Financial Fragility during the COVID-19 Pandemic

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Background

- Measuring financial fragility/resilience

- Financial fragility during a pandemic

- What new data is telling us

- The determinants of financial fragility

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Measuring financial fragility in the U.S. right after the financial crisis of 2007-2008

- 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.
    – Don't know.
    – Prefer not to say.

People with these responses are classified as financially fragile.

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Paper on financial fragility right after the 2007-2008 financial crisis

2009 TNS Global Economic Crisis Survey

A measure that goes beyond assets

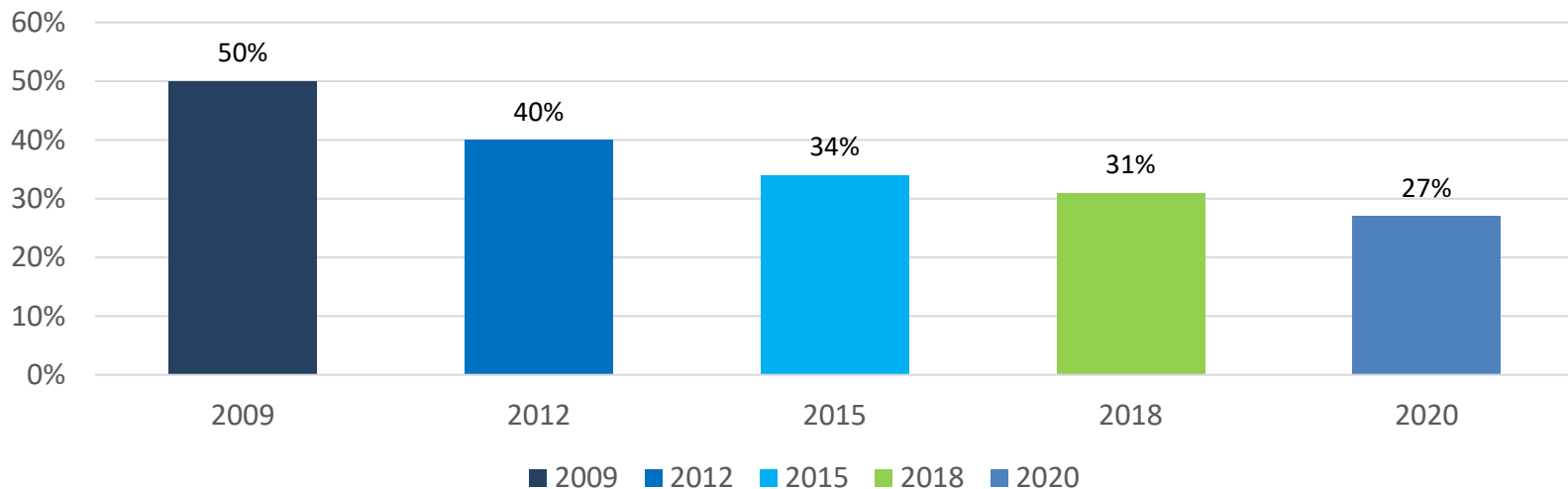- Financial fragility measures 2 aspects of personal finance

It is a symptom of lack of assets

It measures lack of borrowing capacity of highly leveraged households

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Financial fragility after a crisis and over time

Financial Fragility Over Time

Source: 2009 TNS; 2012, 2015, & 2018 NFCS, 2020 P-Fin Index

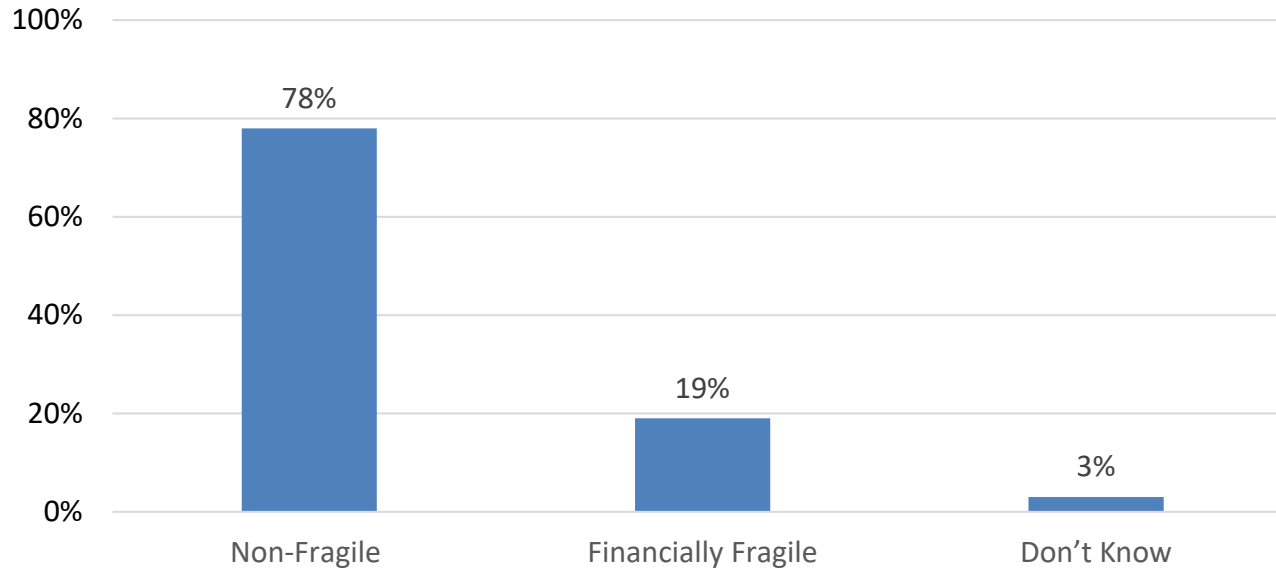- Financial fragility is declining over time
- But remained high before the pandemic

Our data collection and new research

2020 UAS

Financial fragility during the pandemic

Sample
- 2,902 Americans
- Ages 45 to 75
- Survey fielded April/May 2020

Source: 2020 UAS

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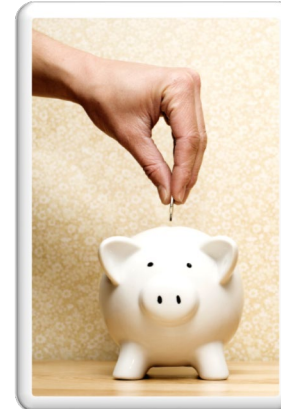
Who are the most financially fragile?

The under 60's
- 27% of individuals age 55-59 are financially fragile v. 15% of individuals age 70+

Hispanics
- 29% of Hispanics are financially fragile v.s. 19% of Whites

Low Income
- 57% of those with incomes ≤$15K, and 40% of those with incomes $15-$25K, are financially fragile

Source: 2020 UAS. Age 45-75

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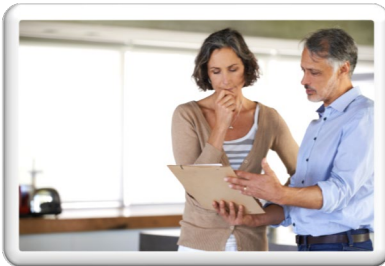# Who are the most financially fragile? (cont.)

Education
- 29% of those with ≤high school education are financially fragile

Women
- 26% of women are financially fragile v.s. 16% of men

Marital Status
- 53% of those separated and 28% of those divorced are financially fragile

Source: 2020 UAS. Age 45-75

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A simple measure of financial literacy: The 'Big Three'

Inflation · Diversification · Numeracy

- Financial literacy (Big Three): Knowledge of simple concepts, such as interest rates/numeracy, inflation, and risk diversification
- **The more financially literate are *less likely* to be financially fragile.**

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A richer measure of financial literacy (12 questions)

Big 3 financial literacy questions + 9 more:

Topics include

- Interest compounding

- Credit scores

- Annuities

- Social Security benefits

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Logit Marginal Effects: Explaining Financial Fragility (FF)

Controls	3-Q FF Index	12-Q FF Index
Financial Literacy		
Total Questions Correct	-0.021	-0.010
	(0.011)	(0.005)
Age (Ref Age 45-49)		
Age 60-64	-0.128	-0.128
	(0.031)	(0.031)
Age 65-69	-0.104	-0.105
	(0.035)	(0.035)
Age 70 and up	-0.125	-0.126
	(0.035)	(0.035)
Race/Ethnicity (Ref white)		
Hispanic/Latino	0.085	0.080
	(0.033)	(0.033)
Black/African American	0.047	0.040
	(0.034)	(0.034)

	3-Q FF Index	12-Q FF Index
Marital Status (Ref Married Unseparated)		
Divorced	0.089	0.089
	(0.026)	(0.026)
Widowed	0.056	0.056
	(0.044)	(0.045)
Never Married	0.072	0.070
	(0.031)	(0.031)
Other Variables		
# of Household Members	0.017	0.017
	(0.009)	(0.009)
Works full-time	-0.040	-0.043
	(0.024)	(0.024)
N. of observations	2,685	2,682
% Financially Fragile	18.85%	18.85%

Source: 2020 UAS, individuals age 45-75

Logit Marginal Effects: Financial Fragility using 3-Question and 12-Question Literacy Indices: Weighted

(Robustness check with additional controls)

Source: 2020 UAS, individuals age 45-75

VARIABLES	3-Q Model	12-Q Model
	Financial Fragility	
Financial Literacy		
Total Questions Correct	-0.021	
	(0.011)	
Total Questions Correct		-0.010
		(0.005)
Gender (Base Female)		
Male	-0.010	-0.011
	(0.020)	(0.020)
Race/Ethnicity (Base White)		
Hispanic/Latino	0.085	0.080
	(0.033)	(0.033)
Asian	-0.055	-0.056
	(0.059)	(0.059)
Black/African American	0.047	0.040
	(0.034)	(0.034)
Education (Base HS or Less)		
Some College Education	-0.012	-0.010
	(0.022)	(0.022)
Bachelor's Degree	-0.057	-0.049
	(0.030)	(0.030)
Graduate Degree	-0.028	-0.022
	(0.034)	(0.033)

	3-Q Model	12-Q Model
Marital Status (Base Married)		
Separated	0.058	0.054
	(0.062)	(0.063)
Never Married	0.072	0.070
	(0.031)	(0.031)
Household Size		
# of Household Members	0.017	0.017
	(0.009)	(0.009)
Employment Status		
Works full-time	-0.040	-0.043
	(0.024)	(0.024)
Suffered Income Shock	0.027	0.027
	(0.023)	(0.023)
Age	Y	Y
Income	Y	Y
N. of observations	2,685	2,682
Percent Financially Fragile	18.85%	18.85%

Conclusions

- Some subgroups particularity disadvantaged:

  - Younger respondents, those with larger families, Hispanics, and those with low income are more likely to be fragile.

- Financially literate individuals better protected against shocks:

  - Answering one additional financial literacy decreases financial fragility by one percentage point.

- Findings highlight the impact of the economic collapse early in the pandemic.