Standing on Shaky Ground

AMERICANS’ EXPERIENCES WITH ECONOMIC INSECURITY

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The Economic Security Index (ESI), developed by political scientist Jacob Hacker and a multi-disciplinary research team with support from the Rockefeller Foundation, is designed to provide a meaningful, succinct measure of Americans’ economic security. Professor Hacker is based at the Institution for Social and Policy Studies at Yale University, which aims to facilitate interdisciplinary inquiry in the social sciences and research into important public policy arenas.

The ESI is part of the “Campaign for American Workers” initiative of the Rockefeller Foundation. The initiative strives to improve economic security among American workers and their families, in part by improving knowledge and understanding among policymakers and thought leaders of the dimensions of American economic security.

The ESI research team has been guided by a technical committee retained by the Rockefeller Foundation to provide oversight and to reinforce the intellectual and analytical integrity of the resulting work. Chaired by Brookings Institution economist Henry Aaron, the technical committee is comprised of seven leading experts on economic security:

- Henry Aaron (BROOKINGS INSTITUTION)
- Gary Burtless (BROOKINGS INSTITUTION)
- Henry Farber (PRINCETON UNIVERSITY)
- Robert Greenstein (PRESIDENT, CENTER ON BUDGET AND POLICY PRIORITIES)
- Larry Mishel (DIRECTOR, ECONOMIC POLICY INSTITUTE)
- Alicia Munnell (DIRECTOR, BOSTON COLLEGE CENTER ON RETIREMENT RESEARCH)
- Robert Solow (NOBEL PRIZE IN ECONOMICS, 1987)
Executive Summary

This report draws on two new surveys fielded in the spring and fall of 2009 that paint a comprehensive and sobering portrait of Americans’ experience with economic insecurity and their capacity to cope with economic instability.

Collectively termed the Survey of Economic Risk Perceptions and Insecurity (SERPI), these surveys focus on four domains of economic life: employment, health care, family, and wealth. In each, they identify how often households experience various economic disruptions, how frequently those disruptions coincide across the four domains and persist over time, and what imprint those disruptions leave on Americans’ expectations, concerns, and ability to meet basic economic needs. Because parts of the survey were modeled after a separate 2007 poll, the SERPI also shows how Americans’ outlooks changed in response to the recent economic downturn.

These repeated snapshots convey a powerful picture of Americans standing on shaky ground, rocked by economic tremors whose consequences include not just worry and anxiety but severe economic hardship. Economic shocks were strikingly widespread in 2009.

- In the 18 months from March 2008 to September 2009, fully 93 percent of households experienced at least one substantial decline in their wealth or earnings or substantial increase in nondiscretionary spending, most often for medical needs or assistance to family members.

- Nearly seven in ten households saw their earnings unexpectedly fall or their nondiscretionary expenses unexpectedly rise.

- During this 18-month period, 23 percent of households reported a drop of at least a quarter of their annual household income. This confirms the findings of the Economic Security Index (ESI), an integrated measure of economic security based on publicly available statistics. Projections based on the ESI show that the share of Americans experiencing large income losses was higher in 2009 than at any point in the last quarter century.

Though intensified by the downturn, Americans’ economic insecurity has been growing for years, and it appears to have little diminished since 2009.

- While public concerns about job security rose dramatically as the economy weakened, worries about other risks to economic security—debt, retirement savings, medical costs, health insurance, and even housing stability—were already as common in 2007 as they were in the depths of the recession.

- According to separate opinion surveys, concerns about retirement savings and medical costs did not diminish at all between the summers of 2009 and 2010, and concerns about the job market declined only slightly.
Economic instability leads not just to uncertainty but to severe anxiety and serious economic hardship. This hardship is experienced not just by those at the bottom of the economic ladder but also by those squarely in the middle class.

- By the spring of 2009, 78 percent of Americans were quite worried about at least one risk to their overall economic security.
- Households experiencing major economic dislocations are, on average, three to four times more likely than otherwise comparable households to report being unable to meet multiple basic needs, such as food, shelter, and medical care.
- More than half of families with incomes between $60,000 and $100,000 that experience employment or medical disruptions report being unable to meet at least one basic economic need.
- Households with dependent children appear to be more at risk of experiencing problems in the face of economic instability than do households without children.

Looking forward, Americans appear extremely vulnerable to future economic shocks, in part because of the wearing down of their basic economic “buffers” against economic risks, such as personal wealth and the potential to borrow from family and friends.

- By the fall of 2009, roughly three in ten Americans appeared highly vulnerable to additional shocks; perhaps as many as half appeared at least partially vulnerable, in the sense that their buffers against economic instability were limited.
- Buffers against economic instability are eroded by persisting and clustered economic shocks, depleting the security of even previously prepared economic households.
- While economic shocks are broad-based, the private buffers that households have against economic risks are much weaker for less affluent and less educated households than for higher-income and well-educated households:

Instability is so disruptive because economic shocks frequently persist over time, come clustered together, and occur at roughly the same time in multiple domains (employment, health care, family, and wealth).

- About half of all the economic shocks experienced in 2008 reoccurred in the same households in 2009; these “persisting” shocks are associated with higher levels of unmet need.
- In a given domain, households often experienced repeated shocks in close succession. For example, more than a third of households that experienced a shock in employment or medical expenses experienced multiple shocks in the same area.
- Of those Americans who reported persisting disruptions of employment, three-quarters also experienced persisting shocks in at least one of the other three domains of economic life.
Standing on Shaky Ground

AMERICANS’ EXPERIENCES WITH ECONOMIC INSECURITY

Three years after the onset of the recession, public concerns about the economy remain high.

Yet strikingly little is known about how Americans perceive their economic security, how those perceptions relate to their economic experiences, or how experienced instability affects households, well-being.

This report fills this gap. It draws on two new surveys fielded in the spring and fall of 2009, collectively termed the Survey of Economic Risk Perceptions and Insecurity (SERPI). The SERPI focuses on four major domains of Americans’ economic lives: (1) employment; (2) wealth (housing, retirement savings, and other asset holdings); (3) health care; and (4) families.

In each area, the SERPI examines not just the economic “shocks” that Americans experienced—whether loss of resources or increases in nondiscretionary spending, such as medical costs—but also the effects of those shocks on Americans’ lives, expectations, and concerns for the future. Because parts of the survey were modeled after a poll on economic security conducted just before the downturn, the SERPI also shows how Americans’ outlooks changed in response to the recession.

As suggested by the title of this report, many Americans are—and see themselves to be—standing on shaky ground. The recent economic downturn represented an especially powerful quake, emanating from two distinctive epicenters: declining employment and disrupted financial markets. Yet Americans faced jarring economic shocks even before the downturn, and continue to do so today. The SERPI and related evidence suggest that economic insecurity has become the rule, not the exception, for many Americans—even in good times.

Economic shocks, like an earthquake, do not consist of a single tremor. Households experiencing an economic shock are also more likely to experience that same shock again in the near future, to face other shocks in the same domain, and to be hit simultaneously by shocks in other domains. This persistence and clustering means that even the most prudent households can lose their financial footing. Although poor households are most vulnerable because they often lack the financial resources to buffer initial economic disruptions, the security and well-being of even more affluent households are at risk.

The damage is often severe. Households experiencing major economic dislocations are, on average, three to four times more likely than otherwise comparable households to report being unable to meet multiple basic needs, such as food, shelter, and medical care. Strikingly, these effects are not limited
to those at the bottom end of the income distribution: more than half of families with incomes between $60,000 and $100,000 that experience persisting medical or employment shocks report being unable to meet at least one basic economic need.

This pattern of repeated shocks underscores how crucial basic safeguards against economic insecurity are. Yet the SERPI suggests that Americans are not adequately protected against future economic instability. By the fall of 2009, between a third and a half of all Americans appeared vulnerable to future instability, in that they lacked substantial financial reserves, could not pay off their current debt, and/or believed they could not borrow more than $5,000 from family and friends. This is in part the result of past instability: households facing repeated economic shocks are about twice as likely to report having inadequate buffers to deal with future economic uncertainties.

The remainder of this report lays out the basis for these conclusions, starting with a description of the survey. The first part of the report examines the main dimensions of American economic security: how often families experience shocks; how they perceive the economic risks they face, including whether and when they feel anxiety about them; and how these shocks affect their economic well-being. The second part of the report considers how these experiences and perceptions differ across major socio-demographic groups in American society. The concluding section takes stock of these findings and considers their implications.

The Survey of Economic Risk Perceptions and Insecurity

Long before the onset of the recent downturn, Americans worried about the stability of their finances. Yet surveys assessing Americans’ perceptions of economic security were both rare and limited in scope. Although researchers documented varied forms of increasing economic risk, efforts to assess public views and experiences were quite narrow and focused almost entirely on risks related to job loss.¹ Recent surveys have filled in some of the gaps, but they too have generally asked questions about only one or two domains of risk.² More important, these assessments of public attitudes have looked almost exclusively at Americans’ expressed worries, with little attention to their actual experiences or to their capacity to buffer economic shocks.³

The SERPI in Brief

The Survey of Economic Risk Perceptions and Insecurity was designed to fill this void. Fielded twice in 2009, it measured a wide range of events and perceptions that could leave families feeling insecure, focusing on four broad domains: employment, medical care, wealth, and familial arrangements.⁴ The survey gauged Americans’ worries using a consistent set of questions that allows for comparison and ranking within and across these areas, as well as over time. The survey also included an extensive set of questions about people’s
The SERPI was designed to complement the Economic Security Index (ESI), an integrated measure of economic security based on publicly available statistics. The ESI represents the share of Americans who experience a 25 percent or greater year-to-year decline in their available household resources—their income minus their medical costs and debt service—and who lack an adequate financial safety net to cushion the fall. According to the ESI, economic insecurity has worsened since the mid-1980s, with a projected one-in-five Americans experiencing 25 percent or greater losses in 2009. Yet the ESI provides limited information about the dimensions and causes of these large losses, or how Americans subjectively perceive these objective economic events—all of which the SERPI uniquely illuminates. For more on the ESI, visit economicsecurityindex.org.

encounters with unstable economic circumstances in both the recent and the more distant past. Another cluster of questions measured the capacity of households to safeguard themselves against economic risks or to buffer the financial shocks that they experience. Yet another set of questions assessed both the psychological consequences of insecurity and its relationship to households’ ability to meet basic needs involving food, housing, and essential medical care.

The SERPI was incorporated as an independent part of the 2008–2009 Panel Survey of the American National Election Studies, a survey funded by the National Science Foundation for the past half century. Panel surveys interview the same individuals repeatedly over time. With the financial support of the Rockefeller Foundation, the SERPI was fielded as the sole questionnaire for the panels in March (Wave 15) and September (Wave 21) of 2009. The panel was constructed to provide a representative sample of the American population aged 18 and older as of November 4, 2008. Data collected on economic experiences, perceptions, and expectations during these two waves were merged with socio-demographic and other personal characteristics collected from respondents in other waves of the survey.

**Ensuring Comparable, Accurate Measures of Perceptions**

To allow comparison of pre- and post-recession responses, parts of the SERPI were modeled after a poll sponsored by the Rockefeller Foundation in the spring of 2007. The core of this 2007 survey was a question about “your family’s economic security” defined in general terms. The survey also asked about concerns related to more specific economic risks, including losing one’s job, facing large out-of-pocket medical spending, and lacking adequate income to pay for a comfortable and secure retirement. All told, the survey asked about fifteen distinct economic risks. In each case, respondents were asked if they were “very,” “fairly,” “somewhat,” or “not at all” worried about each risk.

To assess the frequency with which worries coincided with bad experiences, a matched set of questions was asked about respondents’ experiences with economic instability (referred to below as “experiencing an economic shock”). For example, worries about employment were matched with questions regarding whether any adults in the household had lost their job. Respondents in the March 2009 SERPI were asked about whether they had experienced the event
Americans’ Experience of Economic Insecurity

Almost every American’s economic security was disrupted in the 18 months between March 2008 and September 2009. These disruptions are evident in the frequency, character, and consequences of the economic shocks experienced by American households.

**Economic Instability Touches Almost Every American**

The SERPI included measures of eleven distinct shocks related to household earnings or nondiscretionary spending (see text box). During the 18 months preceding the fall of 2009, over 90 percent of respondents reported experiencing at least one shock in the domain of employment (two measures), wealth (three measures), health (three measures), or the family (three measures). While it is not surprising that the simultaneous downturn in the housing and stock markets destabilized wealth for many Americans who might otherwise have felt secure, almost seven in ten (68 percent) of all Americans experienced a shock related to domains other than wealth, either an unexpected loss of earnings or an increase in nondiscretionary spending.

These shocks were often quite substantial. During these 18 months, almost a quarter of all households reported a decline in earnings totaling 25 percent or more of annual income. This confirms the findings of the Economic Security

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**Economic Shocks Measured by the SERPI**

- **Employment**
  - unemployed not by personal choice (respondent or immediate family member)
  - lost more than a month of work due to serious illness or injury

- **Health Care**
  - lost health insurance
  - major out-of-pocket medical expenses as the result of serious illness or injury (respondent or immediate family member)
  - paid a lot more for health insurance than expected

- **Wealth**
  - retirement benefits at work cut substantially
  - value of investments or retirement funds decline substantially
  - value of house declined substantially

- **Family**
  - divorce or separated from spouse
  - spent a substantial sum helping out extended family
  - spouse/partner passed away
index, an integrated measure of economic security based on publicly available statistics that suggests that the share of Americans experiencing large income losses was higher in 2009 than at any point in the last quarter century. (For more information, see the prior report in this series, “Economic Security at Risk: Findings from the Economic Security Index,” July 2010.)

As Figure 1 shows, the most common form of economic disruption involved losses of household wealth, which were experienced by more than three-quarters of all households. Shocks related to medical costs were the second most common, experienced by about half of all households. A third of all households reported some disruption of employment; shocks caused by family needs were about as frequent.

**Economic Shocks often Persist over Time**

Economic shocks may be isolated—a one-time or infrequent event in a family’s life. However, once experienced, a shock may reoccur persistently over time or coincide with other economic shocks. Because the SERPI assessed experiences at two points in time, it is possible to determine the proportion of those who experienced a shock in the year prior to March 2009 who also reported that same shock in the subsequent six months.

As it turns out, such “persisting” shocks are close to the norm among those experiencing an economic shock: About half of all respondents who experienced
a shock in the first year reported that it reoccurred in the next six months. Persisting shocks are most common in the wealth domain and least common in the family domain. As documented below, persisting shocks are more likely to produce negative effects for the households that experience them.

Multiple Shocks Are Common

Many households experience multiple shocks in the same domain. As Figure 2 shows, these are most common for declines in wealth: More than half of all Americans who experienced at least one wealth shock (such as a decline in stock value) reported other wealth shocks (such as declines in housing value and reduced retirement benefits) over the same time period. A multiplicity of shocks is least common for family disruption (only 10 percent who experienced a family shock reported multiple shocks). Employment and medical domains fall in between these extremes.

The most frequent form of clustering, however, occurs across risk domains rather than within them. Figure 3 indicates that households experiencing economic instability in one domain more often than not also experience shocks in other domains at the same time. For instance, almost three in four Americans who experienced a persisting shock to employment between the beginning of
2008 and the fall of 2009 also reported a persisting shock in one of the other domains (wealth, health, and family), and often in several of them at once. About a third of those with persisting employment shocks experienced a persisting shock in just one of the other three domains. But almost half (44 percent) experienced persisting shocks in three or more domains over these 18 months.

As these figures reveal, Americans’ lives are not simply disrupted by the occasional unfortunate happenstance. Many experience a series of economic shocks, the combined impact of which is much larger than any of the individual shocks. When economic shocks both cluster and persist, the lives of even the most prudent and careful households can be deeply disrupted and those households’ expectations for the future can be profoundly unsettled.

**Widespread Worries about Economic Insecurity**

The deep economic downturn of 2009 gave rise to widespread concerns among Americans. Prior to the onset of the recession, about half of the American public worried somewhat about their economic security considered in the most general terms, with a quarter “very” or “fairly” worried. By the spring of 2009, more than half (53 percent) of all Americans were very or fairly worried, with only about one in ten “not at all” concerned. By the fall, concerns had slightly abated as the public grew more sanguine about the stock market and the viability of their plans for retirement.
Just as the recession amplified general concerns about economic security, it also intensified worries about job loss. Employment concerns rose dramatically as the unemployment rate rose from 4.5 percent in the spring of 2007 to 9.3 percent in the spring of 2009.

Yet worries about a host of other risks to economic security—debt, retirement savings, medical costs, health insurance, and even housing stability—increased more modestly between 2007 and 2009. More than 40 percent of Americans, for example, were already very or fairly worried about “having enough money to retire on” prior to the onset of the recession. The share very or fairly worried about medical costs and health insurance also remained relatively stable (and, in the case of health insurance, the share very worried actually dropped between 2007 and 2009). In these areas, concerns were already notably high before the downturn.

**What Sources of Economic Instability Cause the Most Worry?**

The SERPI provides a more comprehensive portrait of economic concerns in 2009. Looking across the 15 different sources of potential worry, more than three-quarters of all Americans reported that they were very or fairly worried about at least one of these economic risks. Worries about wealth were the most frequent cause of economic unease, though concerns about medical costs were a close second.

Perhaps the most surprising finding is the prevalence of worries related to the family. While employment concerns have received considerable attention, insecurity related to the family realm is largely absent from the agenda of the media and public officials. Yet Americans worry about family-induced insecurities roughly as much as they worry about insecurities due to
employment: In the midst of a dramatic economic downturn about 39 percent of Americans reported being very or fairly worried about losing their job (or, if out of work, finding employment)—almost exactly the same proportion who reported being very or fairly worried about losing their spouse/partner.

In light of the recent debate over health care reform, it is not surprising that Americans were deeply worried about unstable insurance enrollment, rising premiums, and gaps in coverage. Yet during that debate, there was remarkably little public discussion of the financial effects of time away from work due to illness. Thus it is striking that about a third of the public was very or fairly worried about losing several months of earnings due to an extended illness. Worries about forgone income due to illness are just slightly less common than concerns about losing one’s job and just as prevalent as concerns about losing one’s health insurance.9

Are Americans’ Worries Reasonable?

Comparing the prevalence of worries and the frequency of shocks, Americans appear to accurately assess the likelihood of some common risks. In the domain of employment, for example, the frequency of shocks and the proportion of the public worried about these events match relatively closely. However, this close match does not hold for all shocks. About as many Americans worry about losing their partner or spouse as about substantial out-of-pocket medical expenses, and many more do so than are worried about needing to assist family members in financial need. Yet divorce or death of a spouse or partner is actually far less common than either of these latter sources of nondiscretionary spending. Similarly, worries about losing insurance coverage are almost as common as are worries about high out-of-pocket medical spending. Yet losses of insurance coverage actually occur only about half as often as do high out-of-pocket medical costs.

These divergences may reflect the public’s misperception of certain risks. People tend to inflate the chance of unpredictable events that induce great fear or anxiety.10 Yet the heightened worry associated with certain risks may also reflect the expected severity of the resulting economic losses. An intuitive

Worries about forgone income due to illness are just slightly less common than concerns about losing one’s job and just as prevalent as concerns about losing one’s health insurance.
measure of expected severity is the estimated length of time it takes for a household’s financial circumstances to return to the level enjoyed before the event occurred. When asked to estimate how long recovery would typically take, Americans predicted that family disruptions (death of spouse or divorce) would have the longest-lasting consequences, with nearly eight in ten (78 percent) saying it would take more than six months to recover economically. The consequences of illness (either out-of-pocket spending or time lost from work) came close in terms of their anticipated duration. Unemployment and investment losses, by contrast, were seen as having the most transitory effects.  

**Substantial Anxiety about Economic Insecurity**

While the previous measures concern people’s worries about economic insecurity, worries may not affect the quality of individuals’ lives substantially. Thinking about negative events is rarely pleasant, but worries are not always associated with intense negative feelings. Extreme anxiety, by contrast, can induce physiological stress responses. If anxiety is chronic, these stressors can lead to declines in both physical and mental health.  

According to the spring and fall 2009 waves of the SERPI, roughly 17 to 19 percent of the public reported themselves to be very or extremely anxious on each wave of the survey when thinking about economic insecurity. A total of 28 percent of all Americans were either very or extremely anxious about their economic prospects on at least one of the two surveys; 9 percent had persisting high anxiety across both surveys. Not surprisingly, those who were most worried about specific forms of economic uncertainty proved to be most anxious as well: Of those who reported themselves to be very worried about unstable employment, medical costs, fluctuating wealth, or family-related shocks, roughly 40 percent were very or extremely anxious about economic insecurity. By contrast, among those who reported no intense worries about these specific economic risks, less than 2 percent felt intense anxiety about economic insecurity.  

A similar pattern is evident for those who experienced shocks, as is evident in Figure 6. Among the households that had been free of any of the eleven shocks measured in the SERPI, only about 5 percent reported themselves to be very or extremely anxious. Among households that had experienced one or more shocks, the frequency of this intense anxiety jumped to between 15 and 25 percent depending on the domain of risk. And for all four domains, when households experienced shocks that persisted across the two time periods in the survey, they reported even more extreme anxiety. After experiencing persisting shocks unrelated to wealth, about a third of all Americans reported themselves to be very or extremely anxious about economic uncertainty.
The Impact of Insecurity on Economic Well-Being

The frequency of anxiety, and the degree to which it occurs in tandem with economic shocks, strongly suggests that Americans fear the potentially serious economic dislocations these shocks create. The SERPI allows us to examine this implication more directly. A series of questions prompted respondents to indicate if they or members of their household had unmet needs for food, housing stability, or medical care—for example if they had gone hungry, lost their home, or failed to see a doctor (see the Technical Appendix for the specific questions asked). Because these unmet needs are measured on each wave of the survey, respondents could report up to six unmet basic needs over the 18 months covered by the SERPI.

Economic Shocks Are Associated with Unmet Needs

Some households that have not experienced any economic shocks nonetheless report unmet needs, because their earnings are modest and savings are limited. Indeed, roughly one in five households that have experienced no economic instability (no shocks in the past 18 months) still report having at least one unmet basic need. But households that have experienced economic shocks—especially persisting shocks—report much higher levels of unmet need. As Figure 7 shows, this is particularly true of employment and medical shocks:
Shocks to wealth and family are associated with a doubling of households reporting any unmet need and a fivefold increase in households reporting multiple unmet needs, whereas shocks to employment and medical spending are associated with a tripling of households reporting any unmet needs and a sevenfold increase in the proportion of households reporting multiple unmet needs. For the most part, then, basic needs seem to be far more threatened by disruptions of employment or by unexpected medical spending than by emergencies in the family or by unanticipated drops in wealth.15

**Are the Effects of Insecurity Distinct from Economic Disadvantage?**

Households that report unstable economic circumstances are far more likely to experience both heightened anxiety and unmet needs. But families that face unstable economic circumstances might have other attributes that make them vulnerable to these bad outcomes as well—most notably, lower incomes. Less affluent households are more likely to have unmet needs and also to have less stable employment and less comprehensive health insurance. Thus, it is crucial to examine whether economic insecurity is independently associated with hardship, even after household income is taken into account.

To do that, it is helpful to group respondents into household income quartiles—four equally sized groups ranked from poorest to richest. Comparing within
each quartile, it becomes clear that even among the top 25 percent of Americans—and, indeed, within every income quartile—economic instability is associated with an increased level of unmet basic needs (Figure 8). A quarter of families in the lowest income quartile (those with annual incomes of less than $35,000) reported some unmet needs even if they had experienced no economic instability in the previous 18 months. But among those that had faced economic instability, unmet needs were far more common. Among those who had experienced persisting employment shocks, for example, almost 90 percent reported some unmet basic needs, and 56 percent reported multiple unmet needs.

Strikingly, the same relationship holds among families in the third quartile of household income (annual incomes between $60,000 and $100,000). Among those that experienced no economic instability, unmet basic needs were about half as common as in the lowest income quartile, reported by about 12 percent of all households. For those who encountered persistent economic shocks, the level of unmet needs was far more common—strikingly so, considering that these households are relatively well-off. About half of households in this quartile that had experienced persisting shocks to employment or medical costs reported some unmet need; almost 40 percent reported multiple unmet needs. Even among solidly middle-class families, in short, economic instability is associated with much higher levels of unmet basic needs.

**Fig. 8 Unmet Needs Associated with Economic Instability, for Selected Income Strata**

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<th>Persisting Shocks Medical Costs</th>
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<th>Persisting Shocks Family</th>
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*No respondents in this income strata reported unmet needs in the absence of economic shocks*
Incomplete Buffers against the Impact of Economic Shocks

The impact of some economic shocks, such as high health care costs or partial disability from work, can be lessened by purchasing insurance. Others, such as unemployment and a complete inability to work, are at least partially insured by public policies. But for many risks (including loss of a spouse, declining value of investments, urgent financial assistance to one’s extended family, and lost earnings apart from formal unemployment or disability), insurance protection is generally either unavailable or beyond the means of the average citizen.

Households can guard against uninsured or partially insured risks only by saving, borrowing from family and friends, or drawing on the equity of their assets, such as their home or retirement account. The SERPI included several questions about these informal risk buffers.16

At the core of these measures is the household’s self-assessed capacity to get by without hardship should their income be interrupted for an extended length of time. As Figure 9 shows, just over 29 percent of Americans reported that their household could go six months or longer without experiencing hardship if their earnings were to stop tomorrow. Yet nearly half of households could go no longer than two months without hardship setting in; one in five could last no more than two weeks. If the capacity to go at least three months without income is treated as a threshold of adequate reserves (recall that almost a quarter of all household experienced a drop of 25 percent or more in their annual income in the 18 months preceding the fall of 2009), then more than half the American population appears to lack adequate buffers.

Three additional measures of buffers in the SERPI are related to the capacity to borrow: in financial markets (i.e., taking out a loan), drawing against equity (i.e., reverse mortgages), and through more informal mechanisms (i.e., from family and friends). Combined with our measure of financial reserves, these offer a multifaceted assessment of the ability of households to deal with unexpected economic shocks. In the aggregate, they do not make Americans appear much
more secure. To be sure, about a third of respondents anticipated that they could borrow $5,000 or more from family or friends if facing some urgent financial need. However, 44 percent expected not to be able to borrow at all, and one in five considered themselves to be so deep in debt that they doubted that they could ever pay it off.

**Why Household Buffers Are Weak**

Why does such a large share of households have limited savings, high levels of debt, and limited capacity to borrow in time of need from friends and family? Although some Americans may lack foresight or prudence, two other causes also come into play: prior economic shocks and a basic lack of resources. Households’ buffers are frequently depleted by shocks to earnings or nondiscretionary spending. Comparing respondents who experienced a drop in income or loss of wealth between the first and second waves of the survey (and had not experienced a prior shock), those that did not experience an economic shock between the two surveys saw a modest improvement in their risk buffers over the intervening six months. By contrast, those who did experience a shock reported degradation in all four measures of buffer resilience.

Lack of buffers is also strongly associated with economic disadvantage, suggesting that resource constraints are one important reason why some families are ill-prepared against economic risks.

Understanding why such a large share of households have limited economic buffers thus requires examining more closely who is most likely to experience economic shocks without adequate protections—the question taken up in the next section.

**The Uneven Experience of Economic Insecurity**

The SERPI documents that insecurity and instability are commonplace in Americans’ economic lives, with consequences that are frequently severe for even middle-class families. Nonetheless, the experience of insecurity varies substantially across American society—across income and educational groups, family types, and other important demographic characteristics. This is not
simply because the chance of major economic shocks (and especially clusters of major shocks) is different for these various groups. The greatest disparities in the experience of economic instability emerge when we consider the ways in which households differ in their capacity to buffer the shocks that occur.

**The Surprising Commonality of Economic Instability**

During the recession, differences in exposure to economic disruptions were remarkably modest, as Figure 10 suggest. Even putting aside wealth losses—which are, not surprisingly, more frequent among more affluent Americans—middle-income and well-educated Americans often experienced major economic shocks. Employment-related instability is less frequent for more advantaged Americans, but job loss is sufficiently common that it remains a realistic and not uncommon worry: 16 percent of college graduates and 19
percent of households in the highest income quartile reported themselves to be very worried about at least one threat to continued employment. Economic uncertainty in other domains—notably, medical care—is even more common: About a quarter of the most economically advantaged households report themselves to be very worried about these risks.

No group in American society appears fully insulated from economic instability. Among college graduates, for example, more than 63 percent experienced persisting shocks to their wealth, almost 21 percent experienced persisting shocks due to medical costs, more than 12 percent experienced persisting shocks due to employment instability, and 11 percent experienced family-related persisting shocks. By comparison, the prevalence of persisting shocks among households headed by those with, at most, a high school degree was more than 45 percent for wealth shocks, nearly 26 percent for medical shocks, nearly 24 percent for employment shocks, and just over 13 percent for family-related shocks—higher for every category but wealth, but only modestly so for every domain but employment.

**Starker Disparities in the Capacity of Buffers**

While exposure to risk during the recession did not vary as dramatically as might be supposed, the strength of protections against those risks did. Thus the significance of the uneven exposure to economic risks depends in large part on the distribution of “buffers” against economic risks—insurance, savings, family risk-sharing, and other resources that can be tapped in response to economic instability.

We might expect that those whose lives are most affected by economic turbulence would have the greatest incentive to prepare. What the SERPI shows, however, is that those households that have the weakest buffers also face the greatest risk. Because these risks are concentrated among households

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**Fig. 11** Uneven Financial Buffers against Economic Uncertainty

*Socio-Economic Status, 2009*

- [Can Borrow $5000+ from Family/Friends](#)
- [Financial Reserves = 3 Months+ Income](#)
- [Drained Retirement Account to Pay Bills](#)
- [Debt Too Large to Pay Off](#)
that have faced longstanding economic disadvantages, households face serious constraints in preparing against economic dislocations.

Which Americans are better prepared to cope with risks because they can buffer them? Some of the differences charted in Figure 11 are unsurprising: Risk buffers are more resilient for households with advantaged socio-economic characteristics, whether measured in terms of educational attainment or household income.
Other patterns, however, are less predictable. Although African-Americans and Latinos have roughly similar economic circumstances, risk buffers for the former are distinctly weaker, particularly the balance between debt and financial reserves and the very limited capacity to borrow from family and friends—a difference that has been identified in prior research for wealth holding, but not for these other forms of risk buffers. 17

Also noteworthy is that households with children appear to be less adequately buffered against risk than do other households. Their greater capacity to borrow from family and friends appears more than offset by weaknesses evident in the other three measures of buffer resiliency.

The Unequal Consequences of Economic Insecurity

How do unequal exposure to and protections against economic risk influence households’ financial well-being? Figure 12 tells the story. Because respondents from higher socio-economic status are both (modestly) less likely to experience...
shocks that might induce unmet needs and (substantially) more capable of buffering those shocks when they occur, the consequences of economic shocks for economic well-being are notably more negative for less advantaged Americans, measured in terms of education.

Differences by race and ethnicity are also striking. Given that African-Americans have more risk exposure and less resilient buffers, it is not surprising that they report very high levels of unmet needs when they experience economic shocks. Latinos report comparable levels of unmet needs, and both groups report much higher levels of unmet needs than whites. Yet, more surprising, Latinos who do not experience economic shocks report lower levels of unmet needs than either African-Americans or whites.

Family composition has mixed implications. On the one hand, two-adult households are much less likely to experience unmet needs when they face no economic instability. On the other hand, among households experiencing economic shocks, the gap in unmet needs between single-and multiple-adult households is much smaller. This may partly reflect the higher baseline level of unmet needs for single adults, but it suggests, at a minimum, that multiple adult households are powerfully affected by shocks. This is in large part because many of these shocks are transmitted through employment; multi-worker households thus get doubly exposed to unemployment, benefit cuts and the like, even though their dual-earner capacity also allows them to more readily buffer some of these shocks.

The presence of children in the household yields a more consistent pattern. Although households with children report modestly greater unmet needs compared to childless households when there is no economic instability, both

Households with children appear to be less adequately buffered against risk than do other households.
differentials get strikingly larger when the households experience economic shocks. The gap in unmet needs between households with children and without children grows by 10 percentage points in the face of economic instability and appears equally large whether the shocks involve wealth or other risk domains. It remains unclear why households with children are less capable of coping with economic uncertainty. Children themselves can be a source of unexpected costs. In addition, adults in households with children may be constrained by child care or other responsibilities, limiting their ability to adapt to shifting work expectations, medical needs, or other changing circumstances.

**Economic Insecurity through Americans’ Eyes**

Insecurity has become a dominant motif in Americans’ economic lives. Strikingly, however, no regularly funded national survey tracks even a small share of the factors that shape Americans’ economic security. Drawing on a unique two-wave survey that comprehensively examines these factors during the recession (and allows comparison back to 2007), this report has painted a broad portrait of how Americans perceive their economic security.

This portrait shows that Americans are standing on shaky ground. During the recent downturn, few have not been touched by economic uncertainties. Yet even before the recession, more than half of all Americans expressed worries about their economic prospects. As economic shocks have multiplied and instability persisted, these worries have transformed into broader and more persistent anxiety driven by the widespread experience of economic loss.

To be sure, these shocks are not felt equally. Americans differ in their exposure to economic instability and, even more starkly, in their capacity to cope with it. Less advantaged Americans and racial and ethnic minorities look substantially more vulnerable to economic shocks than do Americans as a whole—primarily because their basic economic buffers are so weak. Households with children appear more deeply affected, perhaps because the adults in these households have less flexibility to adapt to changing economic circumstances.

Yet economic uncertainties touch even those who are relatively well-off: About half of households with between $60,000 and $100,000 in annual income who experienced persistent shocks to employment or medical costs reported some unmet basic needs; almost 40 percent reported multiple unmet needs. Altogether, somewhere between a quarter and a third of all Americans reported unmet needs associated with economic shocks.
The SERPI assessed Americans’ experiences and perceptions of economic insecurity in the depths of the recession, which might lead to the concern that its findings are highly time-bound. Yet, as Figure 13 indicates, general poll data suggest that 2009 was not particularly unusual.¹⁹

Worries about job loss did jump in 2009. By the summer of 2010, however, these concerns had abated only modestly during the downturn. The increase in reported worries was surprisingly modest for housing stability, in part because Americans’ concerns were already high; nor did they decline much after 2009. For wealth (adequate retirement savings) and medical costs, concerns were high even before 2009 and have not diminished since. Americans have been standing on shaky ground for some time, and the ground still seems extremely unstable.

![Fig. 13 Tracking Public Concern about Aspects of Economic Security](image)

Whether the ground on which Americans stand is more stable in the future depends not just on the pace of economic recovery, but also on whether we learn from their longstanding experiences with economic insecurity and work to reduce its frequency, severity, and impact in the future.
Technical Appendix

This appendix describes in more detail the Survey of Economic Risk Perceptions and Insecurity.

The SERPI was incorporated as a part of the 2008-2009 Panel Survey of the American National Election Studies (ANES), a survey funded by the National Science Foundation for the past half century. The Panel Survey was an on-line survey of a nationally representative sample of Americans who agreed to be interviewed monthly between January 2008 and October 2009. Thirteen of the monthly waves were available to other researchers. With financial support from the Rockefeller Foundation, the SERPI was fielded as the sole questions for the panel in March (Wave 15) and September (Wave 21) of 2009.

The ANES panel was constructed to provide a representative sample of the American population aged 18 and older as of November 4, 2008. Although not all eligible panelists completed the two waves involved in the SERPI, all the results reported below are weighted to replicate a nationally representative distribution of respondents. Data collected on economic experiences, perceptions, and expectations during these two waves was merged with socio-demographic and other personal characteristics collected from respondents in other waves of the ANES survey.

Measures of Economic Insecurity

To accurately assess the prevalence and consequences of insecurity, it was essential to measure insecurity in a more complete manner than had been done previously. At the same time, the SERPI was designed to allow comparison of perceptions of insecurity measured prior to the economic downturn. In the spring of 2007, the Rockefeller Foundation sponsored a survey under the auspices of its New American Worker initiative that asked three thousand Americans about their economic security. The core of this survey was a question about “your family’s economic security” defined for respondents as “being able to keep your job, maintain your income, have health insurance coverage, and retire comfortably.” The survey also asked about concerns related to more specific economic risks, including losing one’s job, facing large out-of-pocket medical spending, and lacking adequate income to pay for a comfortable and secure retirement.

To allow comparisons with this 2007 survey, the two waves of the SERPI incorporated an identically worded set of questions about economic security in general, as well as about some of the more specific forms of economic risks asked about in the 2007 survey.20 However, the SERPI substantially augmented these earlier questions. In the employment domain, the expanded scope included questions about (1) losing one’s job (if currently employed), (2) finding a job (if currently unemployed but still in the workforce), and (3) losing several months from work due to serious illness. In the health domain, the
risks included (1) large out-of-pocket medical expenses, (2) losing insurance coverage due to cost increases, (3) having coverage cut, (4) being unable to determine what types of services were actually covered, and (5) future nursing home costs. In the wealth domain, risks included (1) inadequate savings to support an adequate retirement, (2) being unable to cover the costs of current housing arrangements, (3) cuts in pension benefits, and (4) having debt so large that it could never be paid off. Risks in the family domain included (1) urgent financial assistance to members of one’s extended family, (2) losing one’s partner/spouse due to divorce, and (3) losing one’s partner/spouse due to death.

To ensure comparability across surveys, the same response scale was used as in the 2007 American Worker survey: respondents were asked if they were very, fairly, somewhat, or not at all worried about each risk. Although framing responses in terms of “worry” may mean that some respondents will be more willing than others to express their concerns, past studies suggest that worry is a reliable measure of concerns involving uncertain prospects.21

To assess the frequency with which these worries were realized, a matched set of questions were asked about whether respondents had experienced the corresponding unexpected events. For example, worries about employment correspond with questions regarding whether any adults in the household had lost their job. These negative events are described collectively in the report as economic “shocks.” Respondents on the March 2009 SERPI were asked about whether they had experienced specific shocks in the past year, those responding on the September 2009 wave were asked if they had experienced specific shocks in the past six months. For those completing both waves of the survey, it is therefore possible to construct an 18-month history of their experiences, ranging from March 2008 to September 2009.

Specifically, respondents were asked about two shocks in the employment domain (whether any worker in the household had “been unemployed not by personal choice” or had “lost more than a month from work due to serious illness or injury”), four shocks related to medical expenses (whether they had “lost their health insurance,” “had problems getting their insurance to pay for major medical expenses,” “had out-of-pocket major medical expenses as the result of serious illness or injury in their immediate family,” or “had to pay a lot more for their health insurance than expected”), three shocks related to wealth (“had their retirement benefits at work cut substantially,” “had the value of their investments or retirement funds decline substantially,” or “had the value of their house decline substantially”) and three shocks related to family (whether they had “spent a substantial sum helping out their extended family,” “been divorced or separated from their spouse,” or “had their spouse/partner pass away”).

Past research suggests that particular risks will feel more distressing if they are relatively hard to anticipate or expected to have a relatively large impact on household well-being.22 As part of the SERPI, respondents were asked, for a subset of economic risks, to assess whether the events in question were “ones that people can plan for, ones that come unexpectedly, or a mix of predictable
and unpredictable circumstances?" 23 And if those unfortunate events came to pass, how long it might be, “for the typical person like yourself, before the household’s financial situation returns to how it was before the event occurred.”

**Buffers against Economic Risks**

The extent to which economic uncertainty feels threatening depends in large part on a household’s capacity to buffer financial shocks should they occur. This in turn depends on the household’s savings and ability to tap into the equity of its illiquid assets, balanced against the carrying costs for the household’s debt.24 Beyond these household resources, risk can also be buffered by drawing upon the financial resources inherent in broader family connections and social networks.25

The value of households’ equity is difficult to assess with great reliability; the liquidity of these assets is even more difficult to measure. The SERPI therefore included indirect, but more readily answered, questions. These included: (1) an estimate of how many weeks/months the household could last, without hardship, if its current earnings vanished, (2) whether it had recently tapped into the equity of retirement accounts in order to pay expenses, and (3) whether the household had accumulated debt so substantial that the respondent anticipated difficulty in being able to pay it off. To assess the availability of financial resources through social networks, respondents were asked how much they could borrow from “family members and close friends” in a time of need.

**Consequences of Economic Insecurity**

High levels of insecurity may be consequential either because they cause distress or because they interfere with households’ ability to meet other basic needs. The SERPI measured distress through a combination of questions regarding how frequently respondents reported thinking about their households’ economic insecurity and the extent of anxiety that they experienced when they did so. The SERPI measured households’ ability to meet basic needs through a combination of questions regarding food security (had members of the household gone hungry because there was not enough money to pay for groceries), housing instability (losing one’s home through eviction or inability to pay the mortgage), and unmet medical needs (not going to the doctor for a known problem out of concern for costs).

Unlike the measures of psychological distress, which are directly attributed by respondents to perceptions of economic insecurity, these measures of unmet basic needs do not require households to attribute unmet needs to specific causes. To assess their relationship with insecurity, therefore, requires comparing unmet needs for households that report higher and lower levels of perceived insecurity or experienced instability but that otherwise look similar. In the text, this is done through comparison of households in similar demographic groups (for example, the third income quartile). To ensure that
the higher levels of unmet need that are associated with reported economic instability were not in fact a consequence of some other factor that occurred in conjunction with economic instability, a set of multivariate regression models that identified the association of unmet needs and economic shocks were estimated. These models controlled statistically for the household’s annual income in the year prior to the economic shocks; the value of its stock holdings; household size, race and ethnicity; the educational attainment of the primary respondent on the survey; and gender and age.

The results from these models revealed that while instability in all four economic domains was associated with higher levels of unmet need for the household, only for shocks associated with employment and medical expenses was this relationship statistically significant, controlling for shocks in other domains and the above-mentioned socio-economic characteristics of the household. Conversely, all four buffers were associated with unmet needs in a statistically significant manner, again controlling for the presence of economic shocks and other socio-economic characteristics of the household. The probability of unmet need was about half as large for persisting employment shocks, compared with those that occurred but once in the previous 18 months; for persisting shocks associated with medical expenses, the probability of unmet need was twice as high as for non-reoccurring shocks.
Notes


5 Although not all eligible panelists completed the two waves involved in the SERPI, all the findings reported are weighted to produce nationally representative results. Of the 3,657 active panelists in March 2009, 2,493 (68.2 percent of the eligibles) completed the survey; of the 2,527 active panelists in September 2009, 2,203 (62.5 percent of the eligibles) completed the survey. A total of 2,084 respondents completed both waves of the survey.

6 “Economic security” was defined as “being able to keep your job, maintain your income, have health insurance coverage, and retire comfortably.”

7 Not every respondent was asked about all of these risks: those who were retired were not asked about losing their job; those who had no younger children were not asked about the costs of child care or education; those who had no health insurance were not asked about the risk of unexpected premium increases or otherwise losing insurance coverage.

Comparing expectations between people who have actually experienced these events and those who have not, it appears that those who are subject to an economic shock are more pessimistic about the duration of their impact, perhaps reflecting greater awareness of the actual consequences or greater anxiety based on prior experience.

Miron-Shatz, “Am I Going To Be Happy And Financially Stable?”


Most commonly, this involves not going to the doctor for needed care because the respondent was concerned about the potential costs of that visit.

There is one exception to this general pattern. When there are multiple shocks in the family domain (most often, when the loss of a partner/spouse coincides with the loss of a parent/sibling), the level of unmet need is more than twice as high as for households that experience a single family-related shock. Multiple shocks in the family domain seemingly induce more unmet needs than for multiple shocks in any other domain of economic life.

The value of households’ equity is difficult to assess with great reliability; the liquidity of these assets is even more difficult to measure. The SERPI therefore included indirect, but more readily answered, questions. These included: (a) an estimate of how many weeks/months the household could last without hardship if its current earnings vanished, (b) whether it had recently tapped into the equity of retirement accounts in order to pay expenses, and (c) whether the household had accumulated debt so substantial that the respondent anticipated difficulty in being able to pay it off. To assess the availability of financial resources through social networks, respondents were asked how much they could borrow from “family members and close friends” in a time of need. Because the aggregate distribution of responses was very similar across the two waves of the survey, only the fall results are presented here. As noted above, because the stock market had rallied somewhat by the fall of 2009 and some aspects of the national economy were at least temporarily appearing a bit more robust, these fall estimates are slightly more optimistic about the capacity of risk buffers than would be the estimated based on the spring survey data.


The Health Security poll that has been fielded by the Kaiser Family Foundation since 2004 incorporates a broad array of questions about Americans worries related to medical expenses, as well as a few non-medical sources of economic insecurity. But it is not sufficiently comprehensive regarding the latter and collects no information at all about experienced economic shocks, risk buffers, or other attributes of the household essential for understanding how it is coping with economic uncertainty.


In some cases the wording of the items from the American Worker Survey was altered to more effectively measure the risks in question. For example, the 2007 survey asked about concerns about providing one’s parents with financial assistance, whereas the two 2009 waves broadened the wording to include financial assistance for all members of one’s extended family. Of the 15 specific risks identified in the text above, 7 retained identical wording between the 2007 and 2009 versions.
To test the reliability of the worry measure, for a subset of a half dozen risks the SERPI also included an alternative method for measuring concern in terms of the frequency with which people reported thinking about the risk in emotionally charged terms. (For a rationale for this alternative method, see Talya Miron-Shatz, “Am I Going To Be Happy and Financially Stable?: How American Women Feel When They Think About Financial Security,” Judgment and Decision Making 4, no. 1 (2009):102–112.) Although there was some variation across the type of risk, the worry measures captured about 85-90% of those who reported that they were fretting about these risks (that is, thinking about them often in ways that evoked strong negative emotions).

Two risks were assessed in each of the four domains that were the focus of the SERPI: For employment, the risk of being laid-off or becoming disabled; for medical costs the risk of large out-of-pocket medical expenses or of losing one’s health insurance; for wealth, the risk of having insufficient income during retirement or of losing one’s home; and for family, the risk of divorce or having a member of one’s extended family require substantial financial assistance.

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