Financial Distress among American Families

Evidence from the Well-Being and Basic Needs Survey

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Concern is growing among some analysts that recent economic growth in the US has not translated to economic well-being across the board.[1] Slow income growth and rising health care and housing costs challenge the economic security of low- and moderate-income families (Komisar 2013).[2] Despite the country's recent economic prosperity, many families, including many middle-income families, fear they will not have enough resources to maintain financial stability.

This study focuses on the share of Americans in financial distress in 2017, a year of relatively low unemployment. To investigate this, we look at two measures of financial distress. Our first measure, financial insecurity, assesses respondents' ability to come up with a small amount of money to buffer negative economic shocks or to pay their credit card or nonmortgage loan. Our second measure asks about respondents' use of any of three types of alternative financial services (AFS): taking payday loans, taking auto title loans, and selling items at a pawn shop. AFS offer high-interest loans intended to carry subprime and unbanked borrowers through temporary cash shortages (Temkin and Sawyer 2004).

Using data from a nationally representative survey of adults ages 18 to 64, we examine variation in these two measures of financial distress by the demographic and socioeconomic characteristics of nonelderly adults and their households. Our goal is to understand which adults are most at risk of not being able to meet their basic needs. We also investigate how much financial distress people across different income levels are experiencing. We aim to identify whether financial distress is restricted to adults in poverty or if people across the income distribution are experiencing it.

We find the following:

- Despite recent economic growth, more than 32 percent of nonelderly adults reported experiencing at least one of three types of financial insecurity in the past 12 months.

- About 14 percent of adults were contacted by a debt collector, 13 percent missed a payment on a credit card or nonmortgage loan, and 22 percent were not confident they could come up with $400 for an unexpected expense.

- About 12 percent of adults used some form of AFS in the past 12 months.
    - Of the three types of AFS use we examined, the most commonly reported form was selling items at a pawn shop (5.9 percent), followed by taking out a payday loan (5.6 percent) and taking out an auto title loan (3.7 percent).

- Although large shares of nonelderly adults with poverty-level incomes experienced financial distress (financial insecurity or use of AFS) in 2017, and we also find a substantial number of moderate-income adults reported financial distress in the prior 12 months as well.
    - Nearly 58 percent of adults with poverty-level incomes report financial insecurity, and over 22 percent used some form or AFS.
    - Among adults in families with income between 200 and 399 percent of the federal poverty level, or FPL (between $40,840 and $81,680 for a family of three), 33.5 percent reported experiencing at least one of our three types of financial insecurity in the past 12 months, and 12.1 percent used some form of AFS.

- Young adults and people of color are more likely than other adults to experience financial insecurity and use AFS.
    - More than half of non-Hispanic black adults experienced financial insecurity, and about 20 percent used AFS in the past 12 months.

Data

This brief uses data from the first round of the Well-Being and Basic Needs Survey (WBNS), a nationally representative survey of nonelderly adults (ages 18 to 64) launched by the Urban Institute in December 2017 to monitor changes in individual and family health and well-being as policymakers consider changes to federal safety net programs and the labor market continues to evolve (Karpman, Zuckerman, and Gonzalez 2018a). The 7,588 respondents in this sample were surveyed between December 2017 and January 2018. The respondents were drawn from a stratified random sample of members of Ipsos' KnowledgePanel, a probability-based Internet panel of approximately 55,000 noninstitutionalized people drawn primarily from an address-based sampling frame covering 97 percent of US households.

The WBNS oversamples low-income households to increase the precision of estimates for this population. Survey weights adjust for unequal selection probabilities and are poststratified to the characteristics of the nonelderly adult population based on benchmarks from the Current Population Survey and the American Community Survey to produce nationally representative estimates. Karpman, Zuckerman, and Gonzalez (2018a) provide detailed information about the survey.

Measures of Financial Distress

As described, we are interested in two measures of financial distress: financial insecurity and the use of AFS (table 1). Financial insecurity describes a person's inability to come up with a small amount of money to buffer negative economic shocks or to pay his or her credit card or nonmortgage loan. The ability to cover regular expenses and withstand economic shocks is an important component of financial well-being (CFPB 2017). Economically secure families are better able to weather temporary income drops independently and are less likely to rely on public services for housing support and cash assistance (McKernan et al. 2016). Further, the ability to come up with funds to cover emergency expenses is an important protective factor against material hardship, especially for low-income families with children (Karpman et al. 2018b).

The use of AFS indicates the use of products from nonbank financial institutions. AFS institutions tend to offer high-interest small loans intended to carry subprime and unbanked borrowers through temporary cash shortages. Aggressive terms such as high fees and interest rates, sometimes exceeding 400 percent, mean that using AFS can in turn exacerbate financial problems by trapping people in cycles of debt (Center for Responsible Lending 2017; Flannery and Samolyk 2005).

TABLE 1

Measures of Financial Distress

Outcome	Description
Financial insecurity	Indicates whether respondent reported for the 12 months before the survey, for themselves or their households, that they 1. were contacted by a debt collector, 2. missed a payment on a credit card or nonmortgage loan, or 3. were not confident they could come up with $400 for an unexpected expense
Use of alternative financial services	Indicates whether respondent reported for the 12 months before the survey, for themselves or their households or families, that they 1. had taken out a payday loan or used payday advanced services, 2. had taken out an auto title loan where a car title was used to borrow money for a short period of time, or 3. had sold items at a pawn shop.[a]

Note:

[a] This measure of credit-based AFS varies from ones used by either the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve in the Survey of Household Economic Decisionmaking. In both of those studies, tax refund anticipation loans are included, and rent-to-own services are included in the FDIC Survey of the Unbanked. Additionally, in both of those studies, pawn shop usage is specifically referred to as "taking out a pawn shop loan"; the WBNS asks respondents whether they had "used a pawn shop.". Using a pawn shop could include selling items without intending to take out a loan while using an item of value as collateral. Further, taking loans from a pawn shop is typically the most popular form of credit-based AFS. Given the differences in definition of credit-based AFS and in wording around using pawn shops, we do not expect credit-based AFS use in the WBNS to be directly comparable to credit-based AFS use in other major surveys, such as the FDIC Survey of the Unbanked and the Federal Reserve's Survey of Household Economic Decisionmaking report.

Results

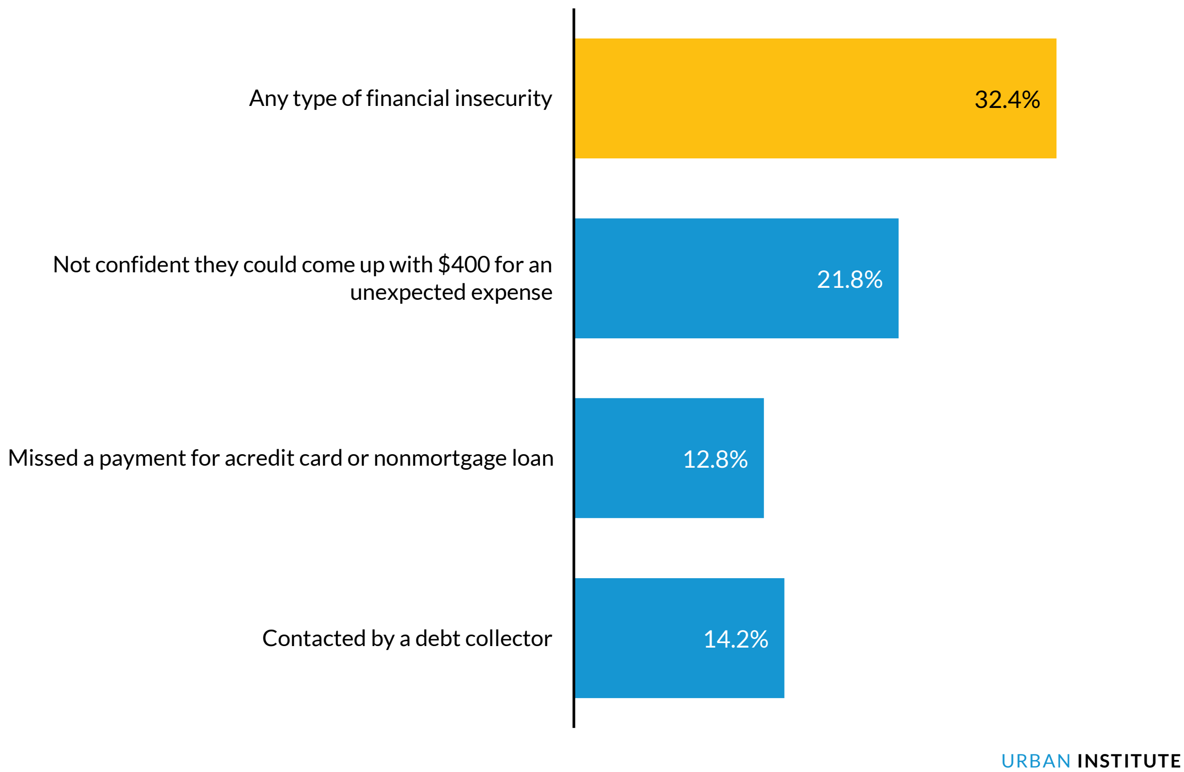
Financial Insecurity

Despite the low unemployment rate in the period, 32.4 percent of adults in December 2017 reported some form of financial insecurity over the past year (figure 1). The most commonly reported form of financial insecurity was an inability to come up with $400 for an unexpected expense: 21.8 percent reported they were not confident they could do so.[3] Further, 14.2 percent of adults reported being contacted by a debt collector, and about 12.8 percent reported missing a payment on a credit card or nonmortgage loan. Consistent with past work (Braga et al. 2016), a significant share of adults in the US are unable to pay their debt.

FIGURE 1

Thirty-Two Percent of Adults Reported Financial Insecurity in the Past 12 months

Share of nonelderly adults who experience financial insecurity in the past 12 months



Source: Well-Being and Basic Needs Survey, December 2017.
Note: Adults ages 18 to 64.

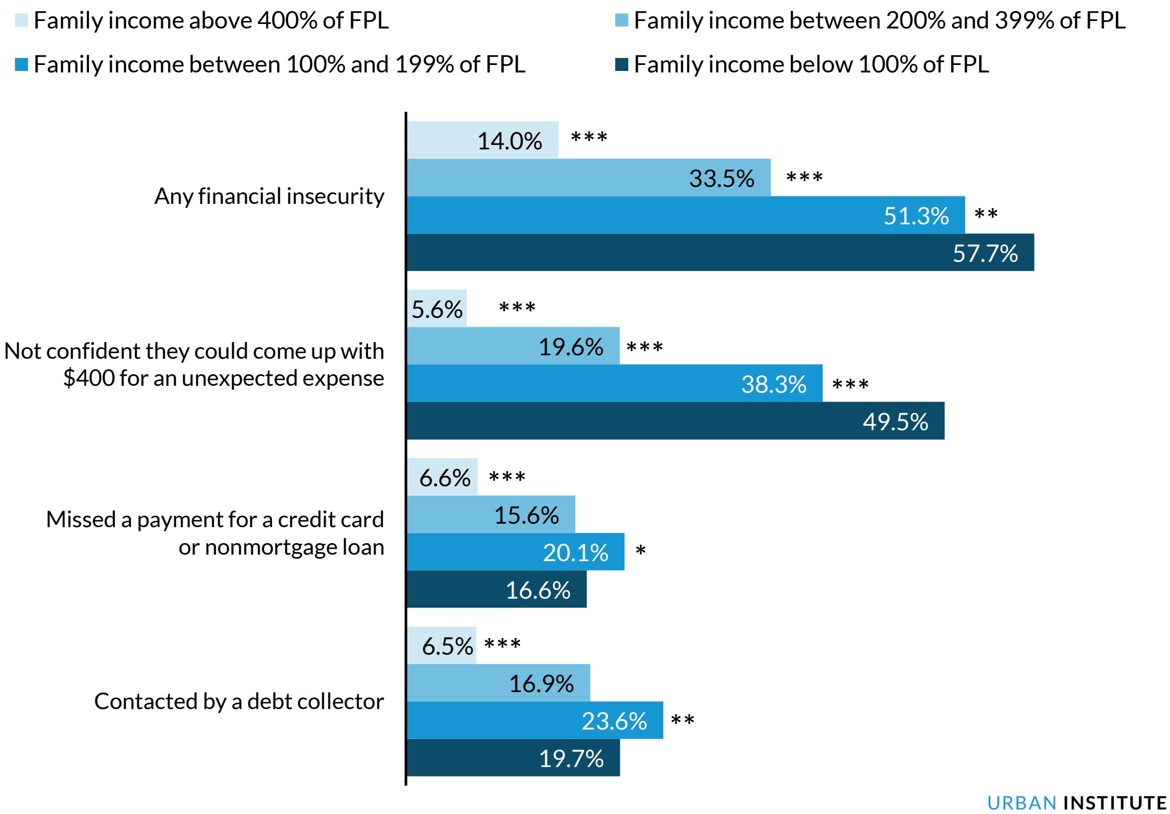
As expected, adults in poverty (i.e., with annual family incomes below 100 percent of FPL) were more likely than higher-income adults to experience financial insecurity (figure 2). However, even among low- to moderate-income adults, the level of financial insecurity is high. For adults in families with income between 200 and 399 percent of FPL, 19.6 percent were not confident they would be able

to come up with $400 for an unexpected expense, 15.6 percent missed a payment on a credit card or nonmortgage loan, and 16.9 percent were contacted by a debt collector. These shares are not significantly lower than those for adults in poverty, and those near poverty (i.e., with incomes between 100 and 199 percent of FPL) had the highest rates of being contacted by a debt collection agency and missing a payment on a nonmortgage loan. This may be in part because many families in poverty have limited access to standard credit products, such as credit cards.

FIGURE 2

Financial Insecurity Is Not Restricted to Adults in Poverty

Share of nonelderly adults who experienced financial insecurity in the past 12 months, by family income



Source: Well-Being and Basic Needs Survey, December 2017.

Notes: Adults ages 18 to 64; FPL = the federal poverty level.

*/**/*** Estimate differs significantly from estimate for adults with incomes below 100 percent of FPL at the 0.10/0.05/0.01 levels, using two-tailed tests.

Financial insecurity is more common among women than men (35.5 percent versus 29.5 percent; table 2). Further, young adults (ages 18 to 34) are more likely to experience financial insecurity than adults ages 50 to 64. Non-Hispanic black and Hispanic nonelderly adults are the racial groups most likely to be financially insecure, with more than half of black nonelderly adults reporting some form of financial insecurity in the past 12 months. These results are consistent with research that shows that women and people of color earn lower average wages and have less wealth than men and white people

(BLS 2017; Daly, Hobijn, and Pedtke 2017).[4] Racial and ethnic differences in wealth and access to wealth-building opportunities are exacerbated by structural barriers, such as lower homeownership rates, slower home appreciation for those who own homes, and lower rates of receiving an inheritance.

TABLE 2

Young, Unmarried, Women, and People of Color Are More Financially Insecure

Share of nonelderly adults who experienced financial insecurity in the past 12 months

Characteristic	Share reporting financial insecurity	
Gender		
Male^	29.2%	
Female	35.5%	***
Age		
Age 18–34^	35.6%	
Age 35–49	34.4%	
Age 50–64	27.1%	***
Race or ethnicity		
Non-Hispanic white^	27.1%	
Non-Hispanic black	52.4%	***
Hispanic	40.4%	***
Non-Hispanic, other race	24.2%	
Education		
Less than high school^	51.0%	
High school or some college	37.8%	***
College education or higher	16.8%	***
Marital status		
Married^	24.2%	
Living with a partner	41.7%	***
Single	41.0%	***
Children in the family		
Any child under age 19 in family^	34.7%	
No child under age 19 in family	31.1%	***
Housing tenure		
Owns home^	24.5%	
Rents home or occupies home without payment of rent	46.4%	***
Metropolitan statistical area status		
Lives in metropolitan statistical area^	31.8%	
Does not live in metropolitan statistical area	36.5%	**

Source: Well-Being and Basic Needs Survey, December 2017.

Notes: Adults ages 18 to 64.

*/**/*** Estimate differs significantly from estimate for reference group (^) at the 0.10/0.05/0.01 levels, using two-tailed tests

Table 2 also shows higher rates of financial insecurity among those who are unmarried and with children under age 19 in the household. Unsurprisingly, nonelderly adults with lower levels of educational attainment are less financially stable: over half of adults without a high school diploma report some insecurity. Finally, renters are almost twice as likely to experience financial insecurity as homeowners, highlighting increased vulnerability for those without the potential asset of home equity

(Braga and Lerman 2019; Scally and Gonzalez 2018). Moreover, even strong employment gains in recent years were not enough to bring these groups to a comparably strong financial footing.

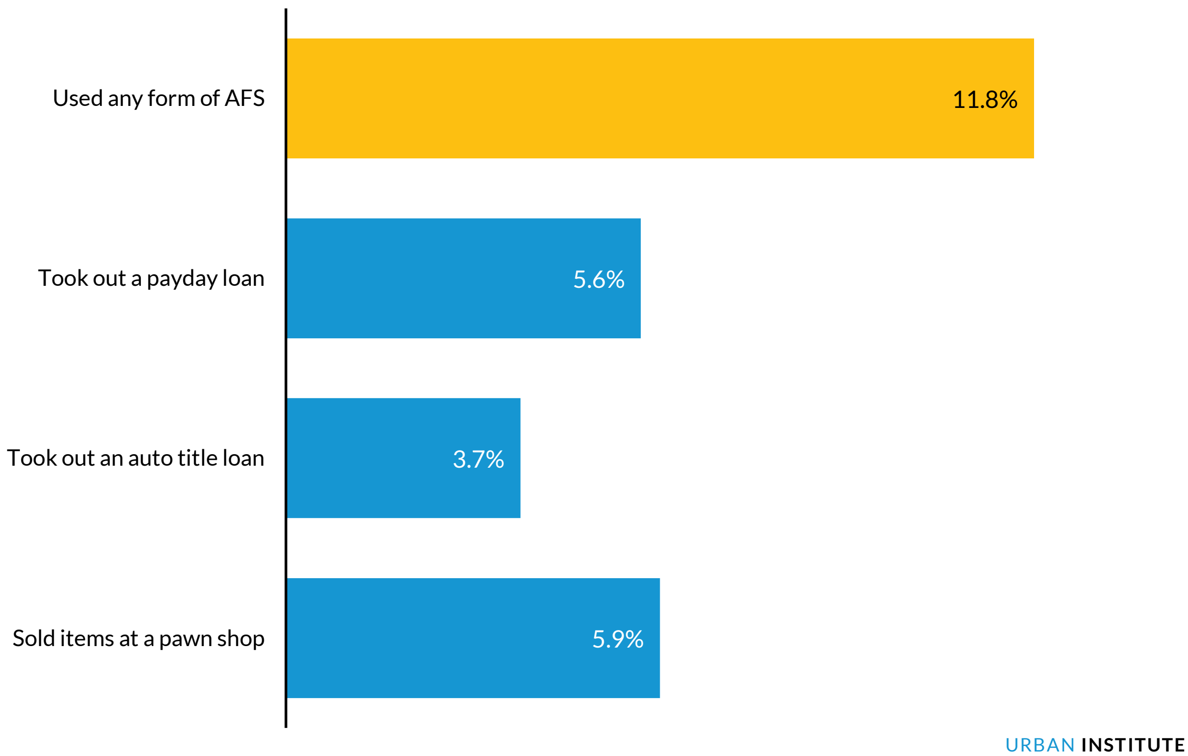
Alternative Financial Services Usage

Many Americans rely on AFS: about 12 percent of nonelderly adults used at least one type of AFS examined in this study in the past 12 months. The most frequently reported use of AFS was selling items at a pawn shop (5.9 percent), followed by taking out a payday loan (5.6 percent) and taking out an auto title loan (3.7 percent). This suggests these respondents have severe financial constraints—parting with valuables can be a last resort for adults and families who have few other options when faced with pressing financial or material hardships, such as paying a past-due bill or making an urgent car repair (Mills and Monson 2013; Temkin and Sawyer 2004).

FIGURE 3

Twelve Percent of Adults Used Some Form of AFS in the Past 12 months

Share of AFS use in the past 12 months



Source: Well-Being and Basic Needs Survey, December 2017.
Note: Adults ages 18 to 64.

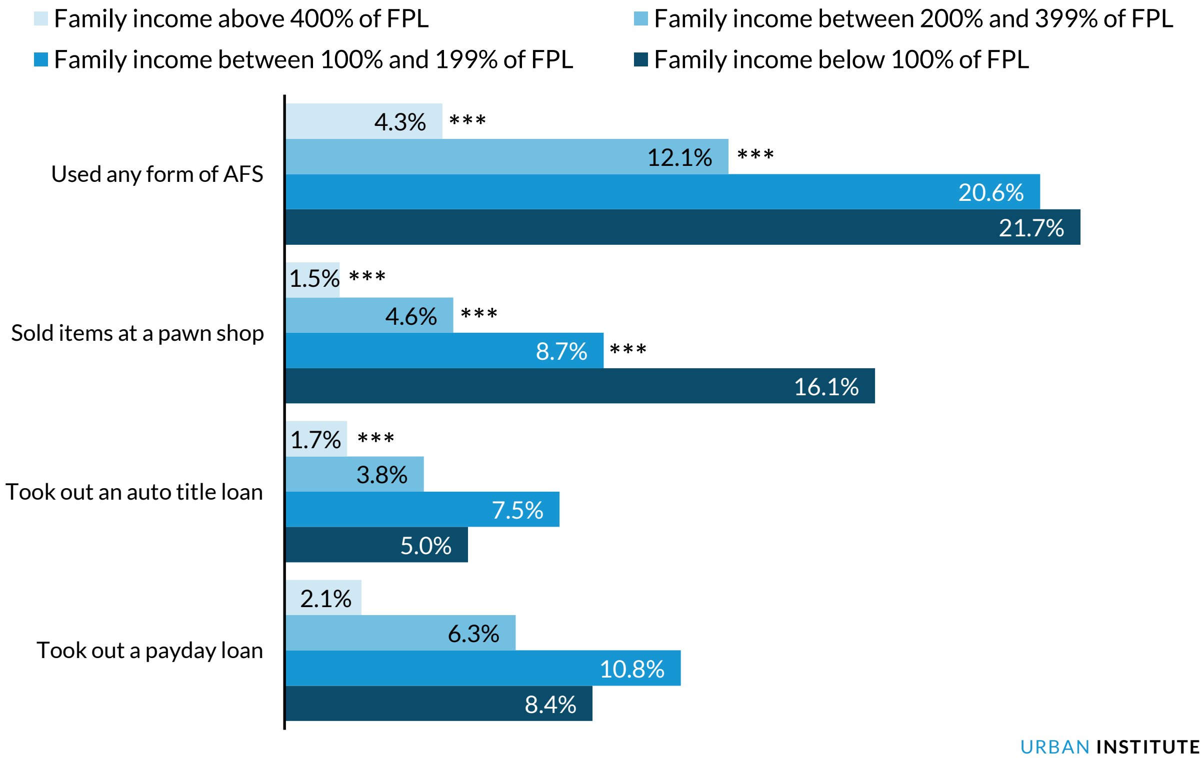
AFS usage is also not restricted to adults with incomes below 100 percent of FPL (figure 4). About 12 percent of adults with low to moderate incomes (200 to 399 percent of FPL) used some form of AFS in the past 12 months. Among this group, the most common AFS product was taking out a payday loan (6.3 percent) followed by selling items at a pawn shop (4.6 percent) and taking out an auto title loan (3.8

percent).[5] These findings suggest that the problems leading households to access expensive, small-dollar loans and credit are not limited to adults in poverty. Many Americans not in poverty, earning incomes up to 399 percent of FPL, are at risk of being trapped in cycles of debt.

FIGURE 4

Over 12 Percent of Low to Moderate Income Adults used AFS in the Past 12 Months

Use of alternative financial services in the past 12 months, by income



Source: Well-Being and Basic Needs Survey, December 2017.
Notes: Adults ages 18 to 64; FPL = the federal poverty level.
*/**/*** Estimate differs significantly from estimate for adults with incomes below 100 percent of FPL at the 0.10/0.05/0.01 levels, using two-tailed tests.

Adults under age 35 are more likely to use AFS than adults ages 50 to 64 (table 3). Non-Hispanic black adults have the highest percentage of AFS use: nearly one-fifth report use one of these nonbank services. AFS usage is higher among people with less than a high school education and renters. In terms of family characteristics, adults using these services are less likely to be married and more likely to have children. Overall, these numbers provide a demographic profile of adults who are most likely to be economically vulnerable. This vulnerability may be related to lower earning potential given their education, the costs of raising children, and the absence of spousal support.

TABLE 3

Young, Unmarried, and People of Color Report Higher Use of AFS

Share of adults reporting any use of alternative financial services

Characteristic	Share reporting AFS use	
Gender		
Male^	11.1%	
Female	12.5%	
Age		
Age 18–34^	14.6%	
Age 35–49	12.3%	*
Age 50–64	8.3%	***
Race or ethnicity		
Non-Hispanic white^	8.8%	
Non-Hispanic black	19.9%	**
Hispanic	16.2%	***
Non-Hispanic, other race	12.5%	
Education		
Less than high school^	21.2%	
High school or some college	13.6%	***
College education or higher	5.8%	***
Marital status		
Married^	9.3%	
Living with a partner	15.0%	***
Single	14.4%	***
Children in the family		
Any child under age 19 in family^	13.7%	
No child under age 19 in family	10.8%	***
Housing tenure		
Owns home^	8.4%	
Rents home or occupies home without payment of rent	17.9%	***
Metropolitan statistical area status		
Lives in metropolitan statistical area^	11.9%	
Does not live in metropolitan statistical area	11.2%	

Source: Well-Being and Basic Needs Survey, December2017.

Notes: Adults ages 18 to 64.

*/**/*** Estimate differs significantly from estimate for reference group (^) at the 0.10/0.05/0.01 levels, using two-tailed tests

Discussion

The economy continued to recover in 2017, with unemployment rates falling and average real wages rising. Despite the economic progress, this brief reveals that many Americans are facing financial distress and struggle to keep up with their bills and cover unexpected expenses. This finding is consistent with past work that suggests a significant share of Americans experienced material hardship in 2017 (Karpman, Zuckerman, and Gonzalez 2018b). The results are striking because Americans typically think of an improving economy and improving economic security as related.

Although it's expected that these challenges are particularly acute for families in poverty, many households with low to moderate incomes experience financial distress. Nearly 20 percent of adults with family income between 200 and 399 percent of FPL (or $40,840 and $81,680 for a family of three) are not confident they could come up with $400 for an unexpected expense, and nearly 34 percent experience some form of financial insecurity.

Our findings also demonstrate how financial distress is experienced unevenly across gender, race and ethnicity, and marital status. Women, black and Hispanic adults, and unmarried people (those who are single and those living with a partner) experience significantly more financially insecurity than men, white adults, and married adults. Black and Hispanic adults and those who are unmarried also rely more on AFS. Even a relatively strong economy may not be enough to close financial gaps to produce comparable rates of financial stability for disadvantaged groups.

Certain policies show promise for reducing financial distress by both supporting savings and raising incomes. Financial coaching shows targeted success for increasing savings and helping people catch up on past-due bills and pay down debt, but it has mixed success for reducing reliance on AFS (Theodos et al. 2015). Employers could also do more to incentivize and encourage saving, and some employers have begun experimenting with small-dollar loans to support employees with financial challenges.[6]

Raising incomes could also lead to more financial security. Although our brief shows that even low- to moderate-income adults experience financial distress, the degree of distress decreases with movement up the income ladder. Expanding the earned income tax credit is one option. Currently, the upper income limit for a single-earner household with two children is $45,800. Expanding the earned income tax credit for families with two earners and raising the limit could increase families' ability to withstand financial challenges (Hoynes 2014). Finally, the strength of the economy in recent years has led to record lows in the unemployment rate for people of color and increased employment for working-age women. These advances should be strengthened with policies that continue to advance employment and earnings for women and people of color, such as universal pre-K, expanded family leave, equal opportunity employment protections, and minimum wage increases.

Notes

[1] Eleanor Krause and Isabel V. Sawhill, "Seven Reasons to Worry about the American Middle Class," *Social Mobility Memos* (blog), Brookings Institution, June 5, 2018, https://www.brookings.edu/blog/social-mobility-memos/2018/06/05/seven-reasons-to-worry-about-the-american-middle-class/.

[2] Jenny Schuetz, "Yet More Evidence That Housing Affordability Is Getting Worse," *The Avenue* (blog), Brookings Institution, October 31, 2017, https://www.brookings.edu/blog/the-avenue/2017/10/31/yet-more-evidence-that-housing-affordability-is-getting-worse/.

[3] Using a slightly different question, the Board of Governors of the Federal Reserve System (2018) reports that 4 in 10 adults would borrow money, sell something, or be unable to pay if faced with a $400 emergency expense.

[4] See also Signe-Mary McKernan, Caroline Ratcliffe, C. Eugene Steuerle, Caleb Quakenbush, and Emma Kalish, "Nine Charts about Wealth Inequality in America (Updated)," Urban Institute, updated October 2017.

[5] These findings follow similar ones from previous research that also show lower but non-negligible rates of AFS use among middle class families compared with families in or near poverty (FDIC 2013; Mills and Monson 2013).

[6] Ben Horowitz, "How Small-Dollar Loan Programs Can Be a Big Benefit for Employees (and Their Employers)," *Community Dividend* (blog), June 19, 2018, https://www.minneapolisfed.org/publications/community-dividend/how-small-dollar-loan-programs-can-be-a-big-benefit-for-employees-and-their-employers.

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