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The Enduring Impacts of the COVID-19 Pandemic on Americans' Economic Security

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We examine how the pandemic has influenced Americans' short-term financial security and future retirement stability using longitudinal survey data from the Understanding America Study (UAS). Our primary analysis sample consists of five annual surveys fielded in April/May of 2018 to 2022, 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, retirement savings, and financial distress. In addition to the annual surveys, we incorporate additional data from before and during the pandemic on subjective retirement preparation and Social Security retirement benefits claiming intentions. We also merge COVID-19 infection data from other UAS surveys to assess how individual variation in health shocks might influence financial behaviors and financial security.

We find that Americans' short-term financial security improved during the first year of the pandemic, yet declined on average between 2021 and 2022. Notably, we observe reductions in financial satisfaction and short-term savings behavior and balances during the second year of the pandemic, and an increase in the fraction of respondents spending in excess of their income. This is in part driven by difficulties dealing with inflation. Over 30% of our sample indicated considerable financial stress from the recent price hikes. These individuals experienced considerably larger reductions in financial satisfaction and savings rates, and increases in financial stress and financial fragility, than those less impacted by inflation. In part to combat rising costs, many Americans appear to have drawn down on their short-term savings buffer accumulated during the pandemic's first year.

Prior research has indicated that the governmental stimulus, particularly Economic Impact Payments (EIP), were an important contributor to bolstering short-term

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financial security during the pandemic. However, the stimulus ended in 2021, raising concerns about how previous recipients would fare going forward. We find little evidence indicating that the cessation of the stimulus led to disproportional reductions in financial security among those who previously received checks. Both individuals who did and did not receive EIPs experienced similar levels of declines in short-term financial stability between 2021 and 2022.

We find relatively muted differences in financial security trajectories based on demographic characteristics, though the reductions in financial satisfaction and increases in financial fragility between 2021 and 2022 appear to be concentrated among younger individuals and Hispanics. Lower income households continued to experience larger improvements in short-term financial stability than their higher income counterparts through 2022. While COVID-19 infection is directionally associated with lower short-term financial stability in our sample, we find little evidence of differential effects across race or ethnicity, though we lack the statistical precision to rule out the possibility of meaningful differences.

While short-term financial stability declined during the pandemic's second year, on average most metrics remained above prepandemic levels. Unfortunately, the same does not appear to be true for future retirement security. We find that retirement savings behavior and balances reduced in 2022, both relative to 2021 and to prepandemic levels. On average, our sample was less likely to be saving for retirement and had lower retirement savings in 2022 than in 2019, despite being three years older. While subjective perceptions of retirement preparedness remained above prepandemic levels, we observe no increase since 2020, suggesting progress toward retirement security may have stalled for many.

Overall, our evidence is consistent with inflation being a key stressor for many households, dwindling short-term financial stability and potentially reducing future retirement security as the pandemic moved into its second year. How long prices continue to rise, and how well Americans' are able to deal with extended inflation will be important questions shaping future financial security in both the short and longer terms.❖

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