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The Ongoing Impacts of COVID-19 on Americans' Economic Security

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The COVID-19 pandemic has had enormous effects on the U.S. economy. In this paper, we use data from longitudinal surveys in the Understanding America Study (UAS) to assess the impacts of the pandemic, and policy responses to it, on Americans' economic security and financial well-being through the pandemic's first year. Our primary analysis sample consists of four annual surveys fielded in April/May of 2018 to 2021, spanning the onset of the COVID-19 pandemic. Our data measure respondents' financial situations in detail, including information on employment, income, spending and savings behavior, debt accumulation, subjective financial well-being, financial fragility (an inability to cover a $400 shock solely with cash or a cash equivalent) , retirement savings, and financial distress. In addition to the annual surveys, we also use shorter modules fielded in July/August 2020 and January 2021 to more finely trace out the pandemic's evolving effects, and incorporate additional surveys eliciting subjective retirement preparation and Social Security retirement benefits claiming intentions, before and during the pandemic. We also incorporate vaccination status and intentions from other UAS surveys to assess how individual variation in reduced health risk might influence financial behaviors and financial security.

Overall we find that, on average, Americans' short-term financial stability continued to improve through the first year of the pandemic. In particular, we observe year-over-year increases in subjective measures, such as financial satisfaction and lower financial stress, as well as persistently elevated objective measures, such as short-term savings behavior and balances. Moreover, we continue to observe differentially larger improvements in financial situations for individuals who faced greater prepandemic financial challenges, such as individuals with lower incomes or those who were having difficulty making ends meet prior to the pandemic's onset. We find evidence consistent with the stimulus — particularly the Economic Impact Payments (EIPs) — being a key contributor to the improvements. While there is relatively little evidence of heterogeneous

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effects by age, we estimate that financial fragility increased disproportionately among Hispanic respondents and that Black individuals experienced a larger increase in the likelihood that they were saving post-pandemic relative to their white counterparts, possibly due to differential impacts of the stimulus. We find little evidence of heterogeneity for essential versus nonessential workers and little difference in spending/saving behavior based on vaccination status.

Though we observe improvements on average on most measures of financial security, there are two notable exceptions. First, after falling in 2020, financial fragility (an inability to cover a $400 shock solely with cash or a cash equivalent) increased, on average, in 2021 relative to prepandemic levels. This average increase was concentrated among individuals who did not receive the last EIP or had higher incomes (and consequently were more likely to have received a reduced EIP amount conditional on receipt). This underscores the importance of the stimulus in helping to blunt the pandemic's adverse effects on households' financial situations and is also concerning – since the stimulus and enhanced unemployment benefits have recently ended, signs of economic insecurity among households experiencing more financial challenges may become apparent in the near future.

Second, we observe reduced self-reported retirement balances in 2021 relative to pre-pandemic levels, while there is no difference in subjective retirement preparedness in 2021/2022 relative to before the pandemic began. This is startling since one might expect financial preparedness for retirement to increase with age, though we find no differences in our sample more than a year into the pandemic, despite respondents being three to six years older than when previously surveyed. The combination of lower retirement balances and little change in respondents' beliefs regarding their retirement preparedness suggests that the observed improvements in short-term financial stability may not translate into improved retirement outcomes in the future.

Thus, while we observe that short-term financial situations improved for most Americans through the pandemic's first year, these improvements may be fleeting and not translate into long-term changes in financial well-being. Notably, the vast majority of our respondents had recently received a check from the third round of Economic Impact Payments prior to completing the 2021 survey and our evidence suggests that it is likely that the EIPs meaningfully contributed to short-term financial well-being. Given that the stimulus program has now ceased, Americans — particularly those who experienced greater prepandemic financial instability — may face increased difficulty in securing short-term and long-term financial security. How Americans' financial behavior and situations have changed since the cessation of the stimulus program (and in response to rising inflation) remains an important area for future research. ❖

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