The early impacts of the coronavirus pandemic on Americans' economic security

1. Introduction

In early March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. In addition to the serious public health risk, the pandemic has had enormous effects on the U.S. economy due to governmental mandates temporarily closing businesses and schools, and individuals remaining home due to fears of infection (Goolsbee and Syverson, 2021). Weekly unemployment claims skyrocketed to 3.3 million in the third week of March 2020, more than four times the previous weekly record, then doubled to 6.6 million the next week (Department of Labor, 2020).

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There are reasons to be concerned that the first wave of the pandemic may have had serious negative repercussions on many Americans' financial stability, especially in light of recent empirical evidence documenting households' limited ability to weather unexpected financial shocks. The Federal Reserve Board's 2018 Survey of Household Economics and Decisionmaking found that 39% of households were unable to cover a $400 unexpected expense with cash or a cash equivalent. Limited household savings coupled with the large, negative shock to employment, as well as reduced time available for labor due to increased childcare demands (Zamarro and Prados, 2020), may have placed considerable strain on many households' financial situations. In addition, the serious public health risk, uncertainty about the duration of the pandemic, and its possibility for recurrence in the future may have caused difficulties in planning and budgeting.

In response to concerns about the pandemic's possible adverse impacts on households' financial stability, policymakers passed legislation providing many individuals with Economic Impact Payments (the first round of which was distributed starting in April and May 2020) and expanded and increased unemployment benefits. This policy response may have meaningfully blunted some of the negative effects of the pandemic on American's economic security—recent research suggests that the policies may have been effective in offsetting reductions in income and spending (Cox et al., 2020; Han, Meyer, and Sullivan, 2020).

We use longitudinal survey data from a nationally representative internet panel to examine the early impacts of the pandemic, and policy responses, on Americans' financial stability, financial well-being, and financial behavior. We find that rather than experiencing large declines, Americans' financial stability *improved*, on average, soon after the onset of the pandemic. In particular, we observe increases both in subjective measures, like financial satisfaction, and more objective measures, like financial fragility and savings behavior and balances. Moreover, individuals who were more economically vulnerable pre-pandemic—such as those with lower incomes and financial literacy, and individuals struggling with debt burdens or having difficulty making ends meet—experienced differentially large improvements in their financial situation post-pandemic. We find evidence that much of the improvement, both overall and differential, was driven by the stimulus, which was more impactful for those who were more

economically vulnerable. Rather than simply help prevent widening inequality in financial stability, the governmental policy response may have helped close the gap, at least early in the life of the pandemic. While we find that Americans' current financial situation improved post-pandemic, we observe little difference in retirement savings behavior or security, suggesting these early effects may not translate into improved retirement outcomes in the future.

2. Data and sample characteristics

We draw our data from the Understanding America Study (UAS) panel. The UAS is a nationally representative, probability-based internet panel that longitudinally tracks a U.S. representative sample of over 9,000 adults. Panel members are recruited exclusively through Address Based Sampling and receive a tablet and broadband access (and related training) if they do not have internet access. The UAS contains a very large set of background characteristics for all panel members, including demographic (e.g., age, gender, race, education), financial (e.g., income, financial literacy), health (e.g., self-assessed health), personality traits (the big five) and cognition measures (e.g., number series, propositional analogies, picture vocabulary).

Since 2018, more than 4,000 panel members have completed annual surveys tracking their financial lives in detail as part of the U.S. Financial Health Pulse project. The third wave was fielded in late April/early May 2020, after the onset of the Covid-19 pandemic. These longitudinal data contain repeated measures of subjective financial well-being (particularly financial satisfaction) and numerous indicators of economic security and financial distress. These include, but are not limited to, employment and income shocks, spending and saving behavior, debt accumulation and levels, financial fragility (e.g., inability to cover a $400 emergency expense with a cash equivalent), retirement saving behaviors, and financial stress. We restrict our analysis sample to individuals who completed all three waves of the surveys, though results are qualitatively unchanged when including all survey responses.

We augment this series of three annual surveys with additional modules fielded in the UAS that measure respondents' knowledge about Social Security programs and benefits. As a part of these surveys, individuals are asked to self-assess how financially well prepared they are for retirement on a four-point scale. Those who have not yet claimed their Social Security retirement benefits

report the age at which they intend to claim. Three waves of these surveys have been fielded—one in 2015/2016, one in 2017/2018, and one at the beginning in April 2020 that remains open until August 2021.

Table 1. Sample summary statistics – in 2018

Age	51.54
Female	0.57
White	0.86
Married	0.59
Education	
High school or less	0.23
Some college	0.39
Bachelor's or more	0.38
Household Income	
< $30,000	0.25
$30,000–$59,999	0.27
$60,000–$99,999	0.24
> $100,000	0.24
Working	0.62
Poor health	0.15
N	3,785

Table 1 presents sample summary statistics in 2018, the first wave of surveys in our primary analysis sample. Over 3,700 respondents completed all three waves of the survey. Average age in the sample is 51 years, 57 percent of the sample identifies as female, and 86 percent of respondents are White. A little less than a quarter of the sample has a high school education or less; approximately 40 percent has completed some college or received an associate degree, with the remainder completing a bachelor's degree or more. There is considerable variation in household income, with approximately a quarter of the sample in each income bracket: below $30,000, between $30,000 and $60,000, between $60,000 and $100,000, and $100,000 or more per year. Approximately 62 percent of our respondents indicated that they were working at the time of the survey, and 15 percent claimed to be in "fair" or "poor" health.

3. Results

We exploit the longitudinal nature of our data to examine within individual changes in financial situation and behavior over the May 2018–May 2020 period using regression analysis. We find that Americans' financial situations *improved*, on average, early after the onset of the pandemic. As shown in Figure 1, overall satisfaction with one's financial situation improved by 0.11 points (on the five-point scale) in 2020 relative to 2019. Similarly, the likelihood of experiencing either a "moderate" or "high" amount of stress due to one's financial situation drops by four percentage points in 2020 from 2019 levels. Financial fragility (i.e., an inability to cover a $400 shock with cash or an equivalent) decreased by approximately three percentage points.

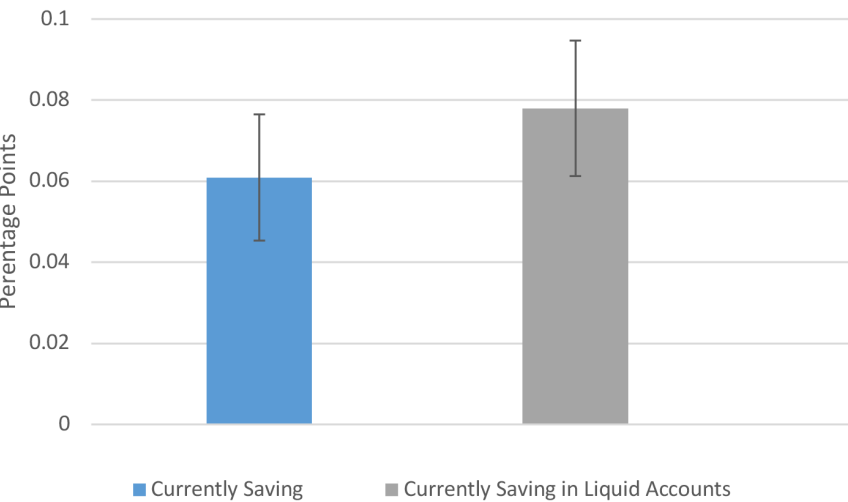## Figure 1. Financial situations improved in 2020 relative to 2019
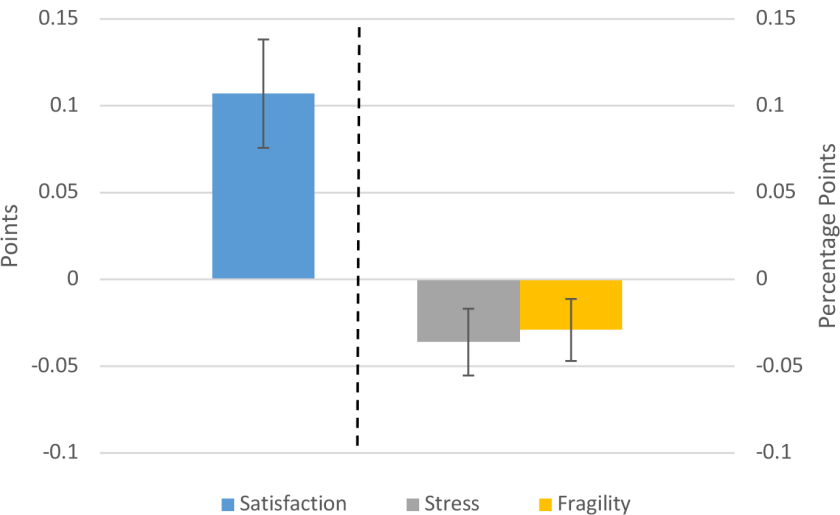
Notes: The figure plots regression coefficients for a 2020 indicator from fixed effects specifications controlling for time varying demographic and financial characteristics. Whiskers represent 95% confidence intervals.

We also document that our sample was more likely to be actively saving, particularly in liquid accounts during the pandemic than in prior years. Figure 2 shows that respondents were six percentage points more likely to be currently saving in 2020 relative to 2019, and eight percentage points more likely to be currently saving in checking or savings accounts, cash, or other non-retirement saving or investment accounts. Consistent with increased savings activity, we observe increased (self-reported) liquid account balances in 2020, particularly in checking and savings accounts.

We find little difference in self-reported debt levels, though respondents are less likely to indicate that they feel their debt is unmanageable in the early months of the pandemic. Despite general increases in current measures of financial stability, there is no empirical evidence of changes in retirement savings behavior—the fraction of the sample actively saving for retirement and self-reported retirement balances remain statistically unchanged over time.

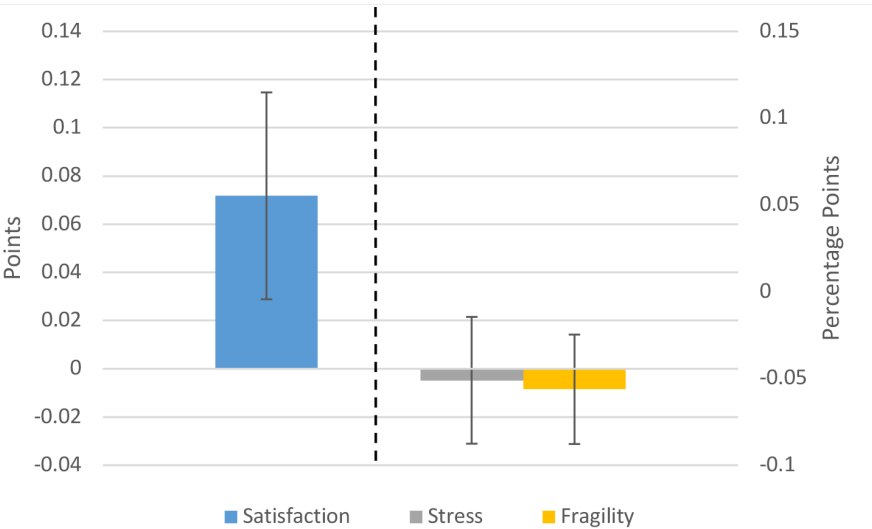## Figure 2. Savings activity increased In 2020 relative to 2019

Notes: The figure plots regression coefficients for a 2020 indicator from fixed effects specifications controlling for time varying demographic and financial characteristics. Whiskers represent 95% confidence intervals.

A natural possible explanation for the increase in short-term financial stability, despite huge interruptions to the labor market and a sharp rise in public health risk, is that the relatively robust government stimulus response helped offset some of the pandemic's adverse effects. We find evidence consistent with this explanation. Figure 3 presents results from the regressions used in Figure 2 after controlling for stimulus receipt. We find that stimulus receipt accounts for nearly all of the reductions in financial stress and financial fragility that we observe in our sample. Stimulus receipt also explains nearly all of the observed increase in liquid account balances.

However, the stimulus is not the whole story, as it has little influence on the boost in savings activity. Rather, the increased likelihood of actively saving after the onset of the pandemic may be driven by precautionary motives as a result of rising uncertainty and/or to reduced ability to spend with closed businesses and travel restrictions. We also find that the stimulus does not explain all of the improvement in overall financial satisfaction—even after controlling for stimulus receipt, financial satisfaction was higher in 2020 relative to its pre-pandemic levels. It is possible that the increase in financial satisfaction is in part driven by this increased savings activity.

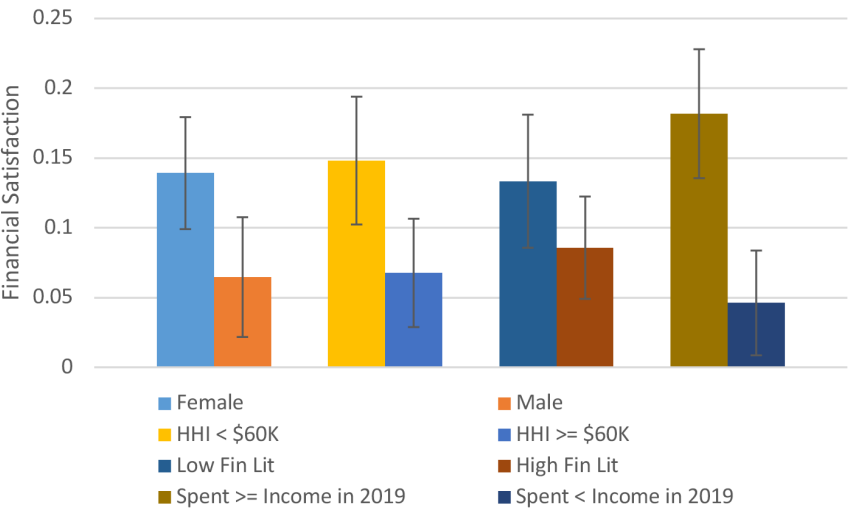### Figure 3. Stimulus receipt contributed to increases in financial stability

Notes: The figure plots regression coefficients for a 2020 indicator from fixed effects specifications controlling for time varying demographic and financial characteristics and stimulus receipt. Whiskers represent 95% confidence intervals.

Average improvements in the population may mask important heterogeneity in outcomes. For example, consumers who were more economically vulnerable pre-pandemic may have been disproportionately negatively affected by its onset. Actually, our results suggest the opposite is true: financial stability disproportionately improved among respondents who were more *economically vulnerable* pre-pandemic. Women, those with lower income and financial literacy, and individuals who were spending above their means pre-pandemic all experienced differentially larger improvements in their financial situations relative to their respective counterparts. For example, Figure 4 shows that women experienced increases in financial satisfaction that were 0.08 points larger than men, individuals residing in households earning less than $60,000 a year experienced increases 0.08 percentage points larger than individuals living in households earning more, respondents with below mean financial literacy experienced increases 0.05 points larger than their higher financially literate counterparts, and individuals spending more than or equal to income in 2019 experienced increases 0.14 points larger than individuals spending less.

Figure 4. Financial stability increased disproportionately for the economically vulnerable

Notes: The figure plots regression coefficients for a 2020 indicator interacted with the characteristic shown, drawn from fixed effects specifications controlling for time varying demographic and financial characteristics. Whiskers represent 95% confidence intervals.

Such improvements appear to be driven at least in part by differential impacts of the stimulus payments. We find considerably stronger associations between stimulus receipt and increases in financial stability and saving activity for consumers who were more economically vulnerable pre-pandemic. Our empirical findings suggests that not only did the government stimulus help prevent widening inequality in financial stability, it may have helped close the gap, at least early in the life of the pandemic.

Finally, using additional survey modules in the UAS fielded in 2015/2016, 2017/2018 and starting in April 2020, we examine how the pandemic may have influenced financial preparedness for retirement and intended Social Security claiming ages. We find that levels of self-assessed financial preparedness for retirement increased in the early months of the pandemic, though grew by similar amounts as observed in year-over-year changes pre-pandemic. This is consistent with our other results suggesting little changes in retirement savings behavior. Intended Social Security claiming ages did not change over time for the overall sample, though there is some weak indication that adults ages 60 and above who had not already claimed their benefits may delay claiming by about 0.6 years.

4. Insights

In summary, our evidence suggests that rather than experiencing large reductions in financial stability, Americans' financial situations improved during the first months of the pandemic, particularly for individuals who were previously economically vulnerable. Much of the overall, and differential, increase appears attributable to the economic stimulus, which was particularly impactful for those with lower financial stability. Although our results are intuitive and consistent with other work examining the early effects of the pandemic and its policy responses, it is important to note that our evidence is descriptive and that we cannot establish causality. Additionally, our latest round of surveys was fielded early in the pandemic's lifecycle, and shortly after approximately half our sample had received their stimulus payments. While this helps us investigate the immediate impacts of the stimulus, we are unable to assess how quickly the observed increases in financial stability may dissipate, nor can we explore the pandemic's longer-term effects. Both of these questions remain important inquiries for future research.

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Marco Angrisani is an Economist at the USC Center for Economic and Social Research and Assistant (Research) Professor at the USC Economics Department. His research interests span across household finance, labor economics, economics of aging, and applied microeconomics. Another strand of his work concerns data collection and different aspects of survey methodology, from sampling and weighting techniques, to questionnaire design and survey harmonization. Angrisani received an B.A. in political economy from University of Siena, an M.S. in economics from University College London, and a Ph.D. in economics from University College London.

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