block grant and SSI. TANF helps fund state public assistance programs for needy families with children. SSI is restricted to individuals age 65 and older or individuals of any age (including children) with disabilities. Adding these benefits to pre-assistance income provides a measure of total money income, generally cash, that is fungible and may be used to purchase any good or service to help meet basic needs.
- **Noncash benefits that can only be used to pay for a specified good or service (e.g., food, housing, or child care).** Noncash benefits are generally provided regularly; thus, adding noncash benefits to total money income provides a measure of financial resources available on an ongoing basis to help meet basic needs.
- **Refundable tax credits under the federal income tax system.** The two refundable tax credits considered need-tested benefits and available to families with children are the EITC and the ACTC. These benefits are generally paid in a lump sum once a year. Estimates of poverty (such as those used in this report) reflect estimates of refundable tax credits based on the year for which they are calculated rather than the year they are paid. For example, this report uses estimates of the two refundable tax credits as calculated for 2017 (i.e., as they would be claimed on 2017 income tax returns), though these credits were actually paid to families in early 2018 as part of their annual tax refund (i.e., as a lump sum) after their 2017 returns were filed.⁶ Thus, income from refundable tax credits was not actually available to meet ongoing basic needs in 2017, even if it was modeled as such. Research has also shown that families use the income from refundable tax credits received as a lump sum differently than income received from other sources.⁷

This section will look at the contribution of each of these forms of benefits to reducing child poverty based on the policies in place before the pandemic.

⁶ In 2017, families might have received EITC benefits and/or child tax credit benefits as part of their refunds based on 2016 income and circumstances. However, the ASEC does not ask whether families did receive these benefits; hence, data are not available to calculate total income and poverty status on the basis of all income and tax benefits paid to families during a calendar year.

⁷ For example, see Andrew Goodman-Bacon and Leslie McGranahan, “How Do EITC recipients spend their refunds?”, *Economic Perspectives*, 2nd Quarter, 2008, Federal Reserve Bank of Chicago,.

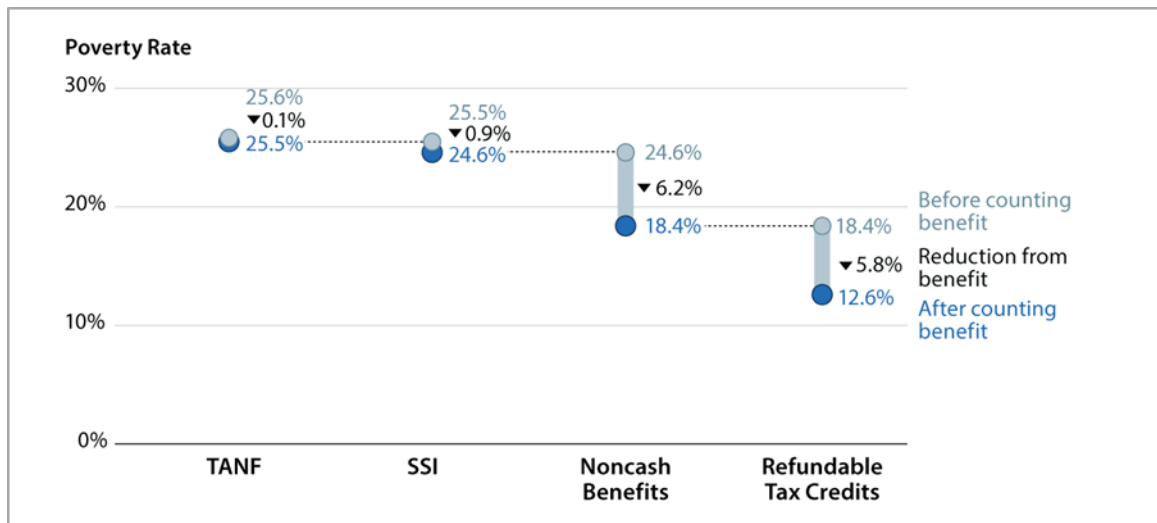
Child Poverty Rates Were Halved When Need-Tested Benefits Were Included in Income

Figure 2 looks at the SPM child poverty rate, starting with the rate as measured before need-tested benefits are counted and then adding, in sequence, ongoing cash assistance, noncash benefits, and refundable tax credits. As shown in the figure, most of the poverty reduction from need-tested benefits came from noncash benefits and the refundable tax credits.

Adding monthly cash assistance from TANF and SSI to other money income reduced the child poverty rate from 25.6% to 24.6% (1 percentage point). Adding the value of noncash benefits to money income reduced the child poverty rate to 18.4%, a 6.2 percentage point reduction. The refundable tax credits further reduced child poverty to its estimated post-benefit, post-tax rate of 12.6%, a further 5.8 percentage point reduction.

Figure 2. Poverty Rates for Children, Before and After Counting Need-Tested Benefits

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic



Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

Notes: TANF= Temporary Assistance for Needy Families block grant. SSI = Supplemental Security Income program.

The pre-assistance poverty rate for children in families without earnings was higher than that for children in families with earnings (85.6% versus 22.1%) in 2017. **Table 2** looks at the child poverty reduction attributable to need-tested benefits separately for families with children and earnings and families with children and without earnings. Need-tested benefits reduced child poverty rates for both types of families. For families with earnings, need-tested benefits reduced the overall child poverty rate by 12.7 percentage points, to 9.4%. The bulk of the poverty reduction was from noncash benefits (5.7 percentage points) and refundable tax credits (6.1 percentage points).

Need-tested benefits also reduced the poverty rate for children in families without earnings. For these families, TANF assistance reduced the child poverty rate by a half a percentage point and SSI reduced it by 2.3 percentage points. The bulk of poverty reduction for children living in

families without earnings was from noncash benefits (15.8 percentage points). When these noncash benefits were included in income along with cash assistance, the child poverty rate for families without earnings fell from 85.6% to 67.1%. This is the post-benefit poverty rate for this group because families without earnings were not eligible for refundable tax credits in 2017.

Table 2. Poverty Rates for Families With Children, With and Without Earnings, Before and After Counting Need-Tested Benefits

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic

	Poverty Rates (percentages)			Change in Poverty Rates (percentage points)		
	All Children	Children in Families With Earnings	Children in Families Without Earnings	All Children	Children in Families With Earnings	Children in Families Without Earnings
Before need-tested benefits were counted	25.6	22.1	85.6	—	—	—
After TANF assistance was counted	25.5	22.0	85.1	-0.1	-0.1	-0.5
After TANF and SSI was counted	24.6	21.2	82.9	-0.8	-0.8	-2.3
After TANF, SSI, and all noncash benefits were counted	18.4	15.6	67.1	-6.2	-5.7	-15.8
After all need-tested benefits (TANF, SSI, noncash benefits, and refundable tax credits were counted)	12.6	9.4	67.1	-5.8	-6.1	NA
Total change	—	—	—	-13.0	-12.7	-18.5

Source: Congressional Research Service (CRS) based on data from the 2018 Annual Social and Economic Supplement to the Current Population Survey (CPS) and data from the Transfer Income Model version 3 (TRIM3) microsimulation model.

Note: NA=not applicable.

Sequence of Counting Benefits and Poverty Reduction

The measurement of poverty reductions from need-tested benefits—the poverty rate reductions above and poverty gap reductions below—were done in a sequence starting with ongoing cash benefits, subsequently adding noncash benefits, and finally adding refundable tax credits. This sequence, like comparison of estimated pre-assistance and post-assistance poverty among children, is an analytic approach meant to show the relative contributions of money income (market income plus ongoing cash public assistance), financial resources available to meet ongoing needs (money income plus noncash benefits), and total resources to determining families' poverty status. A different sequence—or different method of considering need-tested benefits and poverty reduction—will produce different numbers but not change the overall conclusion that noncash benefits and refundable tax credits account for the bulk of poverty reduction for families with children.

The Census Bureau, in its annual reports on the SPM, uses a different method to look at the impact of benefits on poverty. The Census Bureau's approach takes families' final SPM poverty status and subtracts each benefit from family resources to determine families' pre-benefit poverty status. **Appendix B** shows poverty rates for families with children using this approach, but substituting TRIM3 estimates to address under-reporting and aggregating all noncash benefits together to make that analysis consistent with what is shown in the body of this report. The Census Bureau method provides the marginal effect of each program or groups of programs on the poverty rate. The differences between this approach and that used by the Census Bureau does not change the overall conclusions of this report that the bulk of poverty reduction is attributable to noncash benefits and refundable tax credits.

Need-Tested Benefits Reduced the Aggregate Poverty Gap by Two-Thirds

Need-tested benefits also reduce the depth (or severity) of poverty among families with children with incomes below the poverty threshold. The *poverty gap* is a measure of the depth of poverty (i.e., in dollars below the SPM threshold). It is defined for an individual family as the difference between the family's total income and its poverty threshold. The *aggregate poverty gap* is that difference summed across all families with incomes below the poverty threshold.

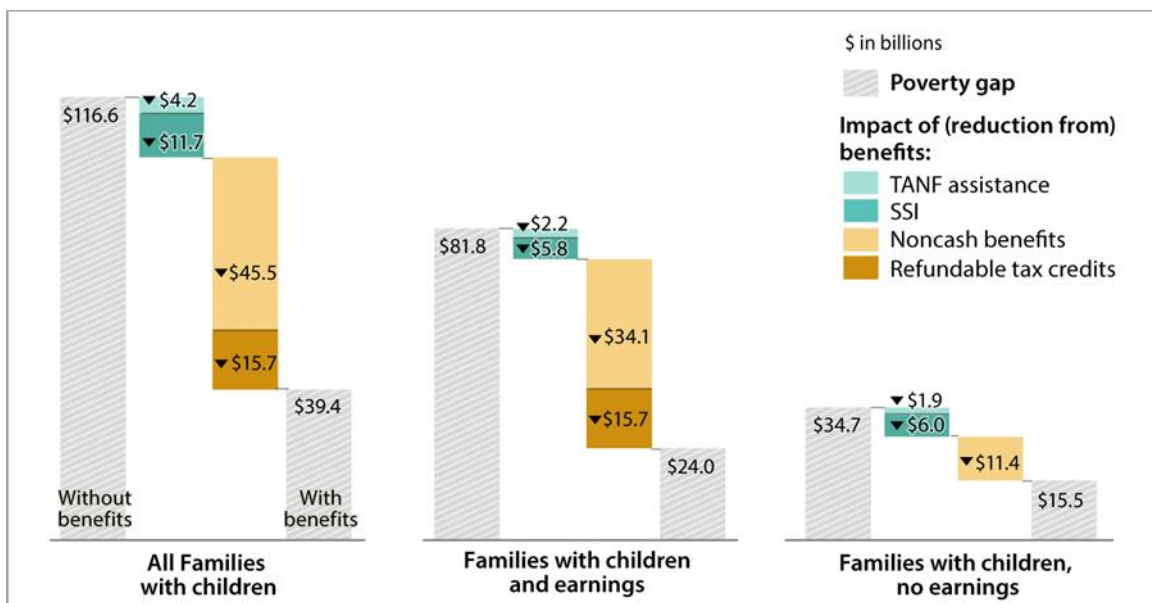
Figure 3 shows the aggregate poverty gap in 2017 for families with children before and after need-tested benefits were counted. Need-tested benefits reduced the aggregate poverty gap by two-thirds (\$77.2 billion), from \$116.6 billion to \$39.4 billion. The largest reduction in the aggregate poverty gap was attributable to noncash benefits. As with the poverty rate, ongoing cash assistance reduced the poverty gap by a comparatively smaller amount than noncash benefits. However, ongoing cash assistance (SSI more so than TANF) reduced the poverty gap or severity of poverty by about as much as the refundable tax credits. This is because SSI and TANF generally assist very poor families, for whom they had a greater effect in reducing the poverty gap. The refundable tax credits were available under pre-pandemic policies only to families with earnings—and hence, higher income—who were more likely to be closer to their respective poverty threshold.⁸

The figure also breaks out the reduction in the aggregate poverty gap for families with and without earnings. Of the total \$77.2 billion in poverty gap reduction attributable to counting need-tested benefits, \$57.8 billion was the reduction in the poverty gap for families with earnings. For families without earnings, noncash benefits did more to reduce the aggregate gap than did ongoing cash assistance, and SSI did more to reduce the gap than did TANF.

⁸ Refundable tax credits are also the last in the sequence of benefits added to family income. Thus, the reduction in the gap was measured after both ongoing cash assistance and noncash benefits were counted.

Figure 3. Aggregate Poverty Gaps for Families with Children, With and Without Earnings, Before and After Counting Need-Tested Benefits

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic



Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

Notes: TANF= Temporary Assistance for Needy Families block grant. SSI = Supplemental Security Income program.

Median Poverty Gaps

The median poverty gap is a measure of how deep poverty is for a typical family with income below the poverty threshold. For context, the median poverty threshold for families with children in 2017 was \$26,657.

Figure 4 shows the median (or typical) poverty gap for families with children before and after each form of need-tested benefits was counted. The median family with a child living in pre-assistance poverty had income (before counting need-tested benefits) that was \$11,958 below its poverty threshold. Ongoing cash assistance from TANF and SSI reduced the median poverty gap to \$10,713. After ongoing cash and noncash benefits were counted (a measure of available income and benefits provided on an ongoing basis), the median poverty gap was reduced to \$6,607. Refundable tax credits further reduced the gap to \$6,522.⁹

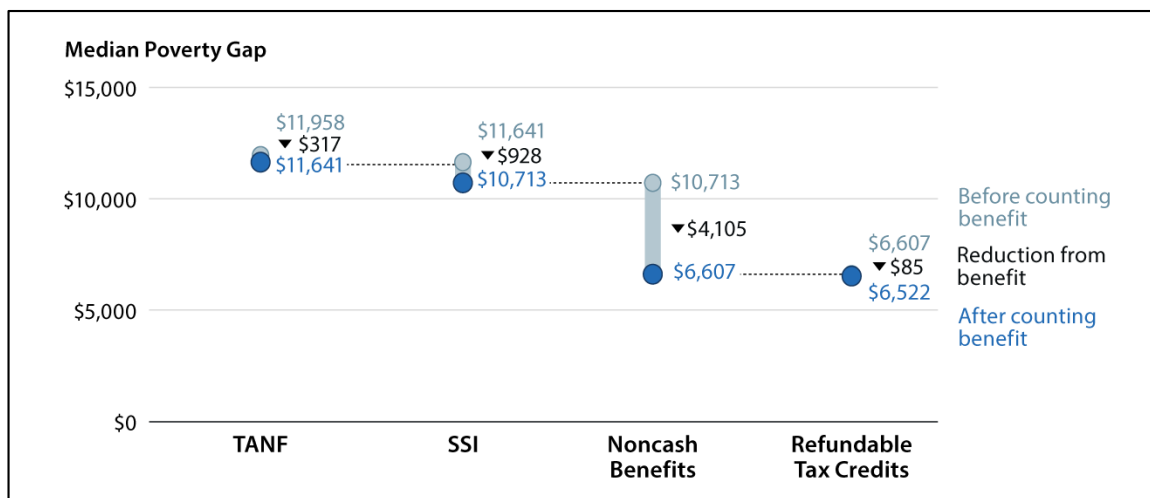
The relatively small difference between the median poverty gap before and after refundable tax credits is partially explained by the fact that receipt of these benefits often moves families *over* the poverty line. Hence, there is no poverty gap for these families. The median poverty gap post-

⁹ Median poverty gaps, like aggregate poverty gaps, are computed for families that had incomes below the poverty line. This is done separately for each income concept (i.e., pre-assistance, after TANF, after SSI, after noncash benefits, and after refundable tax credits), and represent the number of families with children with incomes below the poverty line for each income concept. Thus, the median pre-assistance poverty gap represents the median difference between family income and the poverty threshold for families with pre-assistance income below the poverty threshold, the post-TANF poverty gap represents the median difference between family income and the poverty threshold for families with post-TANF income below the poverty threshold, and so on.

refundable tax credits represents the median difference between family income and the poverty threshold for only those families with total income, including TANF, SSI, noncash benefits, and refundable tax credits, below the poverty threshold.

Figure 4. Median Poverty Gaps for Families with Children, Before and After Counting Need-Tested Benefits

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic



Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

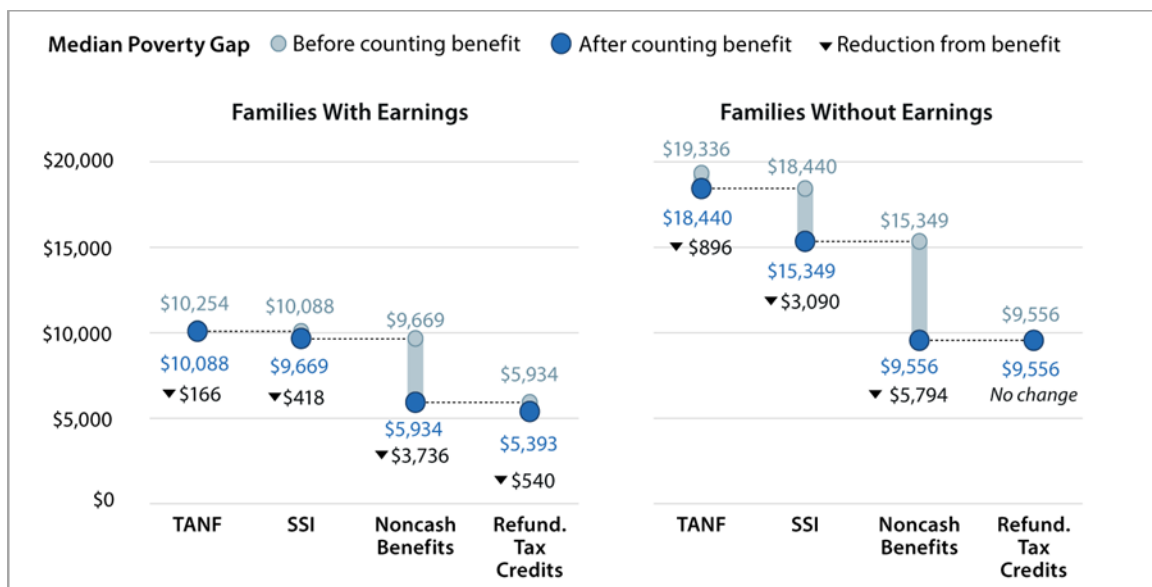
Notes: TANF= Temporary Assistance for Needy Families block grant. SSI = Supplemental Security Income program. All numbers are rounded to the nearest dollar, so differences shown might be different from that obtained by simply subtracting before and after counting median poverty gaps.

Figure 5 shows the reduction in median poverty gaps for families with children by whether or not families had earnings during the year. Both types of families experienced a reduction in their median gap. The largest median gap reductions for families with earnings were from noncash benefits, which reduced the typical gap for these families by \$3,736, from \$9,669 to \$5,934. Refundable tax credits reduced their typical poverty gap further, by an estimated \$540, to a post-benefit gap of \$5,393 for families with earnings who remained below the poverty threshold.

For families without earnings, the median poverty gap before need-tested benefits was \$19,336. Ongoing cash assistance reduced this gap to \$15,349 (and once again, SSI had more of an effect than TANF assistance). Noncash benefits further reduced the median poverty gap for families without earnings to their post-benefit level of \$9,566 (families without earnings were not eligible for refundable tax credits in 2017). This gap was 77% higher than the gap for families with earnings, indicating that families without earnings typically remained in deeper poverty than did families with earnings.

Figure 5. Median Poverty Gaps for Families with Children, With and Without Earnings, Before and After Counting Need-Tested Assistance

Based on 2017 Income Data and Policies in Place Before the COVID-19 Pandemic



Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

Notes: TANF= Temporary Assistance for Needy Families block grant. SSI = Supplemental Security Income program. All numbers are rounded to the nearest dollar, so differences shown might be different from that obtained by simply subtracting before and after counting median poverty gaps.

Policy Implications

This report shows that many families with children, including those with earned income, relied in part on need-tested benefits to escape or alleviate poverty in the pre-pandemic period. The year 2017 was a strong one economically, and 95% of children lived in families with earnings. Yet, before need-tested benefits were counted, 25.6% of children lived in families with income below poverty. Need-tested benefits reduced the child poverty rate to 12.6% and also reduced the severity of poverty as measured by poverty gaps. This was largely accomplished through noncash benefits and, for families with earners, refundable tax credits. Children in families with earnings had an estimated post-benefit poverty rate of 9.4%. Need-tested benefits did reduce poverty among the comparatively small group of children in families without earnings; however, after all assistance was counted, children in these families had a post-benefit poverty rate of 67.1%.

Families with children generally relied on earnings from work for their ongoing cash. However, even in a strong economic year such as 2017, some parents lost time from work due to unemployment or working part-time while desiring full-time work. Ongoing cash assistance—particularly from TANF—played a relatively small role in reducing and alleviating child poverty. Cash assistance can be used to purchase any good or service; noncash benefits cannot. The aggregate effect of noncash benefits was comparatively large; however, noncash benefits were not always available to meet the specific basic needs, such as housing, of a family with children. The most commonly received noncash benefit was nutrition assistance, whereas housing assistance

was received by far fewer families with children.¹⁰ Further, refundable tax credits also had a comparatively large role in reducing poverty versus cash assistance; however, tax credits calculated based on 2017 earnings and family structure (e.g., number of children) were not paid out to families until early 2018 as part of their tax refund.

That need-tested aid is focused mainly on families with children and working parents, and provided primarily through noncash benefits and refundable tax credits, is the result of policy changes that largely began in the mid-1980s. These changes were motivated, in part, by a desire to promote work for parents, particularly single mothers. The changes included expanding the EITC and later creating and expanding the child tax credit, de-linking Medicaid coverage for children from cash public assistance receipt, and establishing child care subsidies for lower-income parents. They also included the end of the cash public assistance program for families with children, Aid to Families with Dependent Children (AFDC), resulting from enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PROWRA, P.L. 104-193). Federal funding for cash aid to needy families with children was folded into the broad-purpose TANF block grant. The number of families receiving cash assistance and cash assistance spending declined, and states shifted funds toward other benefits, services, and activities that can be funded by TANF.¹¹

In contrast to pre-COVID-19 pandemic policies for lower-income families with children, one of the main policy responses to the economic fallout from the pandemic was direct cash payments to households. Three rounds of economic impact payments (*stimulus checks*) were provided, and unemployment insurance eligibility was enhanced and benefits were raised. The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) provided further benefits for families with children—expanding the child tax credit to nonearners and very low earners as well as providing a portion of the credit as monthly advance payments for July 2021 to December 2021. These cash payments—not specially targeted to low-income families, but available to them—represent a departure from pre-pandemic aid policies. The expanded child tax credit is scheduled to expire under current law at the end of 2021. In the fall of 2021, Congress is considering legislation to extend the expanded child tax credit beyond its scheduled expiration date of the end of the year.

¹⁰ See CRS Report R46823, *Need-Tested Benefits: Who Receives Assistance?*

¹¹ For a discussion of the trend in the number of families who received public assistance from AFDC or are receiving public assistance from TANF, see CRS Report RL32760, *The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions*.

Appendix A. Earnings and Child Poverty

Though it is beyond the scope of this report to fully explain why the poverty rate for children when need-tested benefits were not counted was 25.6% in 2017, this appendix provides tables presenting data from an exploratory analysis of pre-assistance child poverty. Because earnings were the most common form of income received by families with children, it is likely that those earnings play a large part in explaining the pre-assistance child poverty rate. Thus, these tables provide some additional data showing the earnings-only poverty rate by various family characteristics. This is simply the rate at which the (SPM) families' earnings fall below the poverty threshold.

Table A-1. Children in Families with Earnings Below the Poverty Thresholds, by Work Experience During 2017

Family Work Experience	Percentage of Children in Families with Below-Poverty Earnings	Number of Children in Families with Below-Poverty Earnings (Millions)	Total Children in Category (Millions)
Both parents worked full-time all year	0.7%	0.117	15.825
Both parents worked, one full-time all year	3.9%	0.515	13.070
Both parents worked, neither full-time all year	15.6%	0.462	2.954
One parent worked full-time all year, other parent did not work	16.8%	2.442	14.533
One parent worked less than full-time all year, other parent did not work	50.6%	1.801	3.559
Single mother worked full-time all year	20.9%	1.569	7.500
Single father worked full-time all year	9.4%	0.203	2.169
Single parent worked less than full-time all year	54.4%	3.211	5.897
Only non-parent earners in family	36.7%	1.597	4.351
Total	17.1%	11.916	69.859

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). Detail may not add to totals because of rounding.

Table A-2. Children in Families with Earnings Below the Poverty Thresholds, by Whether an Adult Lost Weeks of Work to Unemployment During 2017

Any Adult Lost Weeks to Unemployment?	Percentage of Children in Families with Below-Poverty Earnings	Number of Children in Families with Below-Poverty Earnings (millions)	Total Children in the Category (millions)
Yes	33.7%	1.882	5.581
No	15.6%	10.034	64.278
Total	17.1%	11.916	69.859

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS).

Note: Weeks lost to unemployment are those in which an individual was not working but looking for work. Detail may not add to totals because of rounding.

Table A-3. Children in Families with Earnings Below the Poverty Thresholds, by Whether an Adult Lost Hours of Work to Part-Time Work While Desiring Full-Time Work During 2017

Hours Lost to Working Part-Time While Desiring Full-Time Work?	Percentage of Children in Families with Below-Poverty Earnings	Number of Children in Families with Below-Poverty Earnings (millions)	Total Children in the Category (millions)
Yes	25.8%	0.744	2.884
No	16.7%	11.172	66.975
Total	17.1%	11.916	69.859

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). Detail may not add to totals because of rounding.

Table A-4. Children in Families with Earnings Below the Poverty Thresholds, Based on the Educational Attainment of Adults in the Family, 2017

Highest Educational Attainment of the Adults in the Family	Percentage of Children in Poverty Based on Earnings Alone	Number of Children in Poverty Based on Earnings Alone (millions)	Total Children in the Category (millions)
No high school	53.4%	2.184	4.090
High school diploma	26.9%	6.647	24.677
Postsecondary credential	7.5%	3.085	41.091
Total	17.1%	11.916	69.859

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). Detail may not add to totals because of rounding.

Table A-5. Children in Families with Earnings Below the Poverty Thresholds, Based on the Age of Adults in the Family, 2017

Age Category	Percentage of Children in Poverty Based on Earnings Alone	Number of Children in Poverty Based on Earnings Alone (millions)	Total Children in the Category (millions)
18 to 24	42.3%	0.454	1.074
25 to 29	29.8%	1.259	4.222
30 to 34	20.8%	1.937	9.296
35 to 39	17.3%	2.536	14.645
40 to 44	12.6%	1.660	13.145
45 to 49	10.9%	1.134	10.425
50 to 54	13.6%	0.893	6.566
55 to 64	15.5%	0.987	6.359
65 and older	25.6%	1.055	4.127
Total	17.1%	11.916	69.859

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). Detail may not add to totals because of rounding.

Table A-6. Children in Families with Earnings Below the Poverty Thresholds, Based on the Racial/Ethnic Composition of the Family

Racial/Ethnic Composition of the Family	Percentage of Children in Poverty Based on Earnings Alone	Number of Children in Poverty Based on Earnings Alone (millions)	Total Children in the Category (millions)
All White	9.5%	3.189	33.683
All Black	27.8%	2.265	8.160
All Hispanic	30.2%	4.115	13.603
All Asian	14.4%	0.478	3.317
All other	26.8%	0.148	0.552
Mixed race	16.3%	1.721	10.544
Total	17.1%	11.916	69.859

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). Detail may not add to totals because of rounding.

Table A-7. Children in Families with Earnings Below the Poverty Thresholds, by Number of Children in the Family, 2017

Number of Children in the Family	Poverty Rate	Number of Children Living in Families with Earnings Below the Poverty Level (millions)	Total Number of Children in the Category (millions)
1	12.1%	1.952	16.110
2	13.5%	3.663	27.190
3	19.3%	3.111	16.120
4	25.9%	1.715	6.620
5 or more	38.8%	1.486	3.830
Total	17.1%	11.930	69.880

Source: Congressional Research Service (CRS) based on data from the 2018 Annual Social and Economic Supplement to the Current Population Survey (CPS). Detail may not add to totals because of rounding.

Appendix B. Change in the Poverty Rate from Each Need-Tested Benefit or Group of Benefits

This appendix provides an alternative method of showing the estimated reduction in the child poverty rate attributable to need-tested benefit programs. This method, following the one used by the U.S. Census Bureau, subtracts each benefit in isolation from total family resources and recalculates the poverty rate.¹² This method does yield different estimates of the poverty impact of the various need-tested benefit program categories from those presented in this report. However, the estimates using the Census Bureau method do not alter the basic conclusion that noncash benefits and refundable tax credits have a larger impact on the child poverty rate than do ongoing cash public assistance programs from the TANF block grant or SSI.

Table B-1. Change in the Child Poverty Rate Attributable to Each Program or Program Group
Based on 2017 Income

Benefit	Poverty Rate Minus the Benefit	Poverty Rate After Adding the Benefit	Difference
Temporary Assistance for Needy Families assistance	13.2%	12.6%	-0.6
Supplemental Security Income	14.0%	12.6%	-1.4
Noncash benefits	19.2%	12.6%	-6.6
Refundable Tax Credits	18.4%	12.6%	-5.8

Source: Congressional Research Service (CRS), based on data from the 2018 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) and data from the Transfer Income Model, version 3 (TRIM3) microsimulation model.

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¹² For the 2017 SPM report, see Liana Fox, *The Supplemental Poverty Measure: 2017*, U.S. Census Bureau, P60-265, September 2018. Note that the data in this CRS report differs from the Census Bureau report because this report uses estimates of benefits from the TRIM3 microsimulation model. TRIM3 estimates are used because need-tested benefit receipt is under-reported on the survey underlying the Census Bureau estimates.

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