

Financial Fragility during the COVID-19 Pandemic

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January 5, 2021



Background

- Measuring financial fragility/resilience
- Financial fragility during a pandemic
- What new data is telling us
- The determinants of financial fragility

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.

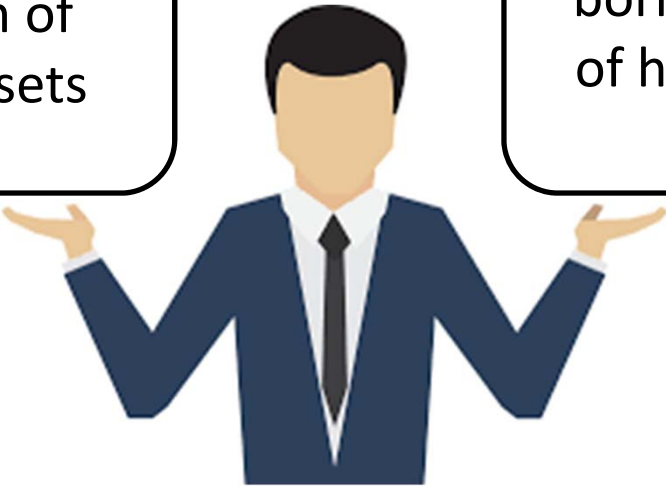
Paper on financial fragility right after the 2007-2008 financial crisis

2009 TNS Global Economic Crisis Survey



A measure that goes beyond assets

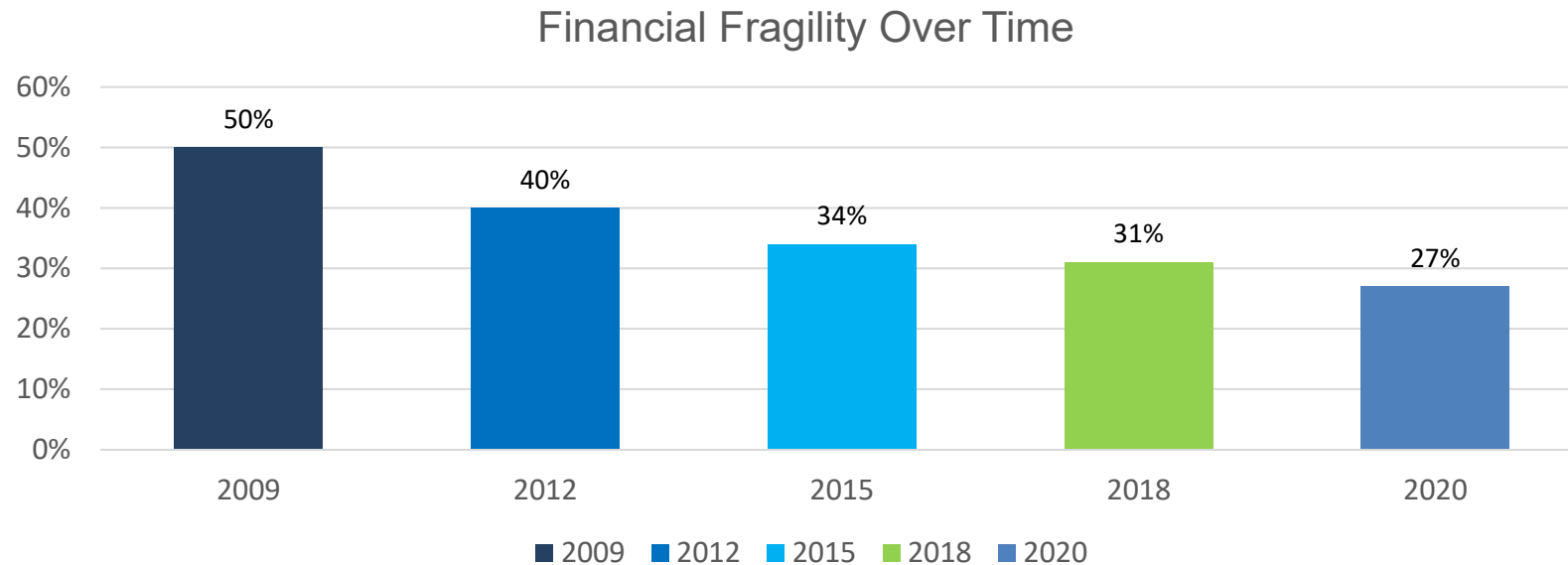
- Financial fragility measures 2 aspects of personal finance



It is a
symptom of
lack of assets

It measures lack of
borrowing capacity
of highly leveraged
households

Financial fragility after a crisis and 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

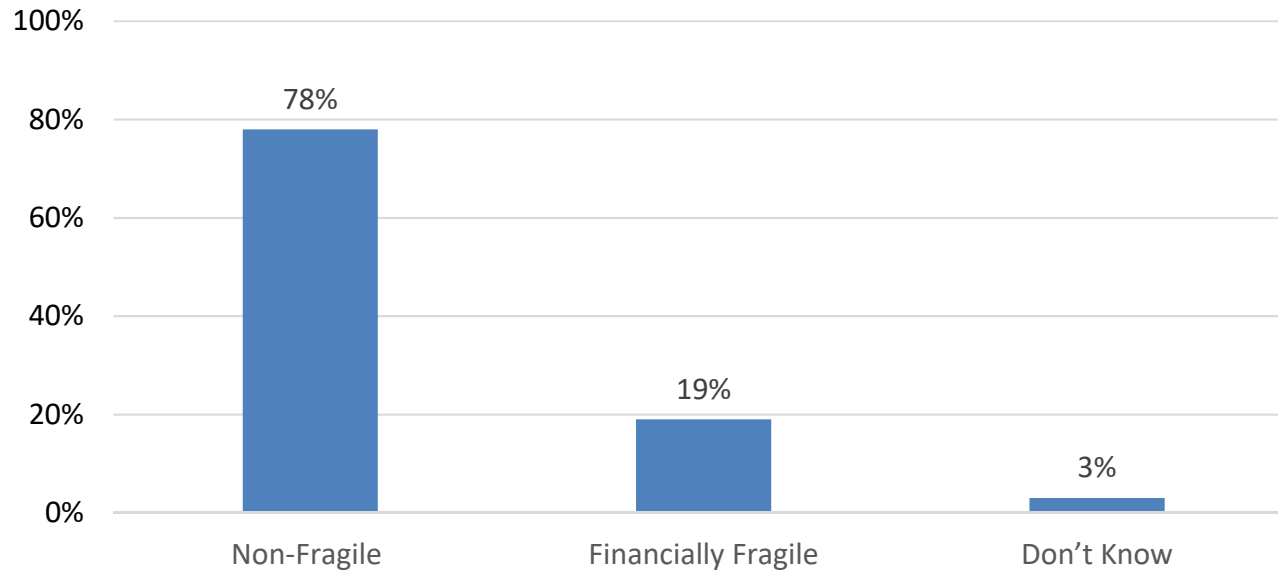
Our data collection and new research

2020 UAS

UnderStandingAmericaStudy



Financial fragility during the pandemic



Sample

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

Source: 2020 UAS

Who are the most financially fragile?

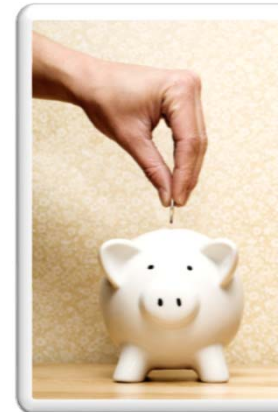
The under 60's

- 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 \leq \$15K, and 40% of those with incomes \$15-\$25K, are financially fragile

Source: 2020 UAS. Age 45-75

Who are the most financially fragile? (cont.)

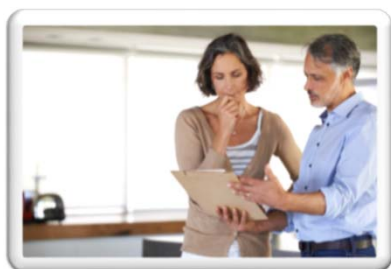


Education

- 29% of those with \leq 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

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



- 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.**

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

Logit Marginal Effects: Explaining Financial Fragility (FF)

Controls	3-Q FF Index	12-Q FF Index		3-Q FF Index	12-Q FF Index
Financial Literacy					
Total Questions Correct	-0.021 (0.011)	-0.010 (0.005)			
Age (Ref Age 45-49)					
Age 60-64	-0.128 (0.031)	-0.128 (0.031)			
Age 65-69	-0.104 (0.035)	-0.105 (0.035)			
Age 70 and up	-0.125 (0.035)	-0.126 (0.035)			
Race/Ethnicity (Ref white)					
Hispanic/Latino	0.085 (0.033)	0.080 (0.033)			
Black/African American	0.047 (0.034)	0.040 (0.034)			
			Marital Status (Ref Married Unseparated)		
			Divorced	0.089 (0.026)	0.089 (0.026)
			Widowed	0.056 (0.044)	0.056 (0.045)
			Never Married	0.072 (0.031)	0.070 (0.031)
			Other Variables		
			# of Household Members	0.017 (0.009)	0.017 (0.009)
			Works full-time	-0.040 (0.024)	-0.043 (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)

VARIABLES	3-Q Model	12-Q Model	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 (0.020)	-0.011 (0.020)		
Race/Ethnicity (Base White)				
Hispanic/Latino	0.085 (0.033)	0.080 (0.033)		
Asian	-0.055 (0.059)	-0.056 (0.059)		
Black/African American	0.047 (0.034)	0.040 (0.034)		
Education (Base HS or Less)				
Some College Education	-0.012 (0.022)	-0.010 (0.022)		
Bachelor's Degree	-0.057 (0.030)	-0.049 (0.030)		
Graduate Degree	-0.028 (0.034)	-0.022 (0.033)		
Marital Status (Base Married)				
Separated			0.058 (0.062)	0.054 (0.063)
Never Married			0.072 (0.031)	0.070 (0.031)
Household Size				
# of Household Members			0.017 (0.009)	0.017 (0.009)
Employment Status				
Works full-time			-0.040 (0.024)	-0.043 (0.024)
Suffered Income Shock				
			0.027 (0.023)	0.027 (0.023)
Age				
			Y	Y
Income				
			Y	Y
N. of observations			2,685	2,682
Percent Financially Fragile			18.85%	18.85%

Source: 2020 UAS, individuals age 45-75

Conclusions

- Some subgroups particularly 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.