



How Additional Cash Payments Would Reduce Poverty

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A recent Urban Institute analysis projected that four major policies in the American Rescue Plan (ARP) will reduce the number of people in poverty in 2021 from 44 million to 28 million, shrinking the overall poverty rate from 13.7 percent to 8.7 percent (Wheaton et al. 2021).¹ Of the 16.4 million people lifted out of poverty by four policies in the ARP, the recovery rebates (\$1,400 payments to most people) alone would keep 11.4 million people out poverty.²

With no clear end to the economic hardship caused by the pandemic, some senators have begun calling for additional payments.³ These could further reduce poverty for millions. Depending on whether additional \$1,400 payments are extended to all people in the US or only to citizens, we project that another payment could further reduce 2021 poverty to between 6.4 and 6.6 percent. Two such payments could reduce poverty to between 4.9 and 5.2 percent. Among Black people, an additional payment could reduce poverty from 10.5 percent to between 7.7 and 7.8 percent, and a second payment could further reduce poverty to between 5.8 and 6.0 percent. Hispanic people could see poverty drop from 13.3 percent to between 9.0 and 9.9 percent with one additional payment and to between 6.3 and 7.6 percent with two additional payments.

Background

Urban Institute researchers used the Analysis of Transfers, Taxes, and Income Security microsimulation model to project poverty rates for 2021 after the implementation of four key components of the ARP: (1) extending pandemic-related unemployment insurance benefits, (2) extending higher Supplemental Nutrition Assistance Plan benefits, (3) providing \$1,400 recovery rebates, and (4) advancing a portion of the increased Child Tax Credit (Wheaton et al. 2021). That work uses a modified definition of poverty that includes the value of Supplemental Nutrition Assistance Program benefits and the stimulus checks; this definition produces poverty rates that are lower than under the official definition.⁴ As with this current analysis, we project poverty rates by comparing the resources a family is expected to receive in 2021 with the annual poverty level for that family. Both that analysis and this analysis use 2018 American Community Survey data modified to represent expected circumstances in 2021.⁵

Description of Proposals

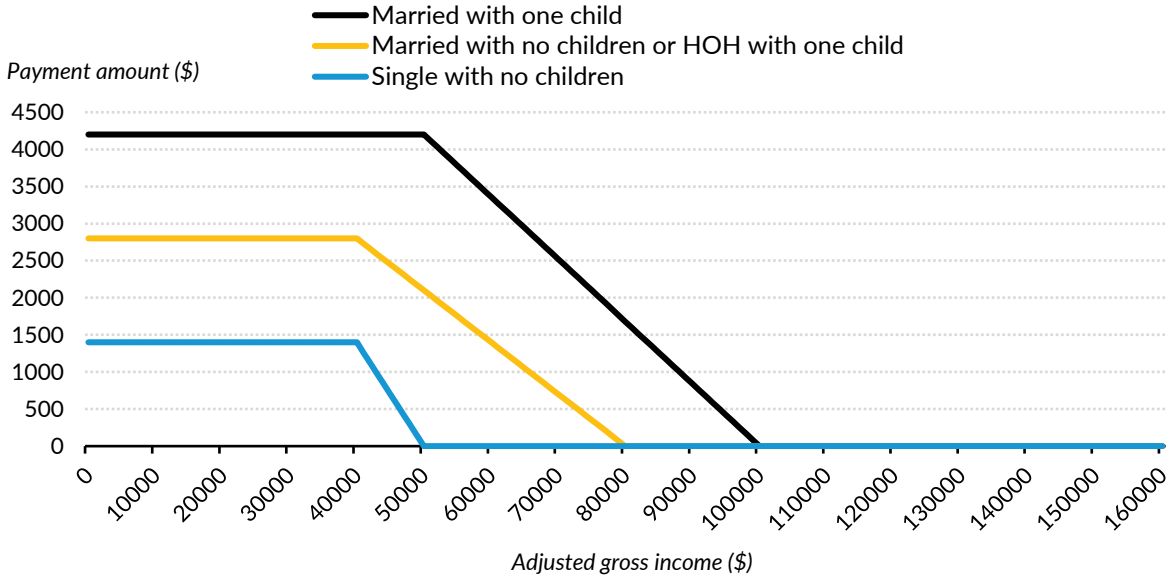
We examine two options for additional \$1,400 payments based on the income levels at which the payments phase out (figure 1). The two options also differ based on whether all people in the US are eligible for payments or only citizens are eligible.

- The “faster phaseout” payment would provide a payment of \$1,400 (\$2,800 for married couples), with an additional \$1,400 for each dependent. The payments would phase out at incomes between \$40,000 and \$50,000 for single filers, \$40,000 and \$80,000 for head-of-household filers (typically single parents with children) and married couples with no dependents, and between \$50,000 and \$100,000 for married couples with dependents. All people in the US are eligible for the payment.
- The additional ARP payment would provide \$1,400 (\$2,800 for married couples), with an additional \$1,400 for each dependent. The payments phase out at incomes between \$75,000 and \$80,000 for single filers, \$112,500 and \$120,000 for head-of-household filers (typically single parents with children), and between \$150,000 and \$160,000 for married couples. With this option, only citizens are eligible to receive payments. We assume that most people eligible for the payments receive them.⁶

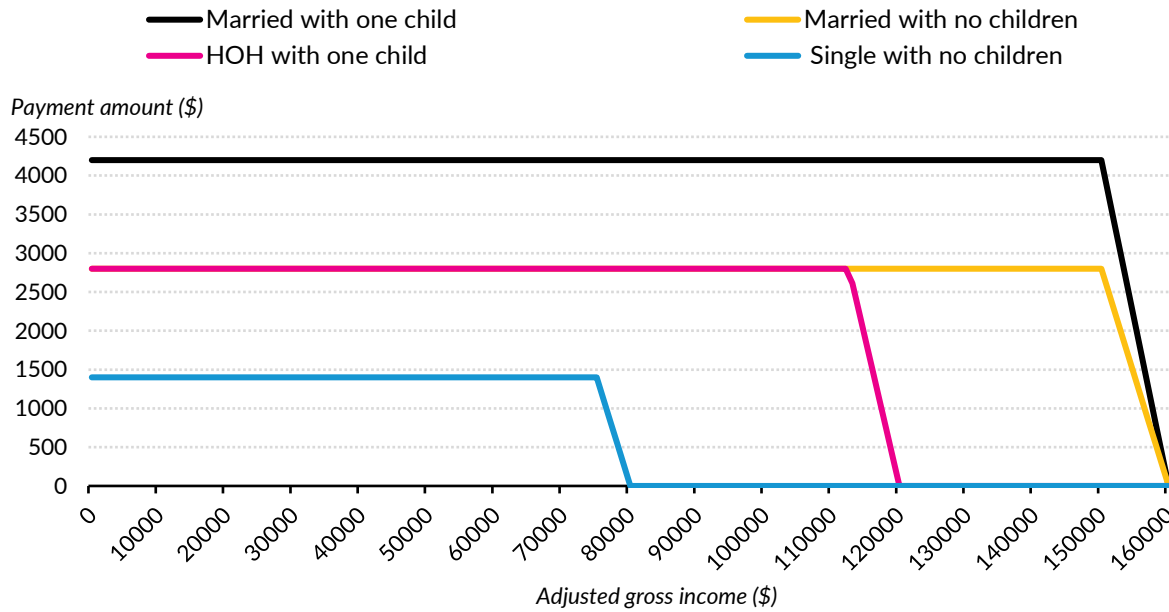
FIGURE 1

Comparing Proposed Payments

Faster phaseout payment



Additional ARP payment



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Source: Authors' analysis.

Notes: HOH = head of household.

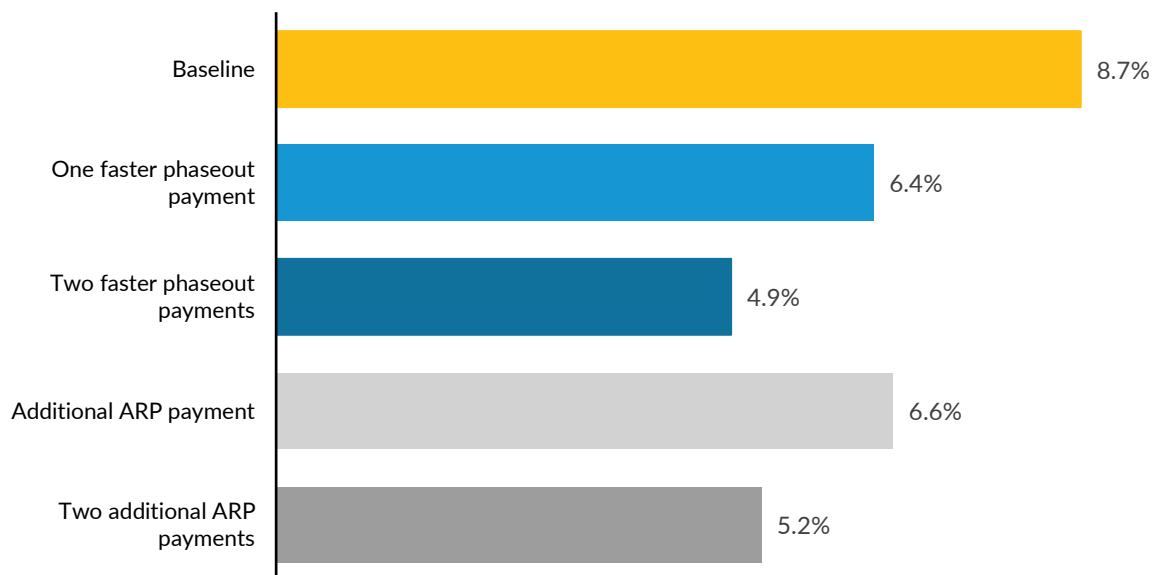
Findings

We project the effect of one additional payment under each plan. The share of people lifted out of poverty for the year is similar among both plans, because the payments generally phase out at incomes above the poverty level.⁷ Benefits from the two plans differ for people with incomes above the poverty level, with fewer people eligible for the faster phaseout payments than for an additional ARP payment. The faster phaseout payment reduces poverty more because it includes all people in the US; the ARP plan extends payments only to US citizens.

The baseline for our analysis incorporates the four policies previously analyzed in the ARP. With the ARP in place, the Urban Institute projects that 8.7 percent of people would be in poverty in 2021. One faster phaseout payment would reduce that rate to 6.4 percent, lifting 7.3 million people out of poverty. An additional ARP payment would reduce the poverty rate to 6.6 percent, lifting 6.6 million people out poverty.

A second payment would further reduce poverty. If a second, faster phaseout payment were delivered, poverty would be reduced to 4.9 percent, lifting an additional 5 million people above the threshold. A second additional ARP payment would reduce the overall poverty rate to 5.2 percent, bringing 4.6 million people above the threshold (figure 2 and table A.1).

FIGURE 2
Projected 2021 Poverty Rate with the American Rescue Plan Act and Additional Cash Payments



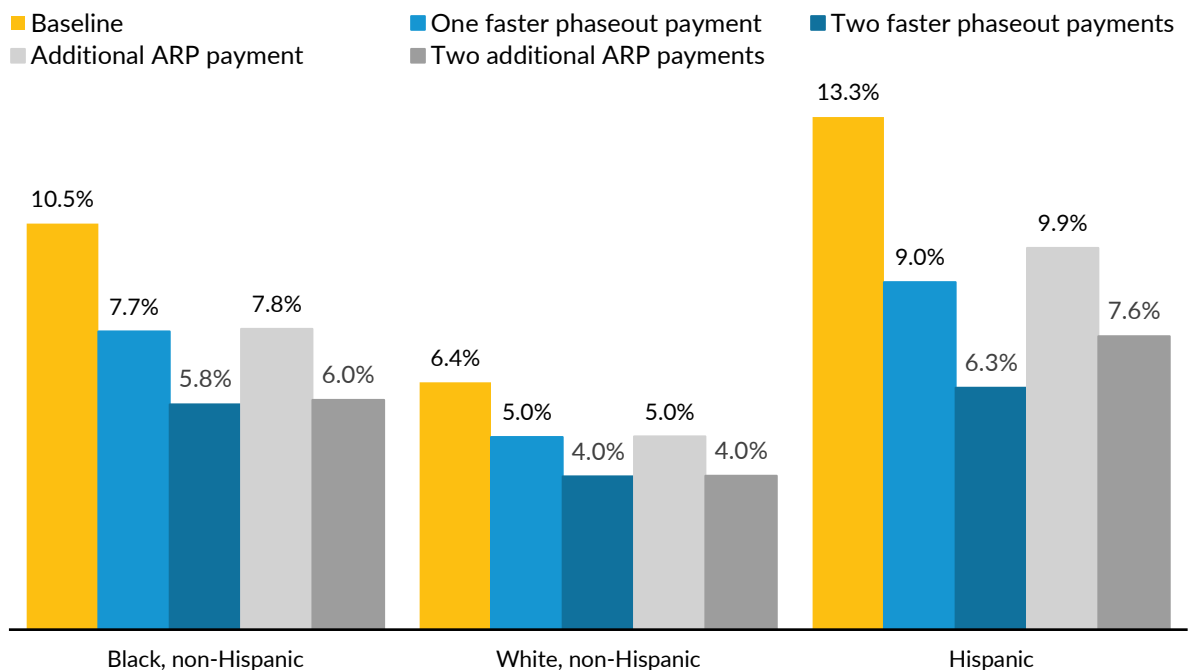
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Source: Urban Institute projections as of March 2021, using the Analysis of Transfers, Taxes, and Income Security (ATTIS) model.
Note: Poverty is measured with the Supplemental Poverty Measure (SPM); we generally follow US Census Bureau methods for applying the SPM to American Community Survey data but use benefits and taxes simulated by ATTIS. The baseline reflects 2021 policies as of March 2021, including selected pieces of the American Rescue Plan Act as described by Wheaton et al. (2021) and additional unemployment insurance benefits and Supplemental Nutrition Assistance Program policies enacted in December 2020.

Poverty rates are not even across people of different races (figure 3). With the ARP in place, Urban projects that 10.5 percent of Black, non-Hispanic people will be in poverty, 6.4 percent of white, non-Hispanic people will be in poverty, and 13.3 percent of Hispanic people will be poverty. With one faster phaseout payment, the poverty rate among Black, non-Hispanic people falls to 7.7 percent, and a second faster phaseout payment would further reduce the share living in poverty to 5.8 percent. An additional ARP payment would reduce poverty among Black, non-Hispanic people to 7.8 percent (lifting about 1.1 million out of poverty), and a second payment would further reduce it to 6.0 percent (lifting an additional 700,000 out of poverty).

FIGURE 3

Projected 2021 Poverty Rate by Race and Ethnicity with the American Rescue Plan Act and Additional Cash Payments



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Source: Urban Institute projections as of March 2021, using the Analysis of Transfers, Taxes, and Income Security (ATTIS) model.

Note: Poverty is measured with the Supplemental Poverty Measure (SPM); we generally follow US Census Bureau methods for applying the SPM to American Community Survey data but use benefits and taxes simulated by ATTIS. Non-Hispanic people who do not identify as either white or Black or who identify with multiple races are not shown in this figure.

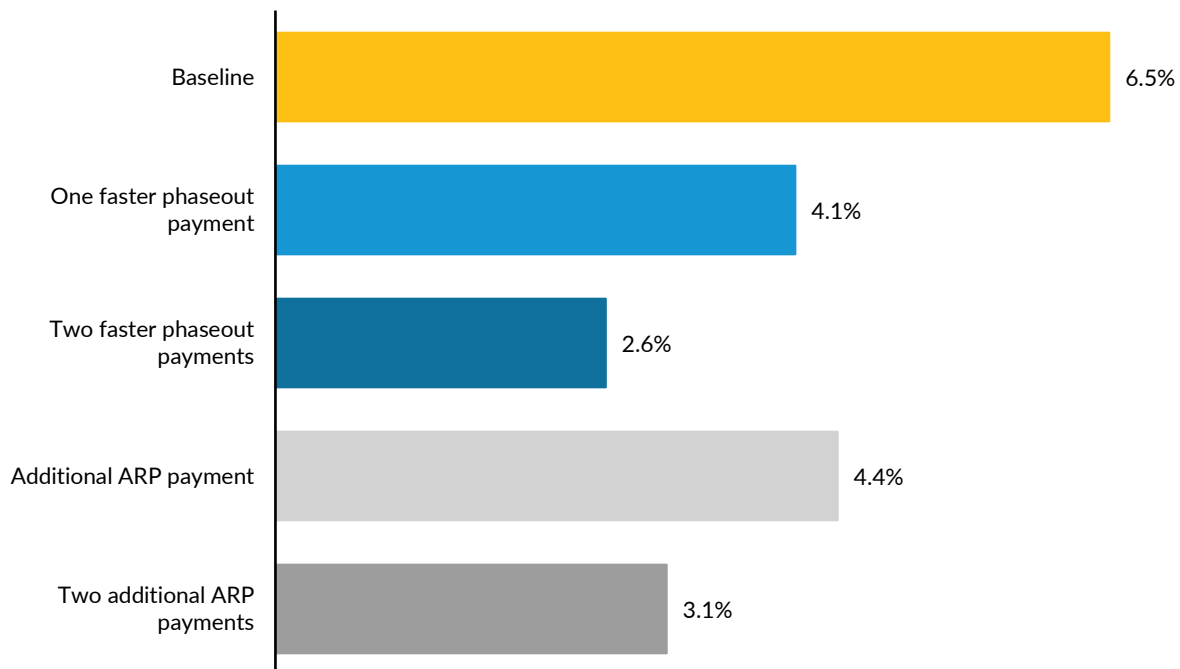
The faster phaseout payment would reduce poverty for white people from 6.4 percent to 5.0 percent, and a second payment would further reduce the poverty rate of this group to 4.0 percent. Additional ARP payments have the same effect as the faster phaseout payments for white people because the eligible groups among white people differ only slightly. One payment, either the faster phaseout payment or the same as in the ARP, would bring 2.7 million white people out of poverty, and a second payment of either type would bring an additional 2.0 million out of poverty.

Including everyone in the US in payments rather than restricting payments to citizens has the largest effect on Hispanic people. One faster phaseout payment would reduce the Hispanic poverty rate from 13.3 percent to 9.0 percent, and a second, faster phaseout payment would drop that rate to 6.3 percent. One additional ARP payment would reduce the Hispanic poverty rate from 13.3 percent to 9.9 percent, and a second would further reduce it to 7.6 percent. Among Hispanic people, one faster phaseout payment would lift 2.6 million people out of poverty, and a second faster phaseout payment would lift an additional 1.7 million. An additional ARP payment would lift 2.1 million Hispanic people out of poverty, and a second ARP payment would lift another 1.4 million.

Effect on Child Poverty

The ARP focused additional resources on children by increasing the child tax credit, with the largest increases going to the lowest-income families with children. The ARP reduced poverty more for children than any other age group, cutting it by more than half from 13.7 percent to 6.5 percent (Wheaton et al. 2021). Additional payments would further reduce the share of children living in poverty.

FIGURE 4
Projected 2021 Child Poverty Rate with the American Rescue Plan Act and Additional Cash Payments



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Source: Urban Institute projections as of March 2021, using the Analysis of Transfers, Taxes, and Income Security (ATTIS) model.
Note: Poverty is measured with the Supplemental Poverty Measure (SPM); we generally follow US Census Bureau methods for applying the SPM to American Community Survey data but use benefits and taxes simulated by ATTIS. The baseline reflects 2021 policies as of March 2021, including selected pieces of the American Rescue Plan Act as described by Wheaton et al. (2021) and additional unemployment insurance benefits and Supplemental Nutrition Assistance Program policies enacted in December 2020.

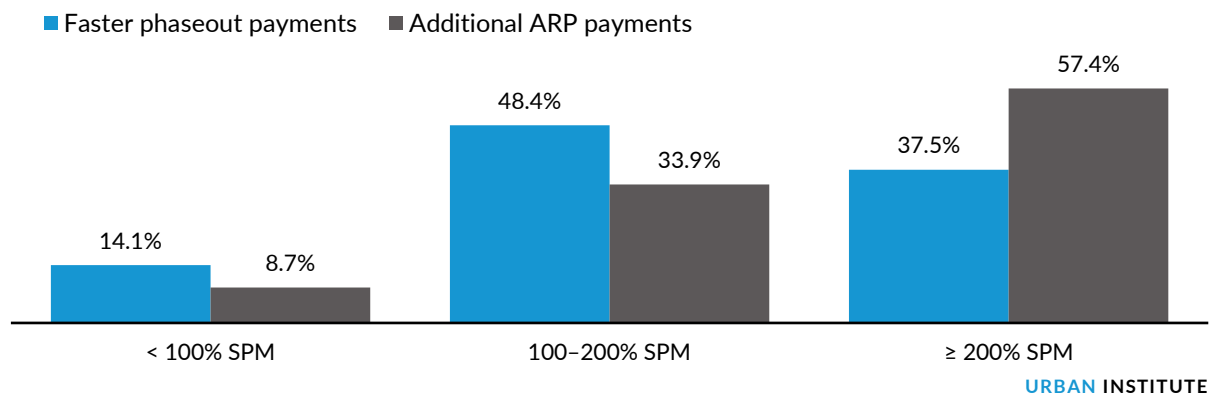
We estimate that an additional, faster phaseout payment would drop the share of children living in poverty from 6.5 to 4.1 percent, and two faster phaseout payments would drop the share of children living in poverty to 2.6 percent. An additional ARP payment would drop the share of children living in poverty to 4.4 percent, and two additional ARP payments would drop it to 3.1 percent (figure 4). In total, we estimate that an additional faster phaseout payment would lift 1.8 million children out of poverty, and a second faster phaseout payment would lift 1.1 million more. An additional ARP would lift 1.6 million children out of poverty, and a second ARP payment would lift an additional 1 million.

Distribution of Cash Payments

As long as payments begin to phase out above the poverty level, they will have a strong antipoverty effect. Where a policy begins to phase out affects the number of people eligible for payments and how much of the resources from each proposal would go to people at different income levels. Payments that phase out at lower incomes will concentrate resources to those at the lowest income levels.

One faster phaseout payment would generate \$253 billion in total payments. We estimate that approximately 14 percent of the total amount of money in the faster phaseout payments would go to families who, before the payments, had resources below the poverty level; 48 percent would go to families who had resources between 100 and 200 percent of the poverty level; and the remaining 38 percent of benefits would go to people who had family resources above 200 percent of the poverty level. One additional ARP payment would result in \$364 billion in additional payments, and a larger share of benefits from the ARP would be delivered to people at incomes above 200 percent of the poverty level. We estimate that 9 percent of the total benefits from the ARP payments would go to families with resources below the poverty level, 34 percent would go to families with resources between 100 and 200 percent of the poverty level, and the remaining 57 percent of payments would go to families with resources above 200 percent of the poverty level (figure 5). This is true with both one or two payments.

FIGURE 5
Projected Share of Additional Cash Payments Going to Families at Different Levels of Resources



Source: Urban Institute projections as of March 2021, using the Analysis of Transfers, Taxes, and Income Security (ATTIS) model.
Note: Poverty is measured with the Supplemental Poverty Measure (SPM); we generally follow US Census Bureau methods for applying the SPM to American Community Survey data but use benefits and taxes simulated by ATTIS.

Conclusion

The American Rescue Plan is expected to reduce poverty substantially. But even with the legislation, 28 million people are projected to be in poverty in 2021. If Congress wanted to further reduce poverty or provide additional resources more broadly, additional payments could accomplish that. Some senators are calling for such payments.

We model two options for additional \$1,400 payments. One would begin to phase out at lower income levels, which we call the faster phaseout payment. This payment would provide relief targeted toward slightly lower-income people and would include all people, rather than just citizens as with the ARP payments. The other payment option we model would replicate the ARP payment thresholds and limit eligibility to citizens. We estimate a single additional payment could reduce poverty in 2021 from 13.7 percent to between 6.4 and 6.6 percent, depending on whether the payment is available to everyone in the US or is restricted to citizens. A second payment could drop poverty rates to between 4.9 and 5.2 percent depending on payment design.

Even considered in isolation, the recovery rebate enacted in the ARP would reduce the number of people in poverty by 11.4 million. Another round of payments could lift an additional 6.6 to 7.3 million people out of poverty, depending on whether the payment was restricted to citizens or made available to everyone. Two rounds of additional payments could drop the number of people in poverty by between 11.2 and 12.2 million people depending on payment design. We estimate an additional ARP payment would deliver about \$364 billion, and the faster phaseout payment would deliver an additional \$253 billion. Changing when the credit begins to phase out has little effect on the very lowest-income people but can significantly change the total amount of payments delivered.

Appendix

TABLE A.1

Projected Number of People in Poverty

Millions

	Baseline	Targeted payment	Two targeted payments	Additional ARP payment	Two additional ARP payments
All < 100% SPM	28.1	20.9	15.9	21.6	17.0
Black < 100% SPM	4.2	3.0	2.3	3.1	2.3
White < 100% SPM	12.3	9.6	7.6	9.6	7.7
Hispanic < 100% SPM	8.2	5.6	3.9	6.1	4.7
All < 50% SPM	9.4	7.2	5.3	7.4	5.7
Children < 100% SPM	4.8	3.0	1.9	3.2	2.2

Source: Urban Institute projections as of March 2021, using the Analysis of Transfers, Taxes, and Income Security (ATTIS) model.

Note: Poverty is measured with the Supplemental Poverty Measure (SPM); we generally follow US Census Bureau methods for applying the SPM to American Community Survey data but use benefits and taxes simulated by ATTIS. Non-Hispanic people who do not identify as either white or Black or who identify with multiple races are included in the total but not shown separately in this table. The baseline reflects 2021 policies as of March 2021, including selected pieces of the American Rescue Plan Act as described by Wheaton et al. (2021) and additional unemployment insurance benefits and Supplemental Nutrition Assistance Program policies enacted in December 2020.

Notes

- ¹ For more information about the bill, see “American Rescue Plan Act of 2021,” H.R. 1319, 117th Cong. (2021), <https://www.congress.gov/bill/117th-congress/house-bill/1319/text/>.
- ² Authors’ calculations based on microdata from Wheaton et al. (2021).
- ³ Lorie Konish, “These Senators are Calling for Continued Financial Relief Through the Economic Recovery for American Families,” CNBC, March 2, 2021.
- ⁴ The official poverty measure does not include the value of Supplemental Nutrition Assistance Program benefits and taxes.
- ⁵ We obtained the 2018 American Community Survey data from the IPUMS USA Database (Ruggles et al. 2020)
- ⁶ We assume that all eligible tax filers receive the rebate payment, as well as (1) nonfilers who receive Social Security or Supplemental Security Income, (2) 10 percent of family members of nonfilers who receive Social Security or Supplemental Security Income, and (3) 78 percent of other nonfilers. Because of data limitations, we are unable to automatically assign the payment to nonfilers who receive Veterans Benefits. We use these assumptions for both the faster phaseout payments and the additional ARP payments.
- ⁷ Because the poverty level increases with family size, some larger families might see their recovery rebates limited even with incomes below the poverty level. Because the SPM poverty threshold varies greatly, it is not necessarily the same for all families of the same size. However, the average threshold level for a family of six is \$40,260. That would be when the faster phaseout payments would start to be limited for head-of-household filers.

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Kevin Werner is a research analyst in the Income and Benefits Policy Center at the Urban Institute. He helps run the center’s TRIM3 model, a microsimulation model that simulates major government tax and transfer programs and allows researchers to see the effects of various policy changes. He has dual degrees in economics and political science from American University and a master’s degree in applied economics from Georgetown University.

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