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Financial Resilience in America

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Main Findings

1. About a third of American families couldn't cope with a mid-sized financial shock in January 2020, right before the COVID-19 pandemic.

2. Families lacking financial resilience often encounter challenges in making ends meet, paying down debt, covering medical costs, and saving for retirement.

3. Financial resilience varies substantially across age, race/ethnicity, gender, and educational attainment.

4. Economic downturns exert pressure on personal finances, mainly through reduced work hours and income. Our results show that subpopulations exhibited different employment and income trajectories both during and after the Great Recession of 2008.

1. Introduction

Data collected right before COVID-19 hit the United States in 2020 indicated deeply rooted financial insecurity: one in three American families wasn't ready to cope with a mid-sized financial shock; about 27% couldn't come up with $2,000 within a month if an unexpected need were to arise; and 33% found it difficult to make ends meet in a typical month (2020 TIAA Institute-GFLEC Personal Finance Index [P-Fin Index], Yakoboski et al., 2021). The economic impact of the current crisis has exacerbated this financial insecurity of many Americans, especially the most economically vulnerable subpopulations.

Financial resilience is the ability to withstand a shock, perhaps resulting from a health event, job loss, or an economic downturn, that impacts one's income or wealth. It reflects the capacity to adapt financially to stressful life events and function well in challenging or threatening circumstances (O'Neill & Xiao, 2011). Although financial resilience is highly correlated with financial resources such as income and wealth, the two terms are not identical. Financial resilience depends not only on a household's financial resources but also on its debt obligations and money management practices. For example, a family with a modest income may be able to save a good-sized cushion because of low financial obligations, while a family with high income may have difficulty saving due to high expenses or substantial financial obligations.

Unexpected events are often disruptive to our life, and they can carry both short- and long-term implications for family finances. For example, underprepared families may cut down consumption and change spending allocation (Baker & Yannelis, 2017) in the wake of an unexpected event. They may fall behind on debt payments, use high-cost borrowing methods such as payday loans and pawnshops (Agarwal et al., 2016), and find it difficult to make ends meet in a typical month (Pew, 2015). Moreover, they may prioritize meeting short-term financial needs, such as paying for food and utilities, to the detriment of longer-term goals, such as saving for retirement (Hasler et al., 2018).

Some studies have focused on understanding the concept and characteristics of financial resilience. O'Neill & Xiao (2006) attribute financial resilience to three categories of factors: financial resources, social and community resources (e.g., friends, social support), and personal resources (e.g., skills to search for information). Valdes, Mottola, and Armeli (2021) show how resilience segments, from living on the edge to standing strong, are correlated with various economic indicators.

In this report, we analyze changes in American families' financial resilience since the Great Recession of 2008 and identify significant variation across subpopulations. To assess Americans' financial resilience, we use a comprehensive set of proxies that complement one another: the ability to cope with a $2,000 emergency expense within 30 days, sense of indebtedness, and holdings of precautionary savings that could cover living expenses for three months. Further, we examine a host of economic behaviors and characteristics that contribute to financial resilience, ranging from cash flow and debt management to risk protection and financial literacy. We then analyze the economic experience of the most vulnerable subpopulations in the decade following the Great Recession, which was one of the biggest economic shocks in recent decades. The goal is to highlight lessons that will further our understanding of Americans' economic life in a post-crisis decade and shape future initiatives and policies.

Results of our analysis show that the inability to cope with a financial shock was prevalent among Americans even during times of high economic stability and record-low unemployment rates following the Great Recession. Lack of resilience was pervasive among the general population, but more prevalent among women, Black and Hispanic individuals, individuals ages 30–44, and less-educated individuals. These vulnerable subpopulations are also susceptible to money management practices that likely contribute to decreased financial resilience. When examining how individuals and families recovered from the Great Recession, we found that these subpopulations experiencing low levels of financial resilience were impacted the most by the economic shocks of the recession and have recovered much more slowly than the general population. This puts them on a slower path to recovery and heightens existing wealth gaps and economic inequities in the American population.

2. The status quo of financial resilience and variation among subpopulations

We define financial resilience by three proxy measures that shed light on both the asset and debt sides of a household's balance sheet. The proxies and corresponding survey questions are shown in Table (1).

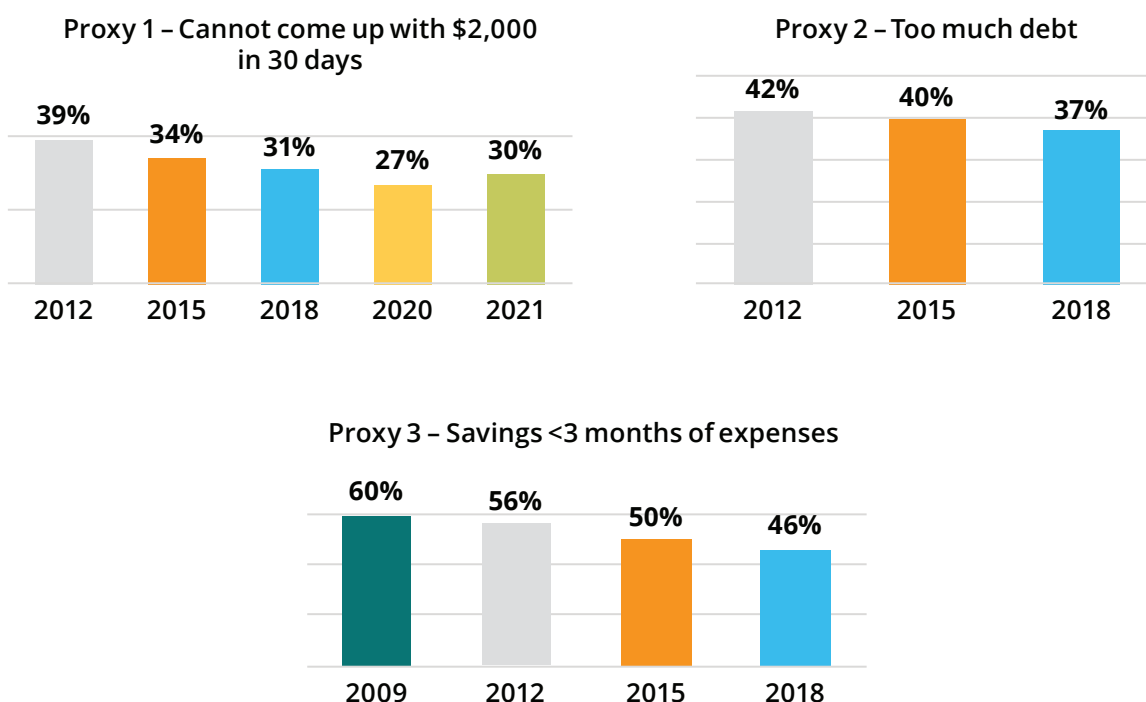*Table 1: Financial resilience proxies and corresponding survey questions*

Proxy name	Survey question
Cannot come up with $2,000 in 30 days	How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?
	[I am certain I could come up with the full $2,000; I could probably come up with $2,000; I could probably not come up with $2,000; I am certain I could not come up with $2,000]
Too much debt	How strongly do you agree or disagree with the following statement? *I have too much debt right now.*
	[On a scale of 1 to 7, where 1 = "strongly disagree," 7 = "strongly agree," and 4 = "neither agree nor disagree"]
Savings <3 months of expenses	Have you set aside emergency or rainy day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies?
	[Yes; No]

Analyzing data over the past decade shows that financial resilience overall has increased during the years following the Great Recession. Based on data from the National Financial Capability Study (NFCS), a project of the FINRA Investor Education Foundation, we find that in 2012, 39% of American households would not have been able to cover a $2,000 expense within a month if an emergency were to arise, 42% of households felt they had too much debt, and almost 60% did not have savings adequate to cover three months of expenses (see Figure 1). With increased economic growth and employment, the percentage of financially fragile households declined

steadily in the years leading up to the economic crisis resulting from the COVID-19 pandemic. But the decline in financial fragility was slow. In 2018, during a time of economic expansion and record-low unemployment rates, around one-in-three Americans remained financially fragile, i.e., they couldn't cover a $2,000 financial shock and struggled with their debt burden. Nearly half (46%) had inadequate emergency savings. These numbers indicate that many American families were ill-prepared to face the economic consequences of COVID-19, amplifying the challenges of weathering what would have been very difficult financial circumstances in any case.

Figure 1: Financial resilience over time

Proxy 1 – Cannot come up with $2,000 in 30 days

39% 2012
34% 2015
31% 2018
27% 2020
30% 2021

Proxy 2 – Too much debt

42% 2012
40% 2015
37% 2018

Proxy 3 – Savings <3 months of expenses
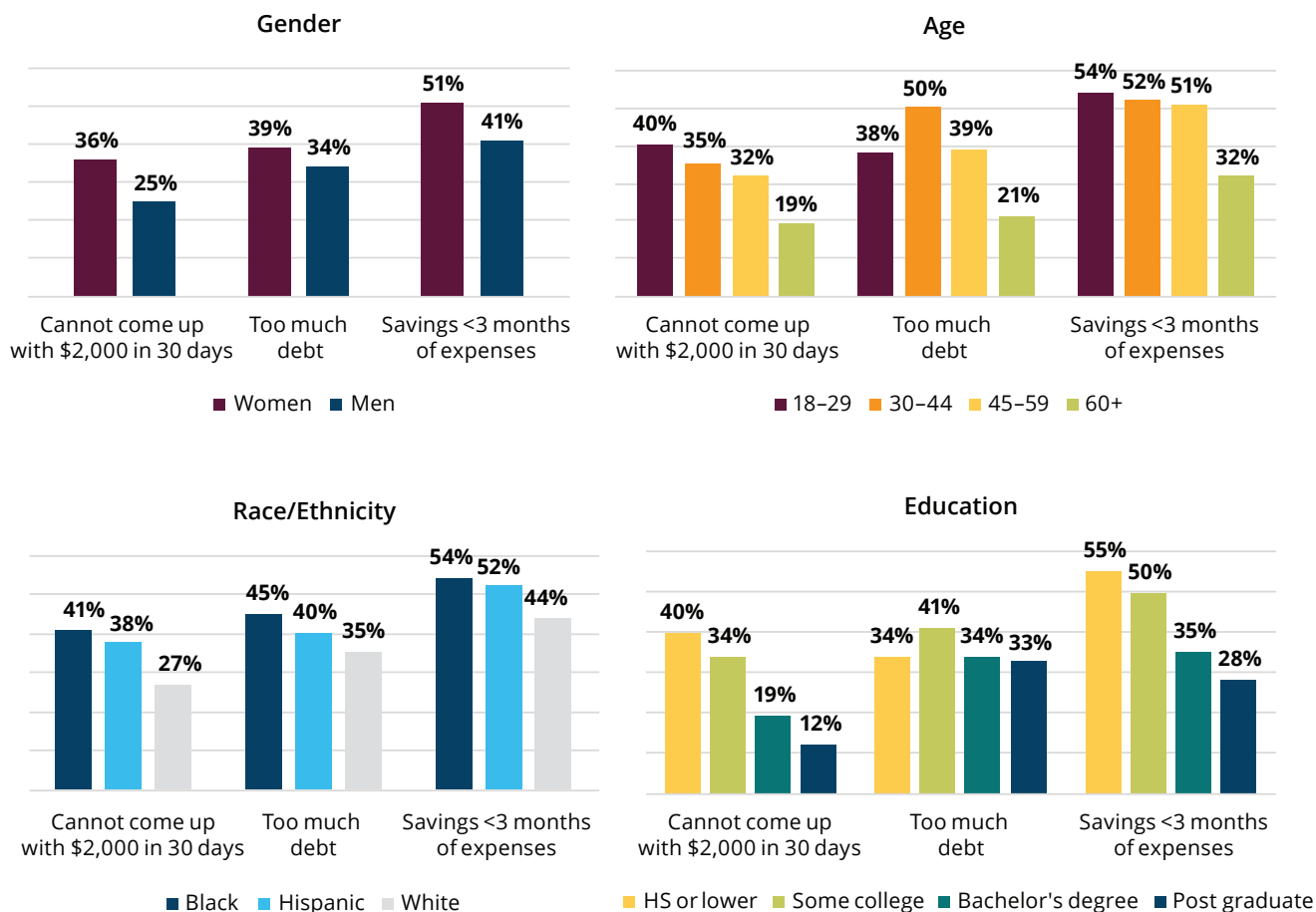
60% 2009
56% 2012
50% 2015
46% 2018

Sources: 2009, 2012, 2015, & 2018 NFCS and 2020 & 2021 P-Fin Index. Weights are used. The three financial resilience proxies are defined in the following way: "Cannot come up with $2,000 in 30 days" reflects the percentage of people who could certainly or probably not come up with $2,000 within 30 days; "Too much debt" reflects the percentage of people who responded with 5, 6, or 7 to the question outlined in Table (1); and "Savings <3 months of expenses" reflects the percentage of people who said that they do not have emergency savings adequate to cover 3 months of expenses.

These figures hide large variations in the population. Women, historically underserved minorities, individuals ages 30–44, and less-educated individuals show significantly lower financial resilience. Descriptive results for these financially vulnerable subpopulations are shown in Figure (2). The corresponding regression results that support these findings while controlling for other influencing variables such as income and employment status are available upon request.

Figure 2: Variation in financial resilience across demographic subpopulations in 2018

Gender

Category	Women	Men
Cannot come up with $2,000 in 30 days	36%	25%
Too much debt	39%	34%
Savings <3 months of expenses	51%	41%

■ Women ■ Men

Age

Category	18–29	30–44	45–59	60+
Cannot come up with $2,000 in 30 days	40%	35%	32%	19%
Too much debt	38%	50%	39%	21%
Savings <3 months of expenses	54%	52%	51%	32%

■ 18–29 ■ 30–44 ■ 45–59 ■ 60+

Race/Ethnicity

Category	Black	Hispanic	White
Cannot come up with $2,000 in 30 days	41%	38%	27%
Too much debt	45%	40%	35%
Savings <3 months of expenses	54%	52%	44%

■ Black ■ Hispanic ■ White

Education

Category	HS or lower	Some college	Bachelor's degree	Post graduate
Cannot come up with $2,000 in 30 days	40%	34%	19%	12%
Too much debt	34%	41%	34%	33%
Savings <3 months of expenses	55%	50%	35%	28%

■ HS or lower ■ Some college ■ Bachelor's degree ■ Post graduate

Source: 2018 NFCS. Weights are used. The three financial resilience proxies are defined in the following way: "Cannot come up with $2,000 in 30days" reflects the percentage of people who could certainly or probably not come up with $2,000 within 30 days; "Too much debt" reflects the percentage of people who responded with 5, 6, or 7 to the question outlined in Table (1); and "Savings <3 months of expenses" reflects the percentage of people who said that they do not have emergency savings adequate to cover 3 months of expenses.

3. Financial characteristics and money management practices of the vulnerable subpopulations

Table (2) shows the variation in financial behaviors and characteristics across the most financially vulnerable subpopulations. This analysis helps us identify the factors contributing to financial resilience.

Table 2: Heterogeneities in financial behaviors

	Age			Race/ethnicity		Sex		Education	
	30–44	45–59	Others	Black & Hispanic	Others	Women	Men	No Bachelor's degree	Bachelor's degree
Cash flow									
• Income below poverty level	8.9%	9.2%	13.7%	**18.1%**	8.8%	n.a.	n.a.	**16.7%**	4.1%
• Difficulty making ends meet	**24.2%**	16.7%	16.9%	**23.7%**	16.9%	18.8%	18.8%	**19.9%**	16.2%
• Difficulty covering all expenses and paying all bills	**55.7%**	47.2%	41.2%	**55.8%**	43.0%	**51.1%**	41.8%	**51.7%**	34.4%
Debt management									
• Debt-income ratio	**136.6%**	107.1%	82.4%	95.2%	105.6%	n.a.	n.a.	82.1%	**130.2%**
• Expensive credit card use	**58.0%**	40.8%	34.9%	**59.6%**	36.4%	43.3%	41.5%	**47.4%**	32.6%
• Use of alternative financial services	**39.7%**	23.2%	23.5%	**41.9%**	22.2%	26.0%	29.6%	**32.0%**	17.6%
Risk protection									
• Health insurance	**83.7%**	89.3%	87.4%	**80.9%**	89.2%	87.9%	85.8%	**84.2%**	93.3%
Financial literacy									
• Big 3 questions correct	**22.2%**	35.3%	31.5%	**15.4%**	35.7%	**21.7%**	38.8%	**21.9%**	49.4%

Note: Data are from the National Financial Capability Study (NFCS, 2018) and the Survey of Consumer Finances (SCF, 2019). Weights are used. The SCF data are at the family level, and thus the breakdown by sex is not meaningful and not shown. For the race/ethnicity breakdown, the findings in the column "Others" include Whites and everyone else who does not belong to the Black or Hispanic subpopulations. The federal poverty level is adjusted for family size (US Department of Health and Human Services, 2020). For the SCF data, we use the family head's background to identify age, race/ethnicity, and education. The variable "difficulty making ends meet" reports individuals or households indicating that in the year prior to the survey, their spending was more than their income (not including the purchase of a new home, car, or other big investment). The variable "difficulty covering all expenses and paying all bills" reports individuals and households indicating that in a typical month it is very or somewhat difficult for them to cover all of their expenses and pay all of their bills. The variable "expensive credit card use" reports individuals that own a credit card and experienced at least one form of expensive credit card use in the year prior to the survey, which includes making minimum payments only, being charged a fee for late payments, being charged an over-the-limit fee, or using the card for cash advances. The variable "use of alternative financial services" reports individuals or households that have used at least one of the following services once in the five years prior to the survey: auto title loans, payday loans, pawnshops, rent-to-own stores. The "Big 3" financial literacy questions assess numeracy and understanding of inflation and risk diversification.

Our data show that the main challenges faced by people in their 30s and 40s tend to be around debt management and risk protection. Many in this age group have a job with a steady income, which explains the lower percentage of people with income below the poverty level. At the same

time, they have high debt burdens (attributed primarily to student loans), child care costs, and mortgages. The debt-to-income ratio for this group is high, at 136%, compared to 82% for those under age 30 or over age 60. High monthly debt servicing obligations can make it difficult to make ends meet. Among this group, 24% cannot make ends meet in a typical month, and 56% find it difficult to cover all expenses and pay all bills in a typical month. Thus, tight and rigid household budgets can make money management difficult even in regular times, let alone in the event of an economic shock that decreases income or increases expenses. Additionally, this age group has a lower rate of health insurance coverage (84%). Because many people in this age group have dependents, their lack of risk protection can translate into a catastrophic financial burden should anyone in the family fall ill.

Financial behaviors vary significantly across race and ethnicity. In line with existing evidence indicating that Black and Hispanic Americans are economically vulnerable and face greater economic challenges, including a persistent wealth gap, we find that they have lower income levels; 18% of this group have income below the federal poverty line (adjusted for family size) compared to 8.8% of Whites and all others who are neither Black nor Hispanic. Lower-income can contribute to month-to-month money management challenges. Almost one in four Blacks and Hispanics cannot make ends meet, and 56% have difficulties covering all expenses and bills in a typical month, which is a rate significantly higher than the 17% and 43%, respectively, among Whites and all others who are neither Black nor Hispanic. The need for liquidity coupled with a history of systemic racism in the U.S., which has limited the economic opportunities for minorities, might contribute to their significantly higher engagement with alternative financial services such as payday lenders and pawnshops. Around 42% of Black and Hispanic Americans report having used at least one type of alternative financial service in the five years prior to the survey compared to 22% of of Whites and all others who are neither Black nor Hispanic. Moreover, only 81% of Blacks and Hispanics have health insurance coverage, compared to 89% of Whites and all others who are neither Black nor Hispanic. This is troublesome considering the fact that a higher percentage of racial minorities are employed in jobs with occupational hazards (e.g., construction and manufacturing). Any accidents or disabilities would not only strip their families of primary income sources but impose substantial out-of-pocket medical expenses.

Our findings clearly show an educational divide. People without a Bachelor's degree face substantially more challenges in terms of debt and month-to-month cash flow management compared to their peers with a Bachelor's degree. Almost half of those without a Bachelor's degree pay expensive fees due to suboptimal credit card management practices, and one in three used at least one form of alternative financial services in the five years prior to the survey. Additionally, around 20% expressed an inability to make ends meet, and a staggering 52% expressed difficulties covering all expenses and paying all bills in a typical month. These latter figures are 16% and 34%, respectively, for individuals with a Bachelor's degree. It's worth noting that the well-educated group faces substantially higher debt due to student loans. Their debt-to-income ratio is 130%, compared to 82% for those without a Bachelor's degree.

Data from Table (2) also suggest that financial knowledge and skills to make sound financial decisions may be important contributors to financial resilience. Across all comparisons, the

financially vulnerable subpopulations show financial literacy levels significantly lower than those of their less financially vulnerable peers. For example, among financially vulnerable groups, only around one in five (between 15% and 22%) respondents could correctly answer three questions on numeracy, inflation, and risk diversification that were designed to measure basic financial literacy. This puts them at a disadvantage when it comes to making complex financial decisions, many of which have long-term consequences.

4. Lessons from the Great Recession

The Great Recession impacted many American families. The unemployment rate rose sharply, and for many of those who didn't become unemployed, income either stagnated or declined. The negative impacts of this financial shock were felt unevenly across subpopulations. Results from longitudinal data show that individuals in their forties and fifties (Figure 3, Panel A) experienced a sharp and sustained decrease in employment and work hours. For those who remained employed, income stagnated. This finding is consistent with studies that find evidence of people taking early retirement, voluntarily or involuntarily, due to the Great Recession (Goda et al., 2011).

Individuals in their mid-20s (panel B in Figure 3) experienced decreased employment and health care coverage, albeit transiently because after 2010, they saw steady growth in employment, work hours, and income, thanks partly to the solid economic growth of the 2010s. This finding suggests that people at a later career stage or close to retirement can face serious challenges when the economic environment suddenly deteriorates.

Figure 3: Differential impacts of the Great Recession, by age cohort

Panel (A): Ages 44–52 in 2008 (Mid and Late Boomers)

**Economic experience of Baby Boomers before and after the Great Recession**
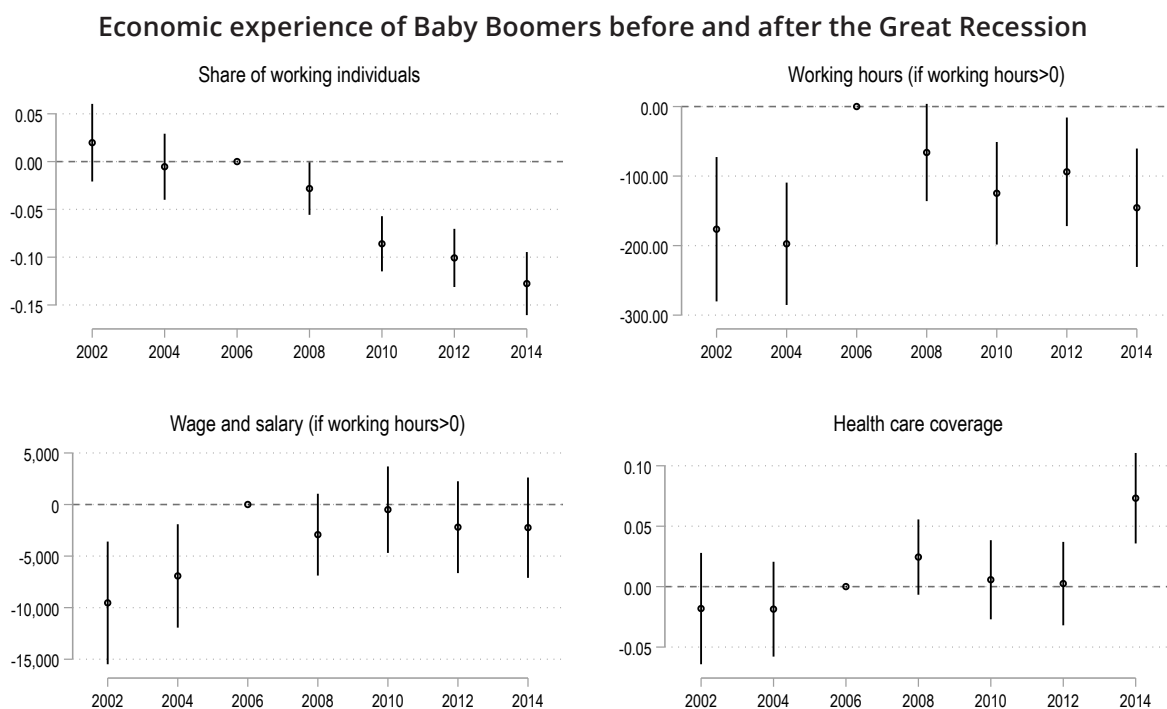
Note: Panel A data are from the National Longitudinal Surveys of Youth (1979 cohort). Subjects were born between 1957 and 1964. Only includes individuals who were working at least some time between 2002 and 2006. The baseline year was 2006. Personal income includes any income from wages, salary, commissions or tips, including any income from odd job, temporary or seasonal work, and military or national guard service. It does not include income from self-employment.

Panel (B): Ages 24–27 in 2008 (Early Millennials)

Economic experience of Early Millennials before and after the Great Recession
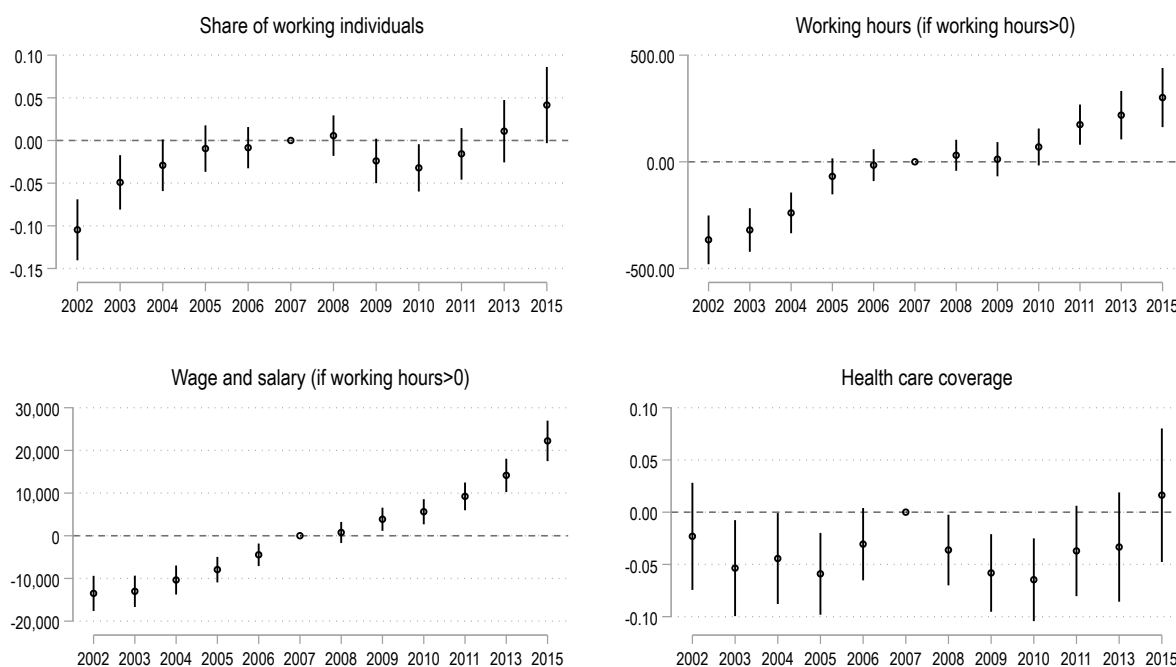
Note: Panel B data are from the National Longitudinal Surveys of Youth (1997 cohort). Subjects were born between 1980 and 1984. Only includes individuals who were working at least some time between 2002 and 2007. The baseline year was 2007. Personal income includes any income from wages, salary, commissions or tips, including any income from odd job, temporary or seasonal work, and military or national guard service. It does not include income from self-employment.

For both Mid and Late Boomers (respondents ages 44–52 in 2008) and Early Millennials (ages 24–27 in 2008), we examined the gaps in their recovery trajectories associated with race/ethnicity, sex, and educational attainment. In the short run (i.e., two years after the Great Recession), Boomers with lower educational attainment or who are members of a racial minority experienced a significant drop in labor force attachment compared to Millennials with the same education and racial identity. This reflects layoffs and early retirement among older workers, especially those who are non-White or in low-skilled jobs. A similar trend has been observed during the COVID-19 pandemic. The labor force participation rate for Americans ages 55 and older fell between 2020 and 2021 and has shown no signs of rebounding (Omeokwe, 2021).

In the long run (i.e., eight years after the Great Recession), education emerged as the strongest predictor of labor force attachment for Boomers and wage growth for Millennials. In other words, college-educated Boomers were more likely than their less-educated peers to return to the job

market after the recession was over. Although many Millennials benefited from the economic growth of the 2010s, those with a Bachelor's degree had an increase in wage/salary that was four times greater than the wage increase of people without a Bachelor's degree. These findings indicate that the more financially vulnerable subpopulations were not only impacted the most by the economic shock of the Great Recession but also recovered much more slowly.

5. Summary and Takeaways

In this report, we examine the concept and assessment of financial resilience and its associated factors, which include income and cash flow management, debt management, risk protection, and financial literacy. We use longitudinal data from before and after the Great Recession to evaluate the severity of its impact across subpopulations and how each subpopulation recovered. We find that each subpopulation faces unique challenges. Thus it would be inappropriate to promote a one-size-fits-all approach for building financial resilience.

Main takeaways

(1) In the 2010s, during the recovery from the Great Recession, the level of financial resilience increased among American households; however, that increase was very slow.

- ❍ In 2018, during a time of economic expansion, around 40% of Americans still could not cope with a mid-sized financial shock, and the same percentage struggled with their high debt burden.

- ❍ Worrisome, too, is that 60% of Americans did not have an emergency fund that would cover three months of expenses.

- ❍ These findings show that Americans were ill-positioned to face any shock, large or small, let alone one as severe as the COVID-19 pandemic and its economic consequences.

(2) Our analysis reveals four financial behaviors and characteristics that are highly correlated with financial resilience. Further, we find that the most financially vulnerable subpopulations— women, historically underserved minorities, individuals ages 30–44, and less-educated individuals—were more susceptible to money management practices that are likely to contribute to lower financial resilience.

- ❍ Income/cash flow management:
  - ▪ Over half of people ages 30–44, Blacks and Hispanics, and those without a Bachelor's degree have trouble covering all living expenses and paying essential bills.

- ❍ Debt management:
  - ▪ People ages 30–44 and those with a Bachelor's degree face high debt levels.
  - ▪ A higher percentage of Blacks and Hispanics, people ages 30–44, and those without a Bachelor's degree engage in costly borrowing methods.

- ❍ Risk protection:
  - ▪ Blacks and Hispanics and those without a Bachelor's degree are less likely to have health insurance coverage.

- The racial gap in health insurance coverage is largest among people ages 30–44.
  - ○ Financial literacy:
    - ▪ The most financially vulnerable subpopulations exhibit the lowest levels of financial literacy, putting them in a challenging position when making complex financial decisions.
- (3) The Great Recession had unequal consequences for people of different demographic backgrounds.
  - ○ People in the later stage of their careers were more likely than their younger counterparts to leave the labor force during the recession and less likely to return afterward.

Now, with the COVID-19 crisis and its attendant economic consequences, it is critically important to have the financial capacity to weather a financial shock. Understanding the factors that build financial resilience and the variation across American families in terms of their financial situation and money management is essential for developing effective solutions.

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