

Effects of Unconditional Child Tax Credit Transfers on Parents' Mental Health

TAKEAWAYS

Pandemic-era expansion of Child Tax Credit payments reduced self-reported bad mental health days, particularly among already-vulnerable groups such as women and minoritized populations

Measurable positive effects took some time to accrue—and largely evaporated soon after the CTC expansion was allowed to expire

Unconditional cash transfers can be an effective policy strategy for improving mental health among already-vulnerable groups



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In 2021, responding to pandemic-related economic and global health stressors, the United States expanded the Child Tax Credit (CTC) to most households with minor-aged children. The expanded CTC was an unconditional cash transfer meaning that, among other potential requirements (such as employment—a requirement waived during the pandemic response period), it could be spent without restriction or saved for future purchases. While studies on the economic effects of the CTC have grown in number, insight at the intersection of financial relief and parents' mental health remains limited.

Using data from the Behavioral Risk Factor Surveillance System, researchers Clemente Pignatti and Zachary Parolin evaluated the effects of various CTC benefits based on children's ages. Their findings suggest that the expanded CTC payments reduced self-reported bad mental health days, particularly among already-vulnerable groups such as women and minoritized populations.

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Cash Transfers and Parents' Mental Health

The 2021 CTC expansion, a COVID-19 pandemic-relief effort, provided monthly cash support to most U.S. households with children. In their data analysis, Pignatti and Parolin compared adults in households with children of different ages to determine potential effects of varying benefit levels (households with younger children received higher benefit amounts than parents with older children). In short, more generous CTC transfers were associated with a decrease in the number of self-reported bad mental health days among parents.

Measurable positive effects took some time to accrue—typically appearing after the third monthly payment—and largely evaporated soon after the CTC expansion was allowed to expire in December 2021. Pignatti and Parolin also found a decrease in the number of days individuals reported feeling mentally unwell among individuals who reported at least some days of reduced mental health in the prior month.

Pignatti and Parolin concluded that unconditional cash transfers can be an effective policy strategy for improving mental health among already-vulnerable groups and, specifically, that the CTC expansion alleviated financial worries which may have contributed to the observed improvements in mental health.

Which Demographic Groups Did the CTC Benefit Most?

Researchers also examined heterogeneity in treatment effects—or differential effects for various sub-populations. Among those typically reporting higher-than-average rates of mental health distress along with financial constraints, stronger or positive effects on mental well-being emerged for:

- Women, with no significant effects for men
- Individuals below the age of 40 compared to older individuals
- Individuals of Hispanic ethnicity
- Individuals holding less than a college degree
- Low-income households (annual income below \$35,000) and
- Single parents compared to couples.

The authors suggest the above groups have been traditionally more likely to report higher rates of mental health distress and, as such, may have benefited more from the financial relief provided by the cash transfers.

When the CTC expansion was allowed to expire, in December 2021, positive effects on parental mental health vanished.

Timing Is Everything

The timing of treatment effects on parental mental health revealed interesting trends. Noticeable improvements in mental health were often not immediate; these typically emerged after the third monthly CTC payment was received. This suggests a potential “dosage effect,” where a certain level of financial assistance is necessary to produce a measurable improvement in subjective well-being. An “anticipation effect” was also observed; mental health began to improve among households receiving a more generous CTC even before the payments started, peaking two months before the policy change. The mere announcement of increased financial support may have provided a psychological benefit independent of actual payments, potentially by reducing stress and uncertainty about future finances.

When the CTC expansion was allowed to expire, in December 2021, positive effects on parental mental health vanished. This finding highlights the importance of consistent financial support over a sustained period for maintaining positive mental health outcomes.

The timing of cash-transfer programs and their impacts on mental health is complex. While immediate effects might be less pronounced, the promise of future financial assistance appears to offer psychological benefits. These results underscore the need for ongoing or prolonged and predictable support to maintain improvements in mental well-being because improvements tend to dissipate when the financial assistance ends.

What Alternative Identification Strategy Yielded Different Results?

While the CTC expansion improved parents' subjective mental well-being, an alternative estimation strategy yielded different results. In a broad comparison of households with and without children, Pignatti and Parolin found no effects of the CTC expansion on parents' mental health. The authors do not consider these results as invalidating their main findings, however. The alternative strategy, for instance, did not isolate the income effects of the CTC expansion. As such, it did not account for the many other policy changes implemented during the relatively chaotic pandemic-response period. Changes such as eliminating the CTC phase-in portion (which required minimum family earnings of at least \$2,500 to qualify for the CTC) and introducing monthly cash transfers instead of an annual payment, among other changes, may have had varying effects on the subjective well-being of parents with low (and very low) household income.

When comparing households with and without children; parents might have experienced increased stress and mental-health concerns earlier in 2021, for instance, due to factors like sudden school closures and elevated and uncertain risks of COVID-19 infection for unvaccinated children. These factors could have obscured the positive effects of the CTC expansion on parents' subjective mental well-being. The authors provide evidence to support this hypothesis by examining data from 2019, when the CTC expansion was not in place. At that time, adults with children experienced a deterioration in mental wellness, suggesting the absence of effect observed in 2021 might be attributable to factors other than the CTC expansion itself. ■

Summary based on: Pignatti, C. and Parolin, Z. (2024). The effects of unconditional cash transfer on parents' mental health in the United States. *Health Economics*, 33, 2253–2287. <https://doi.org/10.1002/hec.4867>

Sources & Methods

Type of analysis: Quantitative

Data source: Behavioral Risk Factor Surveillance System (BRFSS) survey; a state-based, annual phone survey. Nationally representative and the largest health-related survey globally.

Sample definition: U.S. adult population from the 2021 wave of the BRFSS; 438,693 survey respondents in total.

Time frame: 2021

Limitations: Results based on experiences during the height of the COVID-19 pandemic may have limited applicability in non-pandemic times.