

Insights: Financial Capability

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Authors:

Nilton Porto, MBA/Ph.D.
University of Rhode Island

Gary R. Mottola, Ph.D.
FINRA Investor Education
Foundation

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Testing Positive: The Financial Strain of COVID-19

Summary

The full range of financial and health effects of the ongoing COVID-19 pandemic for American households is still being uncovered. At the time of this writing, roughly half of all Americans have been infected by COVID-19 (Clarke et al., 2022), and the death toll is now over 1 million (Centers for Disease Control and Prevention, n.d.). The global pandemic is one of the most severe health crises we have experienced in the last 100 years. In addition to its impact on public health, the pandemic has had a profound effect on household finances and the economy, including a sharp albeit temporary spike in unemployment, closing of businesses and schools, a large drop in national gross domestic product (GDP), and volatile markets (see Bauer et al., 2020 and Milesi-Ferreti, 2021 for an overview of the U.S. during the pandemic).

American households have now faced more than two years of a new pandemic normal, finding ways to keep themselves safe while managing their best financially. Few U.S. households have been spared from COVID-19-related disruptions.

Using data from the FINRA Foundation's 2021 National Financial Capability Study (NFCS), this brief examined the role of COVID-19 on financial capability. While the COVID-19 experience has been shared, in some respects, by all Americans, households with members that tested positive may be the most vulnerable in terms of their finances. Specifically, we examined differences in the financial outcomes of those who did and did not have someone in their household test positive for COVID-19.

We found that individuals in households with positive test results reported much lower levels of financial wellbeing and financial satisfaction, higher levels of financial fragility, and more difficulty paying expenses and bills on time. They were also more likely to have past-due medical bills and avoid healthcare treatment for cost reasons.

Context

Every three years since 2009, the FINRA Investor Education Foundation (FINRA Foundation) conducts the NFCS, gathering comprehensive information on the financial capability of Americans. The FINRA Foundation fielded the fifth wave of the NFCS from June to October 2021. At the time the data were collected, almost 16 percent of respondents reported they or someone they lived with had tested positive for or been diagnosed with COVID-19. Roughly half of the adult population in the U.S. was vaccinated at that point. During the survey collection period, the Delta variant was taking hold of the U.S.; according to the Centers for Disease Control and Prevention, the new variant accounted for between 80 percent and 87 percent of all U.S. COVID-19 cases in the last two weeks of July 2021. This variant was more contagious and deadlier than previous strains. Before the Delta variant, there was hope that the worst of the pandemic was over. By the end of July 2021, the federal government took actions to increase vaccination rates and slow the spread of Delta.

The COVID-19-positive households in our sample can be described as those with early infection and still dealing with pandemic-related mandates. Since the completion of data collection, life during the pandemic has changed considerably. New infections are mostly from the less-severe Omicron variant. A higher percentage of Americans are vaccinated and have received booster shots. The economy has fully re-opened, and very few mask or vaccination mandates remain in place. All in all, early COVID-19- infected households experienced a more challenging environment than those households facing the virus since October 2021.

A Demographic Look at COVID-19 Households

There were important differences in the demographic characteristics of individuals in households where someone had contracted COVID-19. Figure 1 shows that Hispanic/Latino respondents were most likely to have been infected by COVID-19 by the time the NFCS was administered, while Asian/Pacific Islander respondents were least likely to have tested positive. Both white and African American/Black respondents experienced COVID-19 at similar rates. Regarding gender, males reported COVID-19 in the household more than females. Further, we found that the incidence of COVID-19 cases in the household decreased with the respondent's age.

Figure 1. Characteristics of those affected by a COVID-19 diagnosis in their household

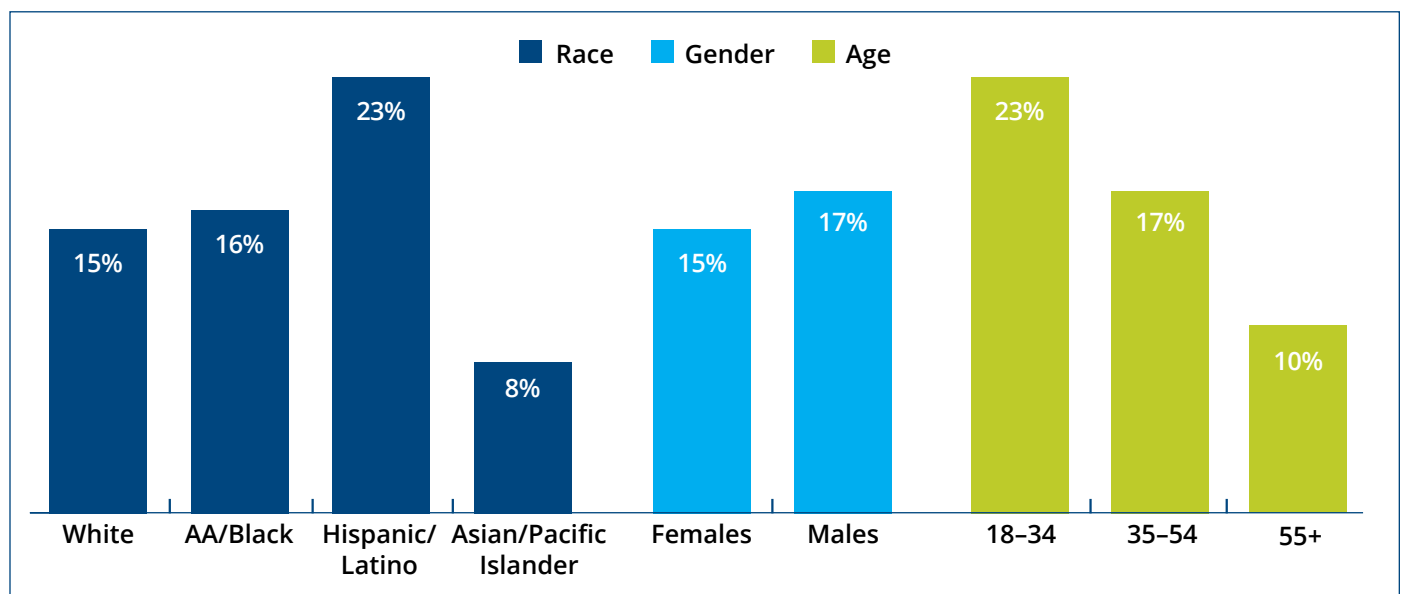
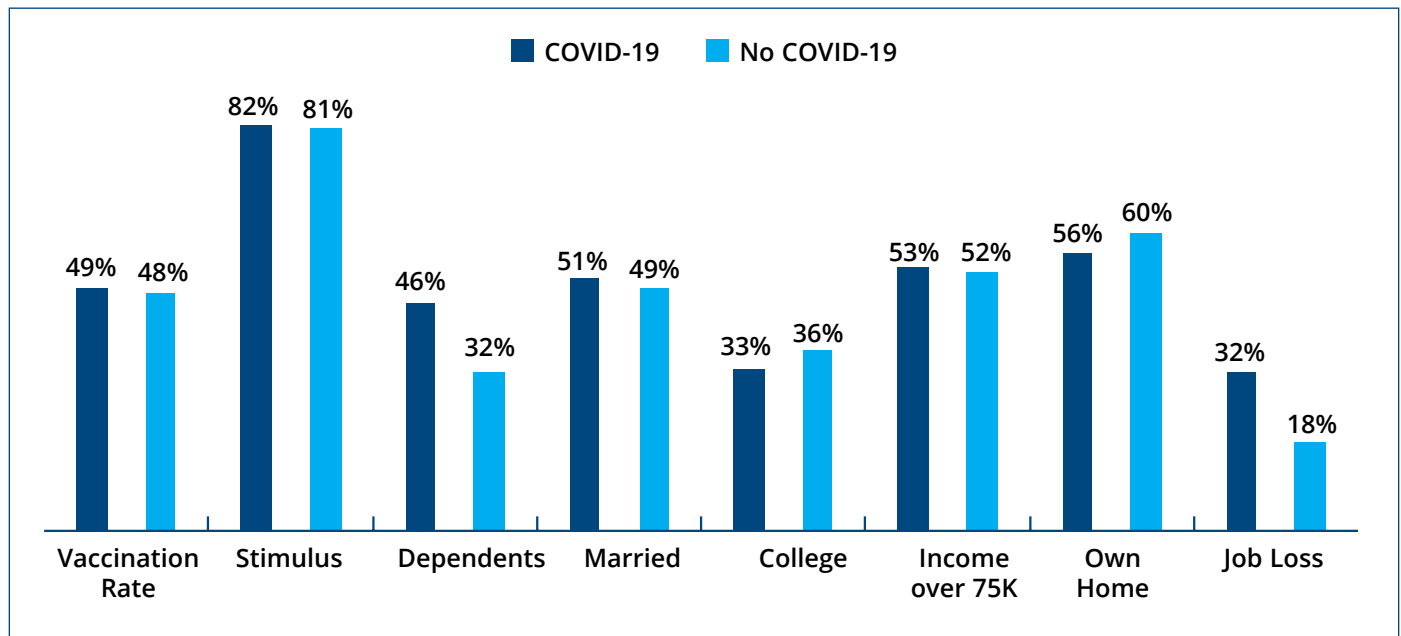


Figure 2 shows that those who tested positive for COVID-19 were slightly less likely to have a college degree or own a home. There were no differences in vaccination rates or receipt of stimulus checks across COVID-19 and non-COVID-19 households. Thirty-two percent of individuals from COVID-19 households reported being laid off or furloughed because of the pandemic in 2020 or 2021, compared to 18 percent of those in households that had not experienced COVID-19.

Figure 2. Differences between positive and negative COVID-19 households



Financial Stress

Building financial capability often starts with an ability to make ends meet—being able to cover expenses. Figure 3 illustrates how households directly impacted by COVID-19 fared worse when trying to make ends meet, according to both objective and subjective indicators, and these differences persisted even after controlling for important demographic variables like age, race/ethnicity, education level and income.¹

Objective Financial Stressors

COVID-19 households are more financially fragile—that is, they are less confident that they could come up with \$2,000 in 30 days if an unexpected need arose. When asked if they have spent more than their income in the past 12 months, 26 percent of those that experienced COVID-19 said “yes,” compared to 18 percent of households without a positive COVID-19 test. It is also noteworthy that households that experienced COVID-19 reported a large drop in income at rates much higher than their non-COVID-19 counterparts: 38 percent vs. 23 percent, respectively.²

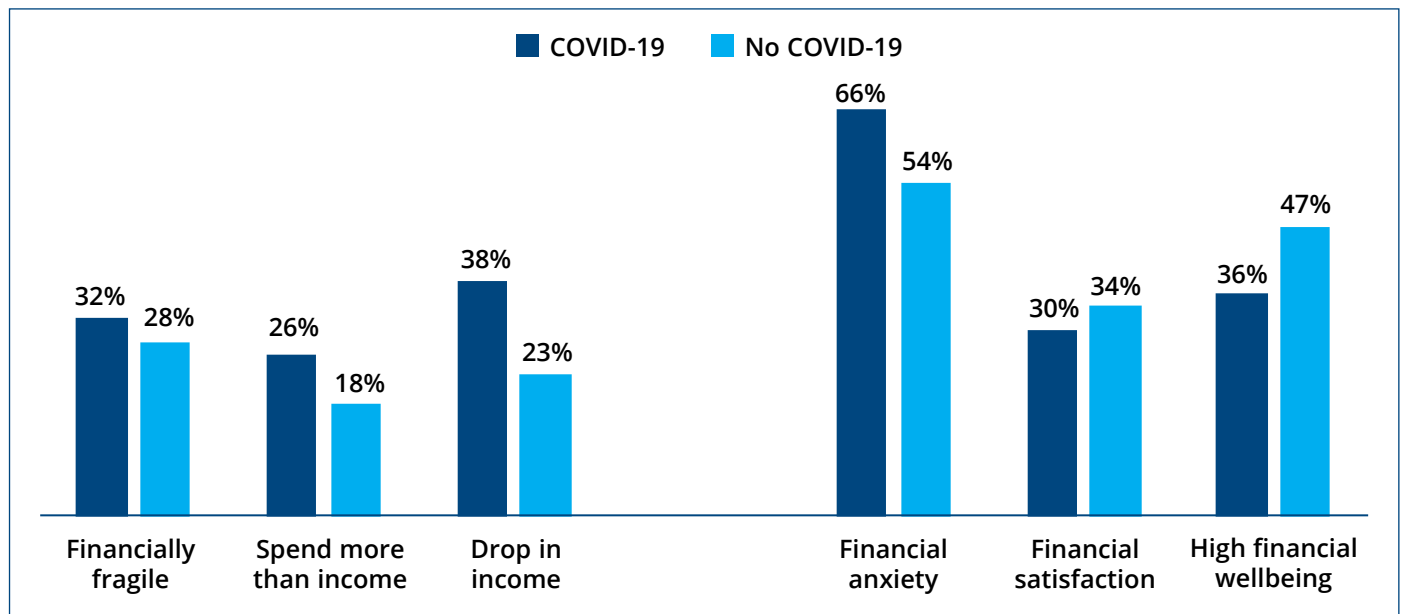
¹ Regression output available from authors upon request.

² Group differences in financial stress and strain of individuals directly affected and unaffected by COVID-19 were statistically significant at the 95 percent confidence level.

Subjective Financial Stressors

Respondents from COVID-19-positive households were more likely to feel anxious when thinking about their personal finances than COVID-19-free households, 66 percent and 54 percent, respectively. And the financial satisfaction of COVID-19-positive households was more than 10 percent lower than COVID-19-free households. COVID-19-positive households also had lower levels of financial wellbeing. Specifically, among COVID-19-free households, 47% reported high levels of financial wellbeing, compared to only 36 percent for households that experienced COVID-19.

Figure 3. Financial stress, by the presence of COVID-19 in the household



Dealing With Debt in Times of Crisis

Individuals in households directly impacted by COVID-19 struggled to meet their debt obligations. Even following the implementation of policies, such as the CARES Act, to protect Americans' finances during the crisis, households that tested positive for COVID-19 showed several signs of difficulties dealing with debt. Again, these differences persisted even after controlling for important demographic variables.³ Figure 4 includes information on selected debt-related outcomes.

Mortgages

In the 2021 NFCS data, 59 percent of all respondents reported owning a home. However, there was a slight difference in homeownership by COVID-19 status. For those that experienced COVID-19, the homeownership rate was 56 percent compared to 60 percent for non-COVID-19 households. Among homeowners, 32 percent of those in COVID-19-impacted households were late on their mortgage payments, compared to only 13 percent of their COVID-19-free counterparts (see Figure 4). Stated another way, those from COVID-19 households were nearly one and a half times more likely to have a late mortgage payment than individuals from non-COVID-19 households.⁴

³ Regression output available from authors upon request.

⁴ Homeowners directly affected by COVID-19 may have been more likely to use the expanded mortgage provision in the CARES Act, which allowed families to temporarily suspend monthly mortgage payments, and incorrectly interpreted not making payments during this period as a late payment, artificially inflating the statistic.

Healthcare-Related Debt

Debt concerns of COVID-19 households extended to healthcare. Thirty-six percent of those from COVID-19 households reported medical debt in the form of unpaid bills from a healthcare or medical service provider, versus 20 percent of those from COVID-19-free households. Further, 41 percent of COVID-19 households said they had skipped a medical treatment due to cost, compared to 25 percent of non-COVID-19 households.

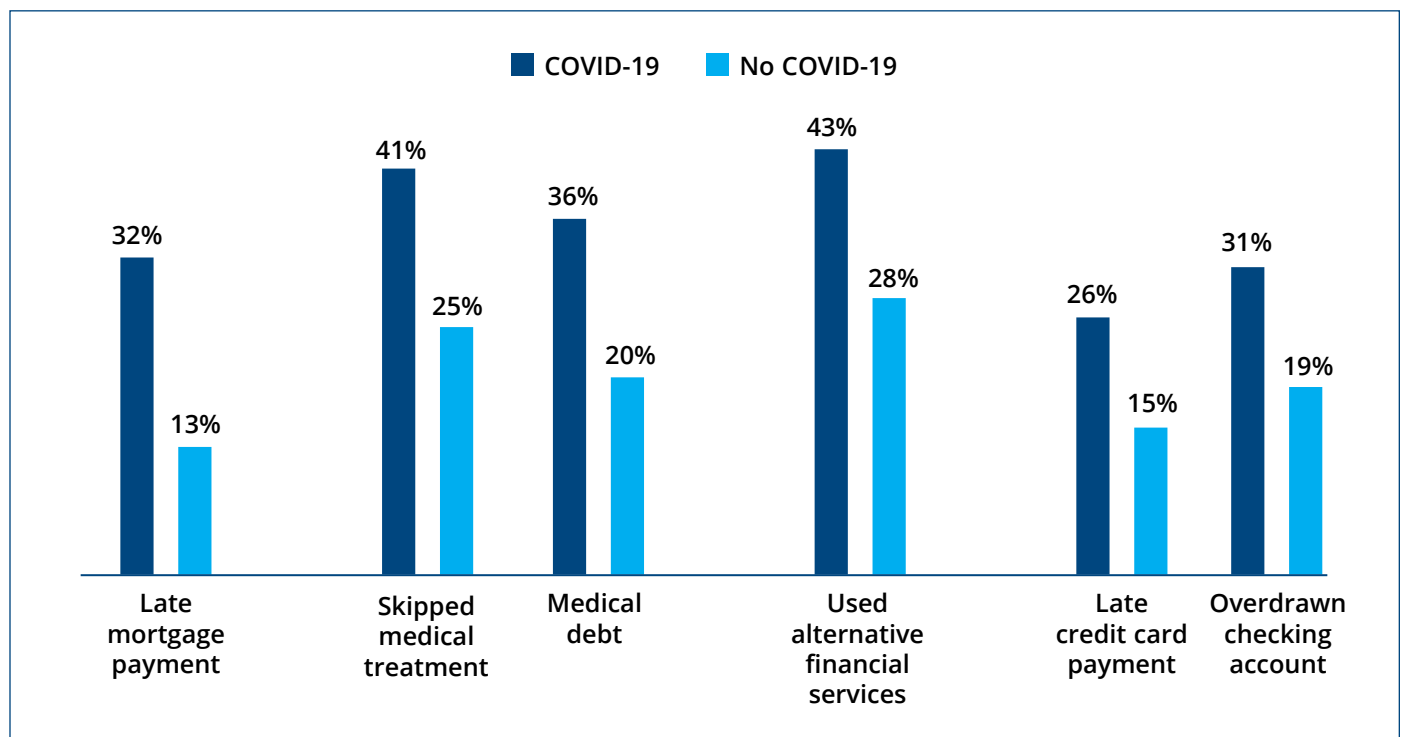
High-Cost Borrowing

COVID-19 households reported using high-cost forms of borrowing at a higher rate than COVID-19-free households. This includes using at least one of the following in the last five years: auto title loans; payday loans; tax refund anticipation loan; pawn shops; and rent-to-own stores. High-cost borrowing is problematic due to the high interest rates associated with this form of borrowing that can make it very difficult to pay off the debt. Interestingly, the rates of owning a bank account were the same—94 percent of all respondents—regardless of COVID-19 status.

Credit Cards and Checking Accounts

Two other survey items suggested that COVID-19-positive households encountered more financial adversity. First, when COVID-19 was present, 26 percent of households reported late credit card payments, compared to 15 percent of households without the virus. Further, almost one-third of COVID-19-positive households had overdrawn their checking account, while less than one-fifth of those free of COVID-19 had done so.

Figure 4. Debt management, by the presence of COVID-19 in the household



Conclusions

This brief examined the role of COVID-19 on U.S. adults' financial capability—comparing the financial capability of households that experienced a positive COVID-19 test to households that did not. The data clearly show that those in COVID-19 households struggled far more financially than individuals in non-COVID-19 households. The former reported a lower ability to make ends meet, lower financial wellbeing, higher financial fragility, difficulty managing expenses, higher levels of indebtedness, more late payments, and greater use of high-cost borrowing services.

Because the data used for this brief is cross-sectional—all collected at the same time point—the relationships found between COVID-19 and financial behaviors are correlational in nature. That is, we cannot assume that having a member of a household test positive for COVID-19 *caused* financial strain. However, it is likely that the job losses and drops in income that many more COVID-19 households faced played a significant role. Further, despite the richness of the NFCS survey data, there are many factors and variables not included that could shed more light on these differences, such as occupation, local and state policies related to the pandemic, and the health of household members. That said, the data strongly suggest that COVID-19 households fared far worse financially during the pandemic than non-COVID-19 households.

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About FINRA and the FINRA Foundation

The Financial Industry Regulatory Authority (FINRA) is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry—brokerage firms doing business with the public in the United States. FINRA, overseen by the Securities and Exchange Commission, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.FINRA.org.

The FINRA Investor Education Foundation supports innovative research and educational projects that give underserved Americans the knowledge, skills, and tools to make sound financial decisions throughout life. For more information about FINRA Foundation initiatives, visit www.FINRAFoundation.org.

The corresponding author for this issue brief is Nilton Porto (nilton_porto@uri.edu).

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

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