February 2021

Authors:

Olivia Valdes, Ph.D. and
Gary Mottola, Ph.D.
FINRA Investor Education Foundation

Stephen Armeli, Ph.D.
Fairleigh Dickinson University

What's Inside

Summary	1
Defining the Segments	1
Who Makes Up the Financial Resilience Segments?	3
Correlates of Financial Resilience	5
Conclusion	6
Notes	6
Methodology	7
References	7

Bouncing Back? The Financial Resilience Of Americans

Summary

We can better understand American's financial resilience during a crisis, such as the COVID-19 pandemic, by examining behaviors and circumstances that play a role in their ability to financially withstand and recover from economic challenges.[1] There are many components to financial resilience; this research brief looks at several. Financial literacy, which indicates financial knowledge, may aid in navigating complex financial situations. Similarly, assets (for example, retirement accounts, home equity, emergency savings) provide a cushion for economic strain, while income volatility and debt can reduce the extent to which people are able to recover. Health insurance coverage, moreover, is a central indicator of the ability to recover if the crisis in question results in medical costs.

Using these indicators and data from the FINRA Foundation's 2018 National Financial Capability Study, we find that Americans typically fall into one of four distinct groups: those Living on the Edge; those living Paycheck to Paycheck; those Holding Steady; and those who are Standing Strong. In 2018, well before the COVID-19 pandemic, nearly 4 in 10 households lacked financial resilience, making them vulnerable to financial hardships, including those associated with the current pandemic and/or future financial crises. Meanwhile, fewer than 2 in 10 appeared to be financially resilient.

Nearly 4 in 10 households in the United States lack financial resilience.

Defining the Segments

While Living on the Edge represents the largest segment, making up 37 percent of respondents, it is also the least financially resilient (Figure 1). Paycheck to Paycheck respondents (14 percent) are more financially resilient than Living on the Edge but face meaningful challenges.

Holding Steady is a large segment (34 percent), and while they also face challenges, they have some financial strengths that buoy them. However, their low levels of financial literacy are concerning. As the name implies, Standing Strong (15 percent) respondents are in a very strong financial position and likely most financially resilient.[2]

Each segment is defined by seven indicators that collectively serve as a proxy for financial resilience. These include: (1) level of financial literacy, (2) income volatility, (3) debt, (4) emergency savings, (5) owning a retirement account, (6) having health insurance, and (7) owning a home. Figure 2 shows how the segments vary according to these indicators, with red indicating a problem, yellow being neutral (neither a problem nor a strength), and green a strength.

Figure 1. Financial Resilience Segments

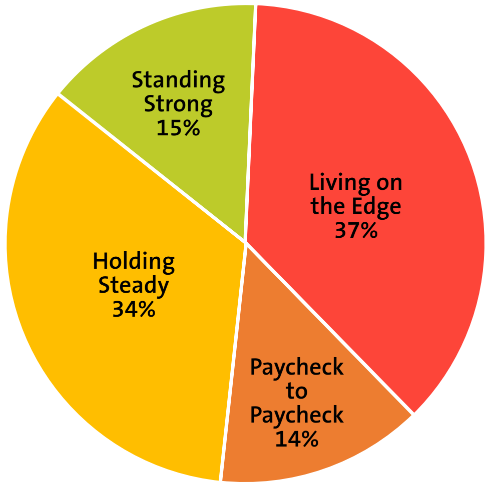


Figure 2. Financial Characteristics of the Segments

Resilience Segment

	Living on the Edge	Paycheck to Paycheck	Holding Steady	Standing Strong
High Financial Literacy	12%	36%	28%	100%
Low Income Volatility	55%	66%	65%	78%
Low Debt	60%	0%	73%	100%
Has Emergency Savings	16%	0%	83%	100%
Own a Retirement Account	11%	84%	88%	100%
Own Their Home	19%	65%	77%	100%
Has Health Insurance	69%	100%	95%	100%

0% 100%

Living on the Edge. The largest portion of respondents fall into the Living on the Edge segment. Those in this group are characterized by low levels of financial knowledge and few assets. Few have emergency savings. Their households tend to lack a purchased home or a retirement savings account, leaving them with few assets to tap in an emergency. In addition, renters typically can be evicted for not making rent payments much more quickly than homeowners can be for not making mortgage payments, which further erodes the financial resilience of this segment. Nearly a third report having no health insurance, the lowest enrollment of any group.

Paycheck to Paycheck. Those classified as living Paycheck to Paycheck are characterized by a moderate-to-low level of financial knowledge, but high debt and no emergency savings. A moderate number of these households have financial assets like a retirement account or a purchased home. All respondents in this group report having health insurance.

Holding Steady. A third of respondents fall into the Holding Steady segment. These households tend to have stable incomes. A moderate number have retirement savings and a majority have a purchased home. Most respondents report having emergency savings, low debt and health insurance. Despite having some financial stability, those in the Holding Steady segment have surprisingly low levels of financial literacy. A vast majority, though not all, reported having health insurance.

Standing Strong. Respondents who fall into the Standing Strong segment are characterized by high financial literacy and excellent finances. They report having little debt and emergency savings. Their households had experienced relatively low income volatility and have a retirement account and a home. All respondents report having health insurance.

Who Makes Up the Financial Resilience Segments?

There are notable sociodemographic differences in the composition of the financial resilience segments. For example, Figure 3 shows that income, education, age and marital status sharply differ across segments, while we see moderate differences by gender.

Figure 3. Demographics by Segment

	Living on the Edge	Paycheck to Paycheck	Holding Steady	Standing Strong	U.S. Adult Population
Sample Size	1,665	783	1,706	846	27,091
Mean Age	40	46	48	59	47
Percent					
Female	55%	58%	47%	39%	51%
Household Income <$50K	81%	43%	35%	14%	49%
Married	31%	59%	59%	76%	51%
Dependents	35%	48%	37%	22%	36%
Unemployed	11%	3%	2%	0%	5%
College Degree	15%	33%	36%	52%	29%

Living on the Edge. Those classified as Living on the Edge tend to be younger (average age = 40 years) and less likely to be married (31 percent) than those in other segments. Most are female (55 percent), and 35 percent have dependents. They generally report lower incomes; 81 percent of their households make less than $50,000 a year. An overwhelming majority lack a college degree (85 percent). More than 1 in 10 report being unemployed.

Paycheck to Paycheck. Nearly 3 out of 5 in the Paycheck to Paycheck group are female (58 percent), and 59 percent are married. Respondents have an average age of 46, and 48 percent report having dependents. They report moderate incomes, with 57 percent of households earning an annual income over $50,000. A third of respondents hold a college degree. Only 3 percent report being unemployed.

Holding Steady. Just under half of those in the Holding Steady group are female (47 percent), and most are married (59 percent). Nearly 2 in 5 report having a dependent. Their incomes are relatively high, with 65 percent of their households earning over $50,000 annually. Thirty-six percent hold a college degree. Only 2 percent report being unemployed.

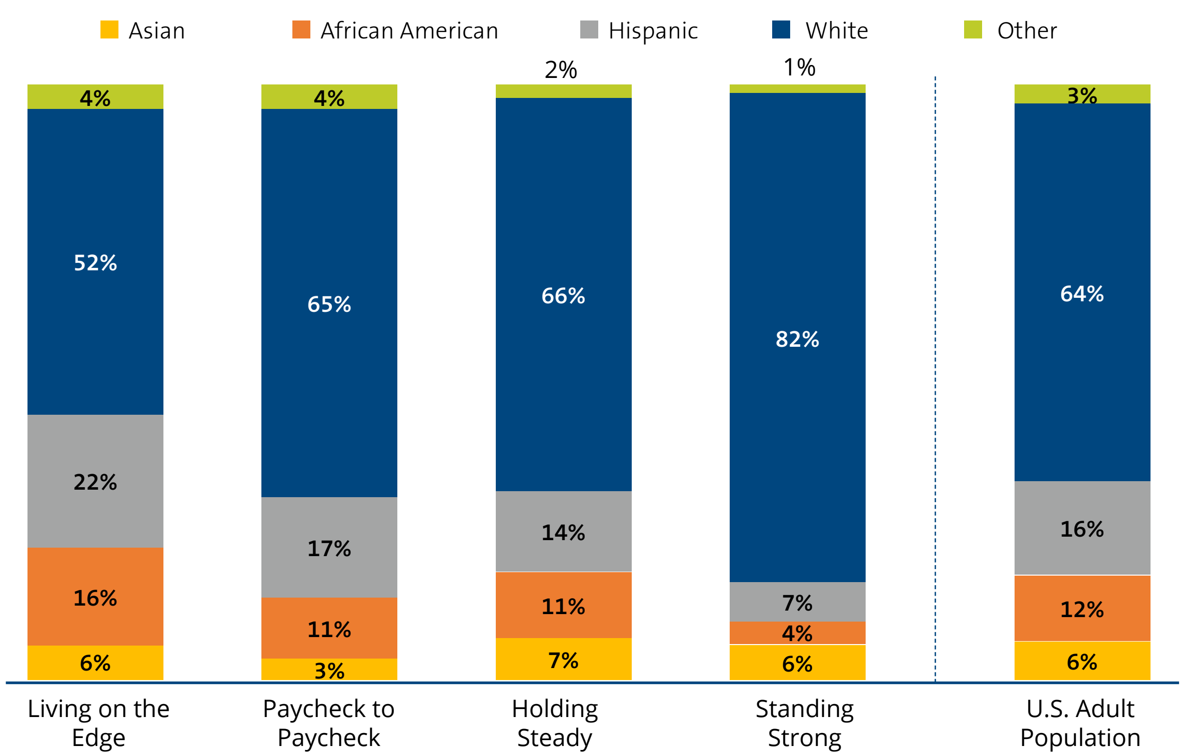
Standing Strong. The Standing Strong group is largely male; only 39 percent identify as female. Respondents also tend to be older (average age = 59 years) and married (76 percent). Merely 1 in 5 report having a dependent. Group members fare well economically and are highly educated; an overwhelming majority of households make over $50,000 a year (86 percent). Over half of respondents have at least a college degree.

Respondents in the segments with the lowest financial resilience tend to be young, female and without a college degree.

Racial and Ethnic Breakdown of the Segments

There are concerning differences in the racial makeup of the segments (*see* Figure 3). The least financially resilient segment, Living on the Edge, has the most diverse racial and ethnic makeup. Nearly half of respondents identify as a minority (22 percent Hispanic, 16 percent African American, 6 percent Asian American). In contrast, the composition of the Standing Strong group is largely homogenous, composed mainly of white persons (82 percent). There are generally similar racial and ethnic compositions for the Paycheck to Paycheck and the Holding Steady segments. Respectively, white persons make up 65 and 66 percent, African Americans make up 3 and 7 percent, and Hispanics make up 17 and 14 percent. To put this in perspective, white respondents are 58 percent more likely to be in the highest financial resilience segment (82 percent) than the lowest (52 percent).

Figure 3. Racial and Ethnic Composition of Financial Resilience Segments



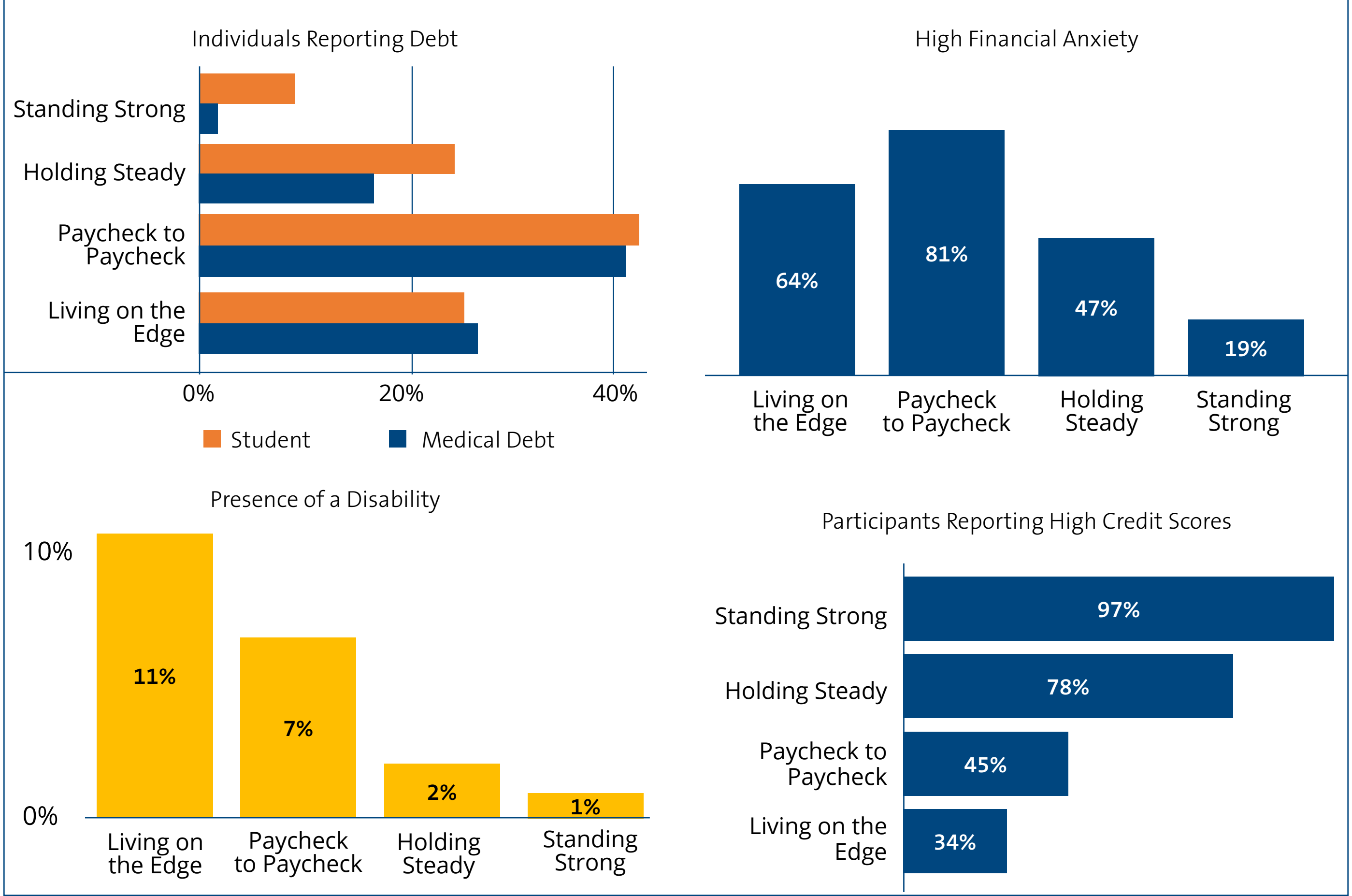
White respondents are 58 percent more likely to be in the highest financial resilience segment than the lowest.

Correlates of Financial Resilience

Beyond the proxies we used for financial resilience, the segments differ on other dimensions, in particular financial anxiety, medical debt, student loan debt, self-reported credit ratings and presence of a disability. Financial anxiety refers to a physiological syndrome which presents itself when individuals have unhealthy attitudes pertaining to their personal finances (for example., negative or stressed reactions to thinking about finances, engaging with personal finances or administering their personal finance situation).[3]

Living on Edge. A majority of respondents in this group report high levels of financial anxiety (64 percent). A third report above average credit. They have moderate levels of debt, both in terms of student loans (27 percent) and medical expenses (28 percent). Twenty-seven percent report having failed to visit a doctor to address an existing medical problem due to cost concerns. Eleven percent report being disabled (that is, permanently sick, disabled or unable to work), potentially explaining the moderate levels of medical debt.

Figure 4. Financial Differences Among Segments



3. *See* Shapiro, G & Burchell, B. (2012). Measuring Financial Anxiety. Journal of Neuroscience Psychology and Economics, 5(2): 92-103.

Paycheck to Paycheck. While not the least financially resilient, respondents in the Paycheck to Paycheck cohort report the most financial anxiety (81 percent), perhaps because nearly half have dependents (the highest rate of all the segments). Over two-fifths of respondents report having student loans (43 percent) and, similarly, over two-fifths report having medical debt (42 percent). Given the cost, 30 percent report choosing not to have visited a doctor despite having a medical issue. In this segment, too, a sizeable minority (7 percent) report a disability, possibly leading to increased medical and cost of living expenses. A little over half of the segment rate their credit as above average.

Holding Steady. Respondents in this classification are financially solid in some areas. Most report low levels of financial anxiety (53 percent) and rate their credit as above average (78 percent). While some have student loans (26 percent), fewer than one in five report having medical debt (18 percent). However, some face healthcare challenges; 18 percent report not having gone to the doctor while experiencing a medical issue due to its cost. Although those in this segment demonstrate low financial literacy, an overwhelming majority (79 percent) rate their own financial literacy as high. This discrepancy may indicate overconfidence, which is linked to a host of problematic financial behaviors.

Standing Strong. The Standing Strong group report the highest level of financial stability. They have little debt stemming from either student loans (10 percent) or medical expenses (2 percent). Nearly all respondents rate their credit as above average (97 percent), and relatively few report high levels of financial anxiety (19 percent). Unsurprisingly, very few report having avoided visiting a physician while experiencing a medical issue because of cost (4 percent).

Conclusion

The challenges Americans face today can lead to lasting financial consequences, particularly for those least able to rebound economically. Using data from the FINRA Foundation's 2018 National Financial Capability Study, our research identifies four discrete segments of the population, each with varying degrees of financial resilience. Proxies of financial resilience included financial assets, debt and health insurance. Ordered from least to most financially resilient, the following segments emerged: Living on the Edge, Paycheck to Paycheck, Holding Steady and Standing Strong.

Upon examining the group compositions, our findings identify concerning patterns of resilience (or lack of resilience) in the population. The largest portion of Americans (37 percent) falls into the most financially vulnerable category. People of color, low-income individuals and individuals with comparatively low educational attainment make up a substantial portion of this segment. Using our proxies, we estimate that this group of Americans faces the most challenges in response to financial strains.

The group most likely to rebound from economic hardships, by contrast, represents a small portion of the population (15 percent) and differs substantially in terms of sociodemographic characteristics. Those most resilient tend to be more educated, have higher income, and be male and white. While these findings raise concerns, understanding who is able (and unable) to bounce back from an economic downturn can shape a framework for targeting and improving the financial capability of the population segments most in need.

Notes

The authors would like to thank Christine Kieffer, Robert Ganem and Gerri Walsh for helpful comments. The opinions provided herein are those of the authors and do not reflect the views of FINRA, the FINRA Investor Education Foundation, or any organizations with which the authors are affiliated. A special thanks to Elizabeth Kessler and Donna Hemans for designing and editing this brief.

Methodology

This research brief used data from the FINRA Foundation's 2018 National Financial Capability Study. The sample consisted of 27,091 adults (18+) across the U.S., with approximately 500 respondents per state, plus the District of Columbia. Respondents were drawn using non-probability quota sampling from established online panels consisting of millions of individuals who have been recruited to join, and who are offered incentives in exchange for participating in online surveys. These panels use industry-standard techniques to verify the identities of their panel members and to ensure that their demographic characteristics are valid and up to date. The survey was self-administered by respondents on a website. Fielding was conducted from June 2018 to October 2018. Findings from the survey are weighted to be representative of Census distributions, based on data from the American Community Survey. National figures are weighted to be representative of the national population in terms of age, gender, ethnicity, education, and Census Division. The data used for this brief as well as detailed methodological information can be found at *USFinancialCapability.org*.

Latent class analysis (LCA) was used to identify distinct groups (classes) based on the following variables: financial literacy, income volatility, debt level, emergency savings, health insurance, having a retirement account, and home ownership. All variables were binary. Models were estimated with increasing numbers of classes and evaluated in terms of whether extraction of subsequent classes improved model fit. The final number of classes, four, was decided based on statistical grounds (that is, whether the extraction of an additional class resulted in improved model fit) and practical grounds (that is., whether the classes were interpretable). Model fit was evaluated using the Akaike's Information Criterion (AIC), Bayesian Information Criterion (BIC), and the bootstrapped parametric likelihood ratio test. Entropy values were also examined. The models were estimated in Mplus software. To validate the LCA solutions, models were estimated in two independent samples of 5,000 participants randomly selected from the FINRA Foundation's 2018 National Financial Capability Study. Statistical output is available upon request from the authors.

References

1. O'Neill, B. & Xiao, J. J. (2011). Financial resiliency before, during, and after the Great Recession: Results of an online study. Journal of Consumer Education, 28, 34-43.
2. Latent class analysis (LCA) was used to identify distinct financial resilience groups in two separate subsamples of the 2018 National Financial Capability Study. Output from the LCA is available upon request from the authors.
3. Shapiro, G. & Burchell, B. (2012). Measuring financial anxiety. *Journal of Neuroscience, Psychology, and Economics*, *5*(2), 92-103.

1735 K Street, NW
Washington, DC 20006-1506
www.finrafoundation.org

20_0328.1—01/21