

# The Potential Poverty Reduction Effect of the American Families Plan

## *An Opportunity to Sustain Poverty Reduction Effects of the American Rescue Plan Beyond 2021*

Sophie Collyer, Megan A. Curran, Robert Paul Hartley, Zachary Parolin, & Christopher Wimer<sup>1</sup>  
**Center on Poverty and Social Policy at Columbia University**

This fact sheet provides an analysis of the poverty reduction effects of a set of policy elements in President Biden’s proposed American Families Plan. The projected annual poverty rates for 2022 before and after accounting for policies outlined in the American Families Plan are listed below.

**Table 1. 2021 Poverty projections under the American Families Plan**

	Poverty Rate, 2022		Poverty Impact, 2022		
	Without American Families Plan	With American Families Plan	Percentage Point Reduction	Percent Change	Number of People Moved Out of Poverty
<i>US Population</i>	13.3%	10.2%	3.1%	23.0%	10,060,000
<i>Under 18</i>	14.7%	7.8%	7.0%	47.4%	5,170,000
<i>18-64</i>	12.4%	10.1%	2.3%	18.6%	4,550,000
<i>65+</i>	14.5%	13.9%	0.6%	3.8%	320,000
<i>Asian</i>	13.2%	11.2%	2.0%	15.1%	420,000
<i>Black</i>	21.3%	15.1%	6.2%	29.3%	2,670,000
<i>Hispanic</i>	21.3%	14.7%	6.6%	31.1%	3,970,000
<i>White</i>	9.0%	7.7%	1.3%	14.8%	2,540,000
<i>Metro-area residents</i>	13.4%	10.3%	3.1%	23.4%	8,910,000
<i>Non-metro area residents</i>	12.3%	9.7%	2.6%	21.2%	1,080,000
<i>Children in metro areas</i>	15.0%	7.9%	7.1%	47.0%	4,500,000
<i>Children in non-metro areas</i>	13.3%	6.6%	6.6%	50.0%	620,000

Due to rounding, some totals may not correspond with the sum of the separate figures. See ‘Terms Defined’ for additional information on terminology.

<sup>1</sup> Authors listed alphabetically, not in order of contribution.

Nearly 40 million US residents, including close to 10 million children, [lived below the poverty line](#) prior to the onset of the COVID-19 pandemic. Amidst the pandemic, federal efforts in 2020 provided economic relief and [prevented poverty from spiking](#) to the highest level in decades. Federal actions taken in 2021—including new economic impact payments, expansions to unemployment insurance, the Child Tax Credit, the Earned Income Tax Credit (EITC), the Child and Dependent Care Tax Credit (CDCTC), and increases in Supplemental Nutrition Assistance Program (SNAP) payments—are projected to cut poverty for all Americans, especially children, substantially this year. [Previous projections show](#) these federal policies reducing the overall poverty rate in 2021 from 12.3% to 8.5%.<sup>2</sup> But the policies driving this poverty reduction are temporary. After they expire—and as Table 1 illustrates—poverty rates in 2022 are likely to return to, or exceed, pre-pandemic levels without additional action.<sup>3</sup> The American Families Plan continues a set of pandemic-era supports—specifically, expansions to the Child Tax Credit, the childless portion of the EITC, and the CDCTC—and includes additional items geared towards building family economic security. We project that these policies will reduce the national poverty rate in 2022 by nearly one-quarter (23.0%) and the child poverty rate by nearly half (47.4%), relative to the projected poverty rates for 2022 without the American Families Plan. This could sustain the progress made towards reducing poverty in the United States [projected under the American Rescue Plan](#) beyond 2021.

Our analysis uses the Supplemental Poverty Measure (SPM) framework to project an annual poverty rate for 2022. Our model assumes a 4.2 percent national unemployment rate in 2022. We model all other demographic and labor market characteristics as consistent with those observed in December 2020. The proposed policy elements featured include (see Methods for more details):

- A fully refundable Child Tax Credit valued at \$3,000 (ages 6-17) and \$3,600 (under 6)
- An expansion of the Earned Income Tax Credit for workers without children
- An expansion of subsidized child care for low- and middle-income families
- An expansion of the Child and Dependent Care Tax Credit
- An expansion of the Summer Electronic Benefit Transfer (EBT) Program to all eligible children nationwide
- And expansion of the Pell Grant award for all recipients

The American Families Plan includes a number of other items likely to impact poverty, including guaranteed paid leave, an expansion of school meals, investments in the child care workforce, investments in education and higher education, and more. This analysis does not account for these items.<sup>4</sup> Our results are based on policy parameters available at the time of the modeling.

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<sup>2</sup> Our 2021 [projections](#) estimate a 13.6% national poverty rate (without accounting for the December 2020 stimulus or the American Rescue Plan), a 12.3% national poverty rate (including the December 2020 stimulus, but without the American Rescue Plan), and a 8.5% national poverty rate (including both the December 2020 stimulus and the American Rescue Plan).

<sup>3</sup> Our 2022 projection of a 13.3% national poverty rate (assuming all pandemic relief expires and without the American Families Plan) is at a level similar to the 2021 pre-American Rescue Plan estimates. The [2019 and 2018 Supplemental Poverty Measure national poverty rates](#) were 11.7% and 12.8%, respectively. 2022 projections with the American Families Plan remain slightly higher than the 2021 projections with the American Rescue Plan; this may be, in part, due to the presence of economic impact payments and expansions to unemployment benefits and SNAP available in 2021 that are not assumed to be available in 2022 in our current model. See Methodology for more detail.

<sup>4</sup> The policies in the American Families Plan could also lead to changes in labor-force participation. For example, the expansion for subsidized child care could lead more parents and caregivers to enter the labor force (see [Hartley, Chaudry, Boteach, Mitchell, Menefee 2021](#)), while some researchers suggest that the expansion to the Child Tax Credit could lead some parents to exit the labor force or reduce their work hours. In the 2019 National Academy of Sciences report on policy packages that reduce child poverty, the committee found that the increases in labor force participation among parents in poverty resulting from changes in child care policy outweighed the reduction in labor force participation associated with the expansions to the Child Tax Credit that they examined (see [National Academy of Sciences 2019](#)). These results suggest that, on net, the American Families Plan could lead to increases in labor force participation, but we have not accounted for these increases in our model.

## *Terms Defined*

- ‘Hispanic’ represents anyone who is of Hispanic, Latino, or Spanish origin.
- ‘Metro-area’ residents are those who live in one of the country’s 384 metropolitan statistical areas (MSA). Additional information from the US Census Bureau is available [here](#).
- ‘[Supplemental Poverty Measure](#)’ (SPM) is the framework we use which accounts for cash and noncash government benefits, necessary expenses like taxes, health care, commuting expenses, and child care, and adjusts for family size and local housing costs. For a two-parent, two-child family in an average cost city, the SPM income threshold is about \$28,000 per year. The SPM is reported along with the official poverty measure (OPM) by the U.S. Census Bureau.

## *Methodology*

We project 2022 poverty estimates using the Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) and the December 2020 CPS basic monthly file. We simulate each policy of the American Families Plan within the 2019 CPS-ASEC (calendar year 2018) which provides estimates for the 2018 poverty rate; see details on each policy below. We do not use the 2020 ASEC (calendar year 2019) given concerns of bias in survey nonresponse that affects final poverty estimates. We create a 4.2% national unemployment rate in 2022 in our basic monthly file. The 4.2% unemployment rate is based on Blue Chip Economic Indicators projection for 2022, as of April 2021. To reach this unemployment rate in the December 2020 monthly file, we move individuals from non-employed to employed until the target unemployment rate is reached; the ordering of the individuals moved to employment is based on a Probit model that estimates the demographic characteristics of the currently employed and assumes that non-employed individuals sharing the demographic characteristics of the employed are more likely to move from non-employment to employment. We assume the occupational composition and hours worked of the newly employed match the distribution of those already employed in the data.

After simulating our policies in the CPS-ASEC, we create a new measure of SPM poverty that takes into account the added income support. We then use combined-sample multiple imputation to export the conditional likelihood of poverty from the CPS-ASEC file to the respondents in the basic monthly file using an extensive set of demographic, labor market, and geographic indicators, as well as their interactions, to project poverty rates for 2022. Percentage point and percent reductions are largely comparable<sup>5</sup> if we simulate poverty rates directly in the 2019 CPS-ASEC file under pre-pandemic conditions, though levels are lower in both the baseline and post-simulation scenario in this alternative approach given the lower observed unemployment rate in 2018.

Our projection for 2022 poverty rates without the American Families Plan policy items does not carry over any income support policies from recent pandemic-era legislation (e.g. the CARES Act or American Rescue Plan). We assume temporary economic relief measures have expired and no other major policy changes alter income support programs for 2022. Our projection for 2022 poverty rates with the American Families Plan simulates the impact of the following list of policy items. In keeping with the approach taken by the US Census Bureau in calculating SPM poverty rates, we assume 100 percent take up of tax credits. As such, the poverty estimates provided here represent the potential poverty rates if all eligible recipients are able to access the tax credits within the American Families Plan; eventual poverty rates may change depending on receipt.

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<sup>5</sup> Estimates for children by race and ethnicity are different for subgroups when we simulate poverty reductions in the 2019 CPS-ASEC for 2018 versus project them in 2022. See Appendix for a discussion of these differences.

### *Child Tax Credit*

The Child Tax Credit (CTC) expansion modeled here assumes a fully refundable maximum annual benefit of \$3,000 for dependents aged 6 to 17 and \$3,600 for dependents aged under 6 under a continuation of the parameters in the [American Rescue Plan Act, P.L.117-2](#). The expansion to the Child Tax Credit in the American Rescue Plan increased the maximum value of the Child Tax Credit and eliminated the earnings requirement and phase-in. The maximum credit values increased from the prior maximum value of \$2,000 per child, regardless of age, and many low-income families who did not receive a Child Tax Credit or received a partial Child Tax Credit prior to the American Rescue Plan became eligible for a full credit. To simulate this policy change, we identified all individuals in the CPS-ASEC with dependents under the age of 18 and then calculated their new benefit value. The dataset we utilized for this analysis does not provide information about who does or does not have a Social Security number, thus we did not make eligibility distinctions on this basis. All families with adjusted gross incomes (AGIs) below the phase-out thresholds qualified for the maximum per child credit values specified above; this includes individuals with qualifying dependents who did not file taxes because they had very low or no earnings. The credit was set to phase out for joint filers with an AGI above \$115,000 and for single filers with an AGI above \$75,000. To estimate the poverty impacts of the proposal, we replaced the Child Tax Credit values included in the 2019 CPS-ASEC microdata with the Child Tax Credit values we calculated according to above parameters and determined each SPM unit's poverty status with the new credit.

### *The Earned Income Tax Credit*

The Earned Income Tax Credit (EITC) modeled here continues the expansions to the childless portion of the EITC under the parameters in the [American Rescue Plan Act, P.L.117-2](#) that broadened eligibility to workers aged 19 and above (except for full-time students) and increased the maximum benefit available. Specifically, this expansion reduced the minimum age to claim benefits from 25 to 19 (except for full-time students); increased the credit phase-in and phase-out threshold from 7.65% to 15.3%; set the phase-out income threshold at \$11,490; and increased the maximum credit from \$538 to \$1,487. To estimate the impact of this policy change, we used pre-American Rescue Plan Act EITC eligibility rules to simulate the prior value of EITC benefits and used the American Rescue Plan Act parameters to simulate the value of EITC benefits under the proposed continuation and calculated the net difference in EITC benefit value at the SPM unit level. To estimate the poverty impacts of the proposal, we added our calculated net difference in EITC value to the SPM total resources included in the 2019 2018 ASEC microdata and determined each SPM unit's poverty status with the new total.

### *Subsidized child care*

The expansion of subsidized child care modeled here reduces or eliminates child care expenditures across a range of care settings for families with incomes below 150% of their state median income. Families with incomes below 75% of their state median income would have no copayment for child care; families with incomes between 75% and 150% of their state median income would see copayments between 0% and 7% of their annual family income. To estimate the impacts of the expansion, we simulated the net benefit to families when child care prices change. We recalculated a family's disposable income based on their reported level of out-of-pocket child care expenses. That is if a low-income family reports spending \$5,000 per year out of pocket before the child care reform, and child care becomes available at no cost to this family after reform, then their disposable income would increase by \$5,000. Using family income levels reported in the CPS-ASEC and data on state median income, we determined if families would be eligible for no-cost child care or low-

cost child care for which they would make a co-payment. With this data, we determined how much their child care spending would be reduced by the policy and accounted for this change in the accounting of family resources used to determine the poverty rate. This policy would also likely increase labor force participation, but we did not include these second-order effects in our model. For more information on the possible impacts of these second-order effects, [see Hartley, Chaudry, Boteach, Mitchell, Menefee \(2021\)](#).

### *The Child and Dependent Care Tax Credit*

The Child and Dependent Care Tax Credit (CDCTC) expansion modeled here continues the expansions under the parameters in the American Rescue Plan Act, P.L.117-2: making the credit fully refundable and worth up to half of a family's child care spending with a maximum credit value of \$4,000 for one child and \$8,000 for two or more children. The full credit is available to families with annual incomes up to \$125,000; above this income level, a partial credit is available up to annual incomes of \$400,000. After modeling the expansions to the subsidized child care outlined in the American Families Plan, we updated estimates of out-of-pocket spending on child care to calculate the CDCTC that families with remaining care expenses would receive. We determined these amounts using the pre-reform CDCTC rules and those specified in the American Families Plan to calculate the change in the credit values specifically associated with the policy change.

### *The Summer Electronic Benefit Transfer Program*

The Summer Electronic Benefit Transfer (EBT) Program expansion modeled here makes monthly benefits for food purchase over the summer available to all children who receive free and reduced price school meals nationwide. The Summer EBT program provides additional SNAP benefits in the summer months to children who receive free and reduced lunches through the US Department of Agriculture's National School Lunch Program. This policy is modeled on the Pandemic EBT program established first in the Families First Coronavirus Relief Act and extended through the American Rescue Plan.<sup>6</sup> We use the existing value of free and reduced school lunches included in the 2019 CPS-ASEC to value the benefit of Summer EBT in our model. Summer break lasts roughly three months, thus we determined the Summer EBT benefit would equal one-third of the free and reduced lunch benefit for all recipient families (e.g. if a family received \$750 in free or reduced lunch for the year, they would receive an additional \$250, or one-third of their existing \$750 benefit).

### *Pell Grant*

The Pell Grant expansion modeled here increases the Pell Grant award for all recipients. For individuals receiving the maximum value, their award is increased by \$1,400. For those receiving less than the maximum value, their award is increased by 21.5% (equal to the relative increase in the maximum value for 2022). To estimate this expansion, we identify Pell Grant recipients in the 2019 CPS-ASEC as individuals who are currently enrolled in school or an educational program and report receiving government assistance as a source of income received for educational purposes.

For individuals reporting receipt of government assistance combined with scholarships, grants from the school, and other assistance, and for whom the total income from education exceeds the maximum Pell Grant value in 2018 (\$5,920), we assume that they receive the maximum Pell Grant value. To compute the American Families Plan benefit increase, we apply two formulas. First, for

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<sup>6</sup> Pandemic EBT provided SNAP benefits to families whose children were not receiving free and reduced lunch when schools were closed in response to COVID-19. The Pandemic EBT benefits varied widely by state as they were calculated using specifics on school closures in different districts.

individuals currently receiving the maximum Pell Grant value, we add the full \$1,400 bonus to their adjusted Pell Grant value. For individuals receiving less than the maximum Pell Grant value, we increase their Pell Grant values by 21.5% (equal to the relative increase in the maximum value for 2022, or 1400/6495). For example, a student who previously received the minimum Pell Grant value for 2022 (\$650, or 10% of the maximum) would now receive \$790, 10% of the new maximum value. The mean benefit increase among recipients in our data is \$1,097. One should be aware that the 2019 CPS-ASEC does not capture many students receiving grant aid. For 2018, the CPS-ASEC included a weighted sum of around 3.5 million Pell Grant recipients (unweighted N= 1,798). The actual number of Pell Grant recipients is closer to 6.8 million students. Results should be interpreted with these limitations in mind.

**Appendix**

**Table A1. Poverty Estimates for Children by Race and Ethnicity Under the American Families Plan in 2022 and a Pre-Pandemic Year (2018)**

	Method 1: Projected Estimates in 2022				Method 2: Projected Estimates in a Pre-Pandemic Year (2018)			
	Poverty Rates		Poverty Impact		Poverty Rates		Poverty Impact	
	Without American Families Plan	With American Families Plan	Percentage Point Reduction	Percent Change	Without American Families Plan	With American Families Plan	Percentage Point Reduction	Percent Change
<b>US Population</b>	13.3%	10.2%	3.1%	23.0%	12.7%	9.8%	2.9%	22.8%
<b>Under 18 (all)</b>	14.7%	7.8%	7.0%	47.4%	13.6%	7.0%	6.6%	48.4%
<b>Asian Children</b>	12.2%	7.6%	4.6%	37.3%	12.1%	7.3%	4.8%	39.4%
<b>Black Children</b>	24.3%	12.8%	11.6%	47.5%	23.7%	10.4%	13.3%	56.2%
<b>Hispanic Children</b>	21.8%	12.2%	9.6%	44.0%	21.7%	11.1%	10.6%	48.7%
<b>White Children</b>	8.8%	4.1%	4.7%	53.6%	7.0%	4.0%	3.0%	42.5%

The results in Table A1 show the predicted impacts of the American Families Plan on the national poverty rate, child poverty rate, and child poverty by race & ethnicity using two different methods.

Method 1 predicts the effects in 2022 based on a projected 4.2% unemployment rate; the underlying composition is representative of the December 2020 population (this is the approach taken in Table 1 in the main text). Method 2 calculates the poverty effects from the 2018 calendar year in the CPS-ASEC; thus, the data are representative of the population in a pre-pandemic scenario (here: 2018) when the unemployment rate was 3.9%. Both simulations show that the American Families Plan has strong poverty-reduction effects at the whole population level, for all children, and across

children of all racial and ethnic groups. In the pre-pandemic scenario (Method 2), however, the poverty-reduction effect for White children is 42.5%, lower than the estimated effect for Black and Latino Children (56.2% and 48.7%, respectively). In the 2022 projection (Method 1), the poverty-reduction effect is slightly stronger for White children (53.6%) relative to Black and Latino children (47.5% and 44.0%, respectively).

There are several potential explanations for why we see an increase in the relative poverty-reduction effect for White children in Model 1. Most straightforwardly, White children see a larger relative increase in their poverty rate between 2018 and 2022 before accounting for the impacts of the American Families Plan (7.0% to 8.8%) but have a similar post-policy poverty rate (4.0% and 4.1%). This can occur if (1) non-employment rates increased for families of White children (from 2018 to our projected 2022 file, non-employment rates among adults in families of White children increased from 17.6% to 21.6%) and (2) this pushed many of these families who were just above the poverty line into poverty. Thus, pre-policy poverty rates increase, but the post-policy poverty rates are nearly identical, as the income provided through the American Families Plan is more than enough to lift these families back over the line. Put differently, the effect size of the policies looks stronger even if the final level (4.0% and 4.1%) is nearly identical in both models.

For Black and Latino children, poverty rates are higher in Method 1 relative to Method 2 before and after accounting for the American Families Plan benefits. This could occur if (1) non-employment rates increased for Black and Latino families (from 2018 to our projected 2022 file, non-employment rates among adults in families of Black children increased from 28.0% to 33.3%, and in families of Latino children from 25.8% to 30.4%), (2) many Black and Latino workers were already in poverty despite being employed (the estimated post-American Families Plan SPM poverty rate in 2018 among employed adults with children in the home is 9.3% for Latino individuals, 6.7% for Black individuals, and 2.1% for White individuals), and (3) non-employment thus pushed the average Black and Latino family farther below the poverty line relative to the average White family that experiences job loss. As a result, the policies are helpful to these families, but do not lift as many above the poverty line when compared to the White families in our 2022 scenario. Despite these differences across methods, as noted above, the relative poverty reduction across children of all races/ethnicities is large and broadly comparable between the two approaches.

## **Suggested Citation**

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