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Assessing the First Economic Impact Payment in the Older Population Using the Health and Retirement Study

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The coronavirus pandemic has been the greatest threat to the health and well-being of the older population in at least a century. In its early stages, before vaccines or treatments, and before the transmission was fully understood, there was particular concern that the health care system could be overwhelmed, making it impossible not only to handle the volume of COVID-19 cases but to provide other needed care as well. This led to mitigation policies aimed at blocking the disease's spread. The economic consequences of public health mitigation policies were also of serious concern and, in turn, prompted other policies to offset the impact of public health measures. This project studies one part of the policy response. The Economic Impact Payment (EIP) was authorized as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in late March 2020.** The EIP provided a direct stimulus payment to individuals, similar to stimulus programs in previous economic downturns in 2001 and 2008.

The Health and Retirement Study (HRS) began its 2020 wave of data collection at the beginning of March 2020. A key feature of the HRS design is the half-sample rotation between in-person and telephone interviews. The designated in-person sample for the 2020 wave was not initially released for interviews and, as of March 13, all in-person contact was suspended. Due to uncertainty about whether and when in-person activity might resume, the HRS withheld the in-person half-sample. It then became apparent that the pandemic itself was an important topic to study in 2020. To capture the impact of the virus, the policy responses to mitigate its spread, and the policy responses to offset the economic impact of the mitigation policies, the HRS designed a compact module of questions to be added to the core interview. These included questions on the disease; its effects on health care, work, income, and spending; changes in family exchanges of time; and money, and the receipt of the EIP. The double constraint of short development time and short survey time limited the number

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** Subsequent EIPs were issued in December 2020/January 2021 and March 2021. This research covers only the first payment and its impacts.

of questions and the depth with which topics could be pursued.

Based on those questions, we found that the EIP in Spring 2020 had the lowest impact on spending of any recent stimulus. Social Security beneficiaries were more likely to report receipt, suggesting that distributing the payment through the Social Security disbursement system was effective. Social Security beneficiaries were more likely to spend the payment than others with similar incomes, perhaps because of confidence in income from Social Security. Persons of color, those experiencing hardship due to the pandemic, and those of low net worth were most likely to use the EIP to reduce debt. For those with high net worth, the EIP mainly augmented their savings. Over a quarter of older households gave at least some of the payment to family members or charities.

Given the short development timeframe, there were some missed opportunities. One issue we wish we had anticipated was the role of labor supply. The survey questions sought to determine whether the net effect of the added income would mostly raise spending above what it otherwise would have been, lower debt below what it otherwise would have been, or increase savings above what it otherwise would have been. But fear of contagion made work less attractive to many workers, particularly those in public-facing jobs. An income subsidy might very well have subsidized time off of work, with no change to the household balance sheet or consumption. Indeed, the unemployment benefits provided at the same time as the EIP had just that effect. A follow-up question asking whether the EIP would affect labor supply would have been very useful.

A second possibility we did anticipate is family (and other) transfers. Older people routinely give money to their children and grandchildren, and the HRS gathers this data. It seemed plausible to us, for example, that an older couple with a stable income might give their stimulus money to a child put out of work. Again, this would not affect the household balance sheet or consumption. If someone said they would give the money away, we coded that response separately but counted it as "mostly spend" in our analysis (about 2% of households did this). More importantly, we included a follow-up question about transfers: "Did you give any of the money to charity or to friends or family?" For those who said they did give money, there is a slight income gradient from about one in four households in the lowest quintile to about one in three in the highest quintile. There was not a strong pattern of association with other characteristics of the HRS households, suggesting that perhaps the recipient's need was the more important determinant.

Finally, the stem question about whether the money would "mostly" increase spending, reduce debt, or add to savings does not give much information about the distribution of spending rates across the population. A follow-up sequence to ask if any of it would increase spending and by how much, would greatly improve the precision of the estimated impact on consumer spending. ❖

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