



Robert Wood Johnson
Foundation

Support for this research was provided by the Robert Wood Johnson Foundation. The views expressed here do not necessarily reflect the views of the Foundation.

Inflation, Public Supports, and Families with Low Incomes

Gregory Acs and Laura Wheaton

February 2023

Many families with low incomes rely on public supports to make ends meet. Some of those public supports adjust for inflation annually, offering families with low incomes some salve against rising prices, while others do not. But even programs that do respond to inflation do so with a lag, which may leave some families struggling to make ends meet during periods of rapidly rising prices. This brief examines the challenges of keeping up with the rising cost of living when relying on public support and then describes how several major public supports address inflation.

Inflation in the US surged over the last two years; prices rose 9 percent between June 2021 and June 2022 after increasing just 1.2 percent in 2020.¹ Although rapidly rising prices affect all families, families with low incomes are particularly vulnerable to inflation's pernicious effects on their material well-being. Families with low incomes must spend a higher share of their resources on essentials—food, housing, utilities, for example—than families with higher incomes. Families with higher incomes can respond to rising prices by purchasing fewer nonessential items, choosing less expensive options for their purchases, and potentially dipping into their savings. Lower-income families have far more limited options and being late on rent or utilities or cutting back on nutritious food could have long-term negative consequences for those families' health and well-being, perhaps even setting off a rapid downward spiral into homelessness. Further, the option to increase income by working more may not be realistic for many families. Indeed, families with low incomes often face barriers that limit the amount and type of work they can do such as health challenges, child care needs, geographic isolation, and lack of access to transportation, and they may lack the skills or credentials to earn high wages when they can work. And those who face discrimination on the basis of race, ethnicity, sex, gender identity, and disability status face additional challenges (Neumark 2018).

Families may also experience differing levels of inflation depending on where they live and the share of their expenditures spent on goods and services most affected by inflation. A recent study finds that Hispanic and Asian American and Pacific Islander families experienced higher rates of inflation in 2019 than other racial and ethnic groups, likely because they are disproportionately concentrated in the West, where inflation was highest. Between early 2021 and June 2022, Black, Hispanic, and middle-income people experienced greater inflation than other groups because a higher share of their expenditures are for transportation, which had particularly high inflation rates during this period. As transportation inflation subsided and housing and food inflation increased in the last half of 2022, differences by race and ethnicity narrowed considerably, and lower income families, who spend a relatively larger share of their income on food and housing, surpassed middle-income families as the income group experiencing the highest level of inflation.²

Inflation adjustments in public supports are always retrospective—how much do benefits have to increase today so that recipients have the equivalent purchasing power as they did one year ago? That means that throughout a year, the real (inflation-adjusted) value of benefits will always erode until the values are reset. When inflation is modest, annual adjustments are sufficient for most families, but when inflation is accelerating, family budgets are stretched thin, especially in the last few months before the adjustment. When inflation runs at 2 percent, a weekly shopping trip that costs \$100 in the beginning of January will cost about \$102 by the end of December, but when it runs at 10 percent, those December trips will cost closer to \$110.

Because it takes time to see the level of increased prices, public support programs base their inflation adjustments on months-old inflation rates. For example, a program that adjusts for inflation on January 1 might base that adjustment on inflation from September to September of the two prior years. In this scenario, if inflation is accelerating, the real value of the benefits has eroded noticeably by the time the adjustment is implemented.

Over the past two years, the US experienced that type of accelerating inflation. The most commonly cited measure of inflation—the Consumer Price Index for All Urban Consumers (CPI-U)—increased by only 1.7 percent between February 2020 and February 2021. By April 2021, the annual inflation rate had more than doubled to 4.2 percent, and by June 2022, year-over-year prices increased by 9.1 percent. Despite inflation slowing toward the end of 2022, prices still rose by 6.5 percent between December 2021 and December 2022, a rate almost five times higher than it had been two years prior.³

The CPI-U measures overall inflation, but the prices of goods and services that families with low incomes are most likely to need to purchase may be rising even faster than the overall rate. For example, while the annual inflation rate measured at 6.5 percent in December 2022, prices for food at home had risen from the prior December by 11.8 percent, electricity by 14.3 percent, and utility gas prices by 19.3 percent.⁴

Some public supports use inflation adjustments that differ from the overall CPI-U change. For example, the Supplemental Nutrition Assistance Program (SNAP) helps families purchase food, and it uses changes in the CPI for the individual food items in the US Department of Agriculture's Thrifty Food

Plan (TFP) to adjust the maximum SNAP benefit for inflation.⁵ In contrast, the earned income tax credit (EITC) uses a modified version of the CPI that suggests a slower rise in inflation than the common version.

Before honing in on inflation adjustments in specific public supports, consider inflation's effects on wage earners. Employers are under no obligation to increase worker pay, although many do raise wages annually and sometimes more frequently. Average hourly wages for production and nonsupervisory workers have not kept up with inflation over the last year, falling by 1.1 percent between December 2021 and December 2022 after accounting for inflation.⁶ Workers in these types of production and nonsupervisory jobs are the types of workers found in families with low incomes. In addition to seeing the purchasing power of their wages fall, they also may rely on public supports to help meet their essential expenses.

The federal minimum wage offers no protection against inflation. In fact, the federal minimum wage has not risen since 2009.⁷ Many states and jurisdictions already have minimum wages higher than the federal minimum.⁸ In addition, 19 states and the District of Columbia make adjustment for inflation while 31 do not.⁹

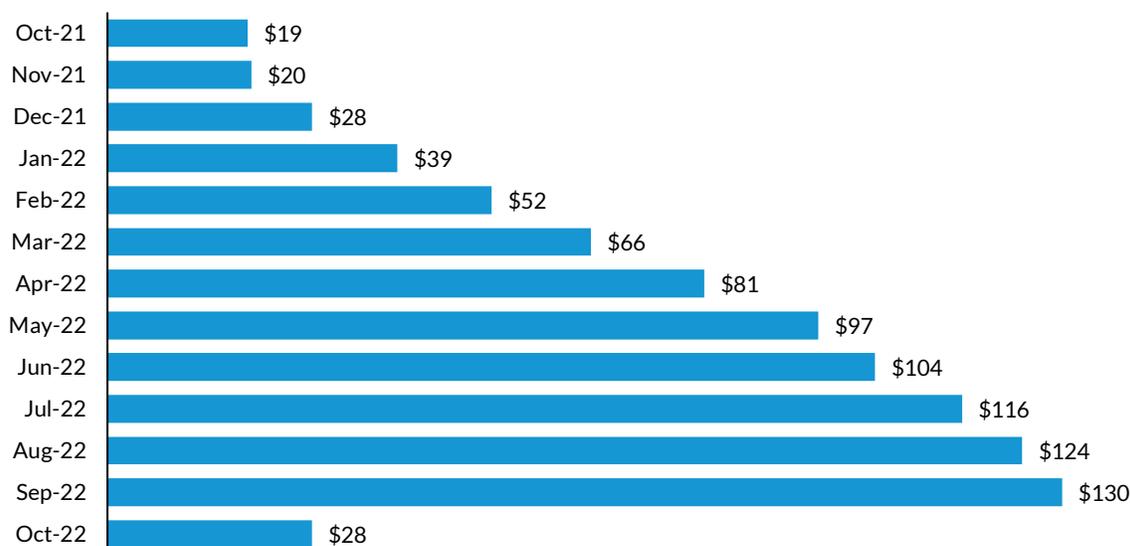
Families with low incomes, with and without working members, often rely on some public supports to help meet their essential expenses. About one out of every eight people in the US receives SNAP benefits in a typical month,¹⁰ for example, and nearly 25 million households receive the EITC.¹¹ Further, while Social Security is a benefit available to people of all incomes based on their work history, it keeps over a quarter of all people ages 65 and older out of poverty (Romig 2022). Without adequate adjustments for inflation, families with low incomes are at elevated risk for material hardships and their consequences. Below we examine how several means-tested public programs and federal tax credits that provide cash or near cash benefits take inflation into account:¹² SNAP, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and federal tax credits (EITC and the Child Tax Credit [CTC]).

SNAP

The maximum SNAP benefit is adjusted for inflation annually at the start of the federal fiscal year (October 1) based on the change in food prices over the 12-month period ending in June of the prior year.¹³ The maximum monthly SNAP benefit is based on the US Department of Agriculture's TFP, representing the monthly cost of a nutritious, food plan for a family of four on a limited budget, and is further adjusted for household size.¹⁴ The June TFP determines the maximum SNAP benefit for a family of four for the federal fiscal year beginning in October. For example, the 2021 June TFP for a family of four (\$835 per month) established the maximum SNAP benefit for a four-person family from October 2021 to September 2022. The maximum benefit then increased to \$939 in October 2022 when it was set equal to the June 2022 TFP. The USDA publishes monthly updates to the TFP, adjusting for price changes in the individual food items within the TFP.¹⁵

During periods of high food inflation, rising prices can erode the value of the maximum SNAP benefit throughout the federal fiscal year, resulting in a monthly “deficit” between the maximum SNAP benefit and the current month’s TFP. Food inflation between June and October 2021 caused the maximum SNAP benefit for a family of four to be \$19 below the October 2021 TFP (figure 1).¹⁶ The deficit between the maximum SNAP benefit and current month’s TFP increased to \$52 per month by February 2022 and \$104 per month by June 2022. The maximum SNAP benefit for a family of four in September 2022 was \$130 less than the USDA’s estimate of the amount needed for a nutritious, budget-conscious food plan in that month. This deficit fell to \$28 in October 2022, when the maximum SNAP benefit was updated to reflect the June 2022 TFP.

FIGURE 1
Monthly Supplemental Nutrition Assistance Program Inflation Deficit, Family of Four



URBAN INSTITUTE

Source: Authors’ calculations based on maximum Supplemental Nutrition Assistance Program monthly benefit for a family of four and monthly Thrifty Food Plan data in states without emergency allotments. “Supplemental Nutrition Assistance Program (SNAP) Fiscal Year (FY) 2022 Maximum Allotments and Deductions,” US Department of Agriculture, last updated October 1, 2021, <https://fns-prod.azureedge.us/sites/default/files/media/file/FY22-Maximum-Allotments-Deductions.pdf>; “USDA Food Plans: Cost of Food Reports (Monthly Reports),” US Department of Agriculture, Last updated April 20, 2022, <https://www.fns.usda.gov/cnpp/usda-food-plans-cost-food-reports-monthly-reports>.

“Emergency allotments” helped protect families from the effects of food inflation in 2022, in the approximately two-thirds of states where the allotments were in effect. This COVID-19-pandemic-era policy provides all SNAP recipients with the maximum SNAP benefit for their family size, rather than phasing the benefit out as income increases. Families that would typically qualify for at or near the maximum benefit are guaranteed a monthly benefit increase of at least \$95 (Wheaton and Kwon 2022). For example, a family of four receiving the maximum SNAP benefit plus \$95 emergency allotment received a total of \$930 in monthly benefits in federal fiscal year 2022. This exceeds the monthly TFP

for October 2021 through April 2022 and substantially offsets the family's SNAP inflation deficit in May 2022 through September 2022. By September 2022, the maximum SNAP benefit for a family of four, including emergency allotment, was \$35 below the TFP, much lower than the \$130 inflation deficit for a similar family living in a state without emergency allotments. Emergency allotments will end in all states by the end of February 2023.¹⁷

SSI

SSI provides benefits to adults with disabilities and people ages 65 and over with very low incomes as well as to families with children who have a qualifying disability and have low incomes. SSI benefits are adjusted for inflation at the start of every calendar year based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) as measured between the summer months of the prior calendar years.¹⁸ Thus, the 8.7 percent increase in SSI benefits for 2023 reflects the growth in the CPI-W between the third quarter of 2021 (July 2021 to September 2021) and the third quarter of 2022 (July 2022 to September 2022). The inflation adjustment for 2022 was 5.9 percent. Because of the lags, the real value of the January 2022 benefit was still 1.5 percent below the real value of the January 2021 benefit, and by November 2022 it was almost 7 percent lower; but the large increase in January 2023 will bring the real value up to slightly over the January 2021 value. Note also that over one-third of SSI recipients also receive some Social Security benefits.¹⁹ Social Security benefits are adjusted for inflation in the same way and at the same time as SSI benefits.

TANF

The TANF program is funded by a block grant that lets states determine most aspects of eligibility and benefit policies. The federal rules do not require states to adjust benefits for inflation, although states have the discretion to do so. In fact, between 1996 and 2021, TANF benefits have kept up with inflation in only six states.²⁰

Tax Credits

The EITC provides support to working families with low earnings. The credit phases in as a family's earnings rise until it reaches its maximum; after a certain point, the credit phases out to zero. The size of the credit depends on the family's income and the number of children in the family as well as the marital status of the tax filer.²¹ The EITC is "earned" in a given tax year but is generally "distributed" when the family files their taxes in the following year.²²

The EITC is adjusted for inflation using the Chained Consumer Price Index (also known as CCPI). This measure of inflation generally lags the CPI by about 0.25 percentage points because rather than considering how the price of a fixed set of goods changes over time, it allows consumers to switch the bundle of goods and services they purchase over time to reduce cost while keeping their overall level of

well-being or “happiness” at the same level.²³ Over the short term, the small difference between the two measures of inflation has very limited implications for EITC recipients.

The maximum EITC is scheduled to rise by 7.1 percent in 2023, but families will, for the most part, receive that credit in 2024. The maximum EITC families with children will receive in 2023 (based on their 2022 earnings) will only be about 3.1 percent higher than the maximum in 2022 as the 3.1 percent inflation adjustment captures price increases between October 2020 and September 2021, before inflation began surging in late 2021 and 2022.

Many families with children and low incomes qualify for the CTC. While advance CTC payments were made in the second half of 2021 during a temporary expansion of the program, the credit for 2022 reverted back to a maximum of \$2,000 per child under age 17. Like the EITC, the CTC phases in as a family’s earnings rise until it reaches its maximum value. Although it does eventually begin to phase out, even middle-income families can receive its full value. The portion of the credit that offsets taxes owed is not indexed for inflation. If a family qualifies for a credit that exceeds taxes owed, the remainder (refundable portion) can be received as a tax refund, up to a defined maximum. The maximum refundable portion of the CTC is indexed for inflation in \$100 increments but only when the adjustment results in an increase of at least \$100. At that point, the adjustment is rounded down to that \$100 increase. The refundable portion of the CTC is scheduled to rise from \$1,500 to \$1,600 per child in 2023. But again, most families will only receive their 2023 CTCs when they file their 2023 tax return in 2024.²⁴

Discussion

High inflation like the US has experienced in 2021 and 2022 harms all families, and families with low incomes are particularly vulnerable. Many, but not all, public supports that help those families make ends meet do take inflation into account when providing benefits, but those adjustments lag behind the pace of accelerating prices. Although no one can be sure what will happen in 2023, the inflation rate began to ease toward the end of 2022, and that easing is expected to continue. Nevertheless, families that rely on some public supports are still playing catch up. And those supports may become even more important to more and more families if the steps the Federal Reserve has taken to reduce inflation contribute to a contraction in the economy and a decline in job opportunities.

Notes

- ¹ “Current US Inflation Rates: 2000-2023,” US Inflation Calculator, accessed January 25, 2023, <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>.
- ² Rajashri Chakrabarti, Dan Garcia, and Maxim Pinkovskiy, “Inflation disparities by race and income narrow,” Federal Reserve Bank of New York *Liberty Street Economics* (blog), January 18, 2023, <https://libertystreeteconomics.newyorkfed.org/2023/01/inflation-disparities-by-race-and-income-narrow/>.

- ³ “Current US Inflation Rates: 2000-2023,” US Inflation Calculator, accessed January 25, 2023, <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>.
- ⁴ “Consumer Price Index Summary,” US Bureau of Labor Statistics, January 12, 2023, <https://www.bls.gov/news.release/cpi.nr0.htm>.
 “Table 1. Consumer Price Index for All Urban Consumers (CPI-U): U. S. city average, by expenditure category,” US Bureau of Labor Statistics, accessed January 25, 2023, <https://www.bls.gov/news.release/cpi.t01.htm>.
- ⁵ “USDA Food Plans: Cost of Food Reports (monthly reports),” US Department of Agriculture (USDA), Food and Nutrition Service (FNS), accessed January 25, 2023, <https://www.fns.usda.gov/cnpp/usda-food-plans-cost-food-reports-monthly-reports>.
- ⁶ “Table A-2. Current and Real (Constant 1982–1984 Dollars) Earnings for Production and Nonsupervisory Employees on Private Nonfarm Payrolls, Seasonally Adjusted,” US Bureau of Labor Statistics, last updated January 12, 2023, <https://www.bls.gov/news.release/realer.t02.htm>.
- ⁷ “History of Changes to the Minimum Wage Law,” US Department of Labor, accessed January 25, 2023, <https://www.dol.gov/agencies/whd/minimum-wage/history>.
- ⁸ “State Minimum Wage Laws,” US Department of Labor, last updated January 1, 2023, <https://www.dol.gov/agencies/whd/minimum-wage/state>.
- ⁹ “Minimum Wage Tracker,” Economic Policy Institute, last updated January 1, 2023, <https://www.epi.org/minimum-wage-tracker/>.
- ¹⁰ Calculated as 41 million divided by 330 million = 12.5 percent, which is about one out of eight.
 “Supplemental Nutrition Assistance Program Participation and Costs,” USDA, FNS, last updated December 9, 2022, <https://fns-prod.azureedge.us/sites/default/files/resource-files/SNAPsummary-12.pdf>.
- ¹¹ “Statistics for Tax Returns with the Earned Income Tax Credit (EITC),” Earned Income Tax Credit & Other Refundable Credits, last updated January 20, 2023, <https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-the-earned-income>.
- ¹² This brief focuses on benefits paid, but many programs also take inflation into account when setting income standards for eligibility. Because this brief illustrates how inflation affects families receiving benefits, we do not discuss how it may affect who can participate in any given program.
- ¹³ “Cost of Living Adjustment (COLA) Information,” USDA FNS, last updated October 1, 2022, <https://www.fns.usda.gov/snap/allotment/COLA>.
 Joseph Llobrera, “SNAP benefit adjustments will help low-income households cope with food inflation,” *Off the Charts* (blog), August 12, 2022, <https://www.cbpp.org/blog/snap-benefit-adjustments-will-help-low-income-households-cope-with-food-inflation>.
- ¹⁴ “SNAP and the Thrifty Food Plan,” USDA, last updated October 21, 2022, <https://www.fns.usda.gov/snap/thriftyfoodplan>.
- ¹⁵ “Official USDA Thrifty Food Plan: U.S. Average, October 2021,” USDA, November 2021, <https://fns-prod.azureedge.us/sites/default/files/media/file/CostofFoodOct2021Thrifty.pdf>.
- ¹⁶ Authors’ calculations based on maximum SNAP monthly benefit for a family of four and monthly Thrifty Food Plan data.
 “Supplemental Nutrition Assistance Program (SNAP) Fiscal Year (FY) 2022 Maximum Allotments and Deductions,” USDA, last updated October 1, 2021, <https://fns-prod.azureedge.us/sites/default/files/media/file/FY22-Maximum-Allotments-Deductions.pdf>
 Alaska and Hawaii have higher maximum SNAP benefits, reflecting the higher price of food in these states. The maximum benefit amounts and inflation deficits presented here are for the contiguous states and the District of Columbia.

¹⁷ “SNAP Emergency Allotments (EA) Provision in the Consolidated Appropriations Act, 2023,” USDA, January 6, 2023, <https://www.fns.usda.gov/snap/ea-provision-consolidated-appropriations-act-2023>.

¹⁸ “Cost-Of-Living Adjustments,” Social Security Administration, last accessed January 25, 2023, <https://www.ssa.gov/oact/cola/colaseries.html>

Specifically, the adjustment considers how prices changed between July, August, and September (the third quarter) from one year to the next.

¹⁹ “Supplemental Security Income: Other Income Sources,” Office of Retirement and Disability Policy, last accessed January 25, 2023, <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/7d.html>.

²⁰ “Chart Book: Temporary Assistance for Needy Families (TANF) at 26,” Center on Budget and Policy Priorities, August 4, 2022, https://www.cbpp.org/sites/default/files/atoms/files/8-22-12tanf_0.pdf

To see how benefits have changed over time in each state, see data produced by the Welfare Rules Database project, in particular Table L5 from each year’s Databook, <https://wrds.urban.org/wrd/tables.cfm>.

²¹ “Earned Income and Earned Income Tax Credit (EITC) Tables,” IRS, last updated August 30, 2022, <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables>.

²² Individuals could adjust their tax withholding in anticipation of the tax credits so they could benefit from it in real time, but they face the risk of under-withholding and owing taxes the following spring rather than receiving a refund.

²³ For example, if apples and bananas each cost \$1 and a consumer buys five of each, their budget would be \$10. If the price of apples rises to \$3 but the price of bananas remains unchanged, the consumers would need to spend \$20 to buy the same number of apples and bananas as before, so they face a conventional “inflation rate” of 100 percent. But given the price differential, consumers may choose to buy 7 bananas and 4 apples and be just as happy as they were with their previous five and five purchase. The cost of their new bundle is \$15. So the chained “inflation rate” they actually face is only 50 percent.

Rob Mclelland, “Differences between the traditional CPI and the chained CPI,” *Congressional Budget Office* (blog), April 19, 2013, <https://www.cbo.gov/publication/44088>.

²⁴ The current rules for the CTC end in December 2025. Without Congressional action, the CTC will fall back to \$1,000 per child and the refundability rules will change to the rules in effect prior to 2018. For a description of the CTC and how it is changing.

“What is the Child Tax Credit,” Tax Policy Center Briefing Book, last updated May 2021, <https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit>.

Elaine Maag. “Options to Improve the Child Tax Credit for Low-Income Families,” *TaxVox* (blog), December 14, 2022, <https://www.taxpolicycenter.org/taxvox/options-improve-child-tax-credit-low-income-families>.

References

Neumark, David. 2018. “Experimental Research on Labor Market Discrimination.” *Journal of Economic Literature* 56 (3): 799–866.

Romig, Kathleen. 2022. *Social Security Lifts More People Above the Poverty Line Than Any Other Program*. Center on Budget and Policy Priorities: Washington, DC.

Wheaton, Laura, and Danielle Kwon. 2022. “Effect of the Reevaluated Thrifty Food Plan and Emergency Allotments on Supplemental Nutrition Assistance Program Benefits and Poverty.” Washington, DC: Urban Institute.

About the Authors

Gregory Acs is vice president for income and benefits policy at the Urban Institute, where his research focuses on social insurance, social welfare, and the compensation of workers. Previously, he served as unit chief for Labor and Income Security in the Congressional Budget Office's Health and Human Resources Division and as vice president of the Association for Policy Analysis and Management. His recent work examines economic and social mobility and economic security with a focus on low-income working families. He has also examined the well-being of children across living arrangements, the ways welfare policies influence family composition, the status of families leaving welfare, and how policies affect the incentives families face as they move from welfare to work. Acs has a PhD in economics and social work from the University of Michigan.

Laura Wheaton is a senior fellow in the Income and Benefits Policy at the Urban Institute and co-directs the TRIM3 and ATTIS microsimulation model projects, working with federal, state, and local governments and foundations to investigate the effects of proposed policy changes on income and poverty. Ms. Wheaton specializes in SNAP and has conducted research on SNAP eligibility and participation, churning, asset limits, work requirements, and the potential effects of proposed policy changes. Ms. Wheaton has an MPP from the Georgetown Public Policy Institute.

Acknowledgments

The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute’s funding principles is available at www.urban.org/fundingprinciples.

The authors would like to thank Linda Giannarelli, Elaine Maag, and Elaine Waxman for their thoughtful comments, Margaret Todd for her assistance, and Alex Dallman for her editing. Funding for this work was provided by the Robert Wood Johnson Foundation. The views expressed here do not necessarily reflect the views of the Foundation.



ABOUT THE ROBERT WOOD JOHNSON FOUNDATION

The Robert Wood Johnson Foundation (RWJF) is committed to improving health and health equity in the United States. In partnership with others, we are working to develop a Culture of Health rooted in equity, that provides every individual with a fair and just opportunity to thrive, no matter who they are, where they live, or how much money they have.



500 L’Enfant Plaza SW
Washington, DC 20024
www.urban.org

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Their objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.

Copyright © February 2023. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.