Financial Fragility at the Dawn of the Covid-19 Pandemic

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Economic Wellbeing in Spring 2020

After a decade of sustained economic growth, unemployment rates were at historic lows and economic fragility had declined relative to earlier years.

Beginning in February 2020, the economic impact of pandemic began spreading across the country as firms and organization closed to protect workers. Unemployment rates soared.

The CARES Act provided a massive infusion of funds into the economy including government checks to individuals and higher unemployment benefits.

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To assess the initial economic impact of the pandemic, we fielded a survey in conjunction with the Understanding America Study of individuals aged 45-75.

Survey conducted between April 20 and May 18, 2020

2,889 completed surveys

Response rate of 91%

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The main objectives of the survey were

1) to determine how low and middle income households were dealing with the economic collapse associated with the pandemic

2) to assess whether higher levels of financial literacy enabled these families to better manage their financial wellbeing during these difficult times.

Financial Fragility

To measure financial fragility at the dawn of the pandemic, we use responses to the following question:

How confident are you that you could come up with $2,000 if an unexpected need arose with the next month?

Answers included:

a. *I am certain I could come up with the full $2,000*
b. *I could probably come up with $2,000*
c. *I could probably not come up with $2,000*
d. *I am certain I could not come up with $2,000*

Financial Fragility

Individuals answering (c) or (d) to the $2,000 question were classified as fragile.

18.9% of the full sample were classified as fragile in our survey.

Fragility significantly related to financial literacy

3-Question Financial Literacy Metric and Fragility

No. Correct	% of Sample	% Fragile	% Non-fragile
0	6.17%	13.95%	4.56%
1	14.27%	32.33%	11.79%
2	26.26%	27.86%	26.24%
3	52.93%	25.81%	56.77%
Total	2.26	1.65	2.35

12-Question Financial Literacy Metric and Fragility

No. Correct	% of Sample	% Fragile	% Non-fragile
0-3	6.20%	15.53%	4.39%
4-6	19.85%	36.74%	17.22%
7-9	42.66%	38.05%	43.49%
10-12	30.81%	9.34%	34.12%
Total	7.93	6.14	8.19

Results from Logit Estimates

To examine the determinants of financial fragility, we estimated a multinominal logit equation.

Explanatory variables included age, race/ethnicity, marital status, household size, income, sex, level of education, and measures of financial literacy, and work status.

Marginal effects of these variables are shown in the following slides.

Fragility Declines with Age

Variable	Marginal Effect
Age 50-54	-0.0283 (0.0320)
Age 55-59	-0.0363 (0.0328)
Age 60-64	-0.128*** (0.0314)
Age 65-69	-0.105*** (0.0353)
Age 70-74	-0.126*** (0.0348)

Fragility Declines as Income Rises

Variable	Marginal Effect
Income $15,000-$24,999	-0.112*** (0.0328)
Income $25,000-$34,999	-0.157*** (0.0366)
Income $35,000-$49,999	-0.228*** (0.0328)
Income $50,000-$74,999	-0.243*** (0.0329)
Income $75,000-$99,999	-0.397*** (0.0490)
Income $100,000-$149,999	-0.343*** (0.0430)
Income $150,000+	-0.422*** (0.0548)

Fragility is Greater for Divorced and Never Married

Variable	Marginal Effect
Separated	0.0542 (0.0632)
Divorced	0.0891*** (0.0257)
Widowed	0.0556 (0.0449)
Never Married	0.0703** (0.0314)

Greater Financial Literacy Lower Likelihood of Being Fragile

Using three question index, each correct answer reduces the probability of being fragile by 2.1 percentage points. Thus, a person answering all three questions has a 6.3 percentage point lower predicted probability of being fragile compared to a person answering none of the questions correctly.

Using the twelve question index, each correct answer reduces the probability of being fragile by 1.0 percentage points. Thus, a person answering all twelve questions has a 12.0 percentage point lower predicted probability of being fragile compared to a person answering none of the questions correctly.

A Few Observations

1. While the economy was in rapid decline in April and May with rising unemployment, the full impact had of the crisis not yet impacted many households.
2. Almost 60% of respondents had already received government funds associated with the CARES Act and another 23% were expecting such funds.
3. Financial fragility is moderated by higher levels of financial literacy.
4. The continuing economic decline and the ending of government support after 8 months will likely paint a different picture of economic wellbeing in 2021.

Next Steps

To better understand the effects of the prolonged pandemic on financial wellbeing we will be fielding a second survey in spring 2021.

Questions will focus on the changes in household income, saving, and wellbeing one year after the virus swept the country.