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Did the Stimulus Checks Help People with Unexpected Expenses?

By Anqui Chen

While stimulus checks from the government helped bolster stretched household finances, the emergence of Covid-19 highlighted the chronic lack of financial wellness among Americans and the impact it can have on long-term savings goals. A survey by the Federal Reserve found that, even before the pandemic, about 40% of households said they would have trouble paying an unexpected $400 expense. Our research discusses the sources of these pre-pandemic balance sheet pressures, as well as the impact Covid-19 and the government response to it had on households' precautionary savings and financial wellness.

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This paper is part of a series of wide-ranging papers that explore key challenges that retirement savers face in the years leading up to and while in retirement. Additional topics address how different workers save in their company-sponsored retirement plans, what affects spending in retirement, and the impact of healthcare expenses for different segments of the retiree population.

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CENTER for RETIREMENT RESEARCH at BOSTON COLLEGE

DID THE STIMULUS CHECKS HELP PEOPLE WITH UNEXPECTED EXPENSES?

By Anqi Chen*

Introduction

Before the COVID-19 pandemic, despite a booming economy, about 40 percent of households said they would have trouble paying a $400 unexpected expense. When households are operating under such tight budgets, saving for long-term goals such as retirement can be challenging.

The question is, how have household balance sheets been affected by the pandemic? Clearly those with substantial assets benefited from a roaring stock market. But those without meaningful assets experienced two opposing forces. On one hand, the recession resulted in job losses that put pressure on many household balance sheets, leaving them even less prepared for small expenditure shocks. On the other hand, most households received stimulus checks totaling several thousand dollars. For workers who lost their jobs, this money may have helped them make ends meet. But for those fortunate enough to have kept their jobs, the stimulus checks could have provided some much-needed precautionary savings.

The discussion proceeds as follows. The first section discusses what surveys tell us about why households report that they cannot cover a $400 expenditure and the role of credit card debt in their assessments. The second section discusses the stimulus checks – Economic Impact Payments – and provides an early indication of how they affected household balance sheets. The third section concludes that the first payment allowed those who kept their jobs to build precautionary savings and pay down debt, while the second and third payments provided most households, even those with workers who lost their jobs, with a much-needed financial buffer.

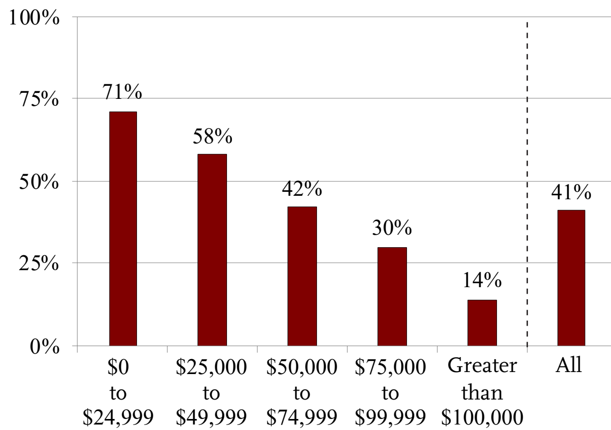
Precautionary Savings and Credit Card Debt

Every year since 2013, the Federal Reserve Board has conducted the *Survey of Household Economics and Decisionmaking* (SHED), which asks over 11,000 households about subjective and objective measures of their financial well-being. One important indicator is whether households have precautionary savings. Such savings help buffer households from financial hardship or from dipping into their retirement savings when faced with modest unexpected expenses – such as a car repair or a leaky roof.

* Anqi Chen is a research economist and assistant director for savings research at the Center for Retirement Research at Boston College (CRR). The author thanks Nilufer Gok and Patrick Hubbard for excellent research assistance. The CRR gratefully acknowledges the Anna-Maria & Stephen Kellen Foundation for support of this *brief.* The CRR thanks our corporate partner First Eagle Investment Management for spurring our interest in this topic.

Therefore, it is concerning that even before the pandemic-induced downturn, 41 percent of households ages 25-64 *felt* they did not have enough saved up for an unexpected $400 expense (see Figure 1).[1] And the lack of precautionary savings is not just a problem for low-income households.[2] In fact, even 14 percent of households earning more than $100,000 say they would have trouble with this relatively small expense.

Figure 1. Percentage of SHED Households Ages 25-64 Reporting that They Could Not Cover a $400 Unexpected Expense, by Income, 2019

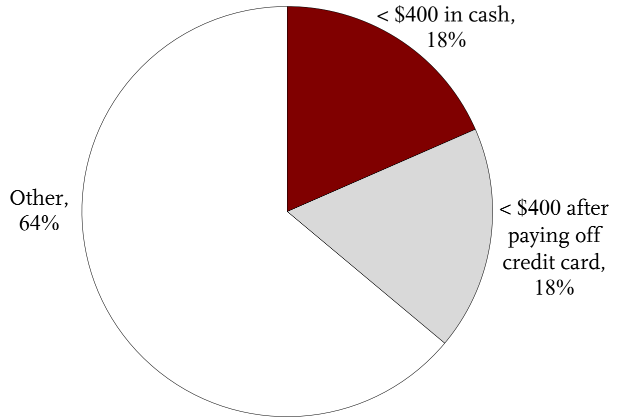


Source: U.S. Board of Governors of the Federal Reserve System, *Survey of Household Economics and Decisionmaking* (SHED) (2019).

Many observers have been surprised by the finding that so many households across the income spectrum could struggle with such an expense. And some have doubted the validity of this oft-cited statistic.[3]

It turns out that including unpaid credit card debt helps clarify the picture.[4] A separate survey by the Federal Reserve Board – the *Survey of Consumer Finances* (SCF) – captures how much households *actually* have in their checking and savings accounts. The SCF shows that only about 20 percent of households have less than $400 on hand (see Figure 2). However, after accounting for outstanding credit card debt, another 20 percent would have trouble covering an unexpected $400 expense. That is, even though households in the second group technically have enough cash available to pay a $400 expense, they appear to mentally allocate the amounts in their bank accounts to paying off high-rate credit card debt.

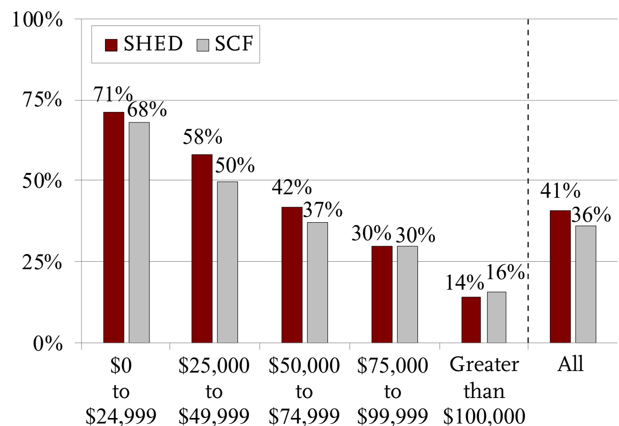
Figure 2. SCF Households Ages 25-64 by Checking/Savings and Unpaid Credit Card Balance, 2019



Source: U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (SCF) (2019).

Some evidence that credit card debt plays an important role in households' assessment of their ability to cover a modest unexpected expense can be seen by combining the two SCF groups (in red and gray) from Figure 2 and arraying them by income. After this adjustment, the percentage of households in the SHED and SCF surveys unable to pay $400 is nearly identical for each income group (see Figure 3). Thus, the burden of credit card debt appears to be an obstacle to households' ability to accumulate precautionary savings.

Figure 3. Percentage of Households Ages 25-64 that Have Trouble Covering a $400 Emergency Expense, by Income, 2019



Note: SCF data include households that would have trouble covering an unexpected $400 expense after accounting for their outstanding credit card debt.
Sources: SHED (2019) and SCF (2019).

Precautionary Savings and Stimulus Payments

The pandemic stretched the finances of many households, likely increasing the share that are unable to smooth financial shocks. Fortunately, Congress provided most households with several Economic Impact Payments (EIPs). Regardless of employment status, single households earning less than $75,000 and married households earning less than $150,000 received cash payments totaling up to $3,200 and $6,400, respectively (see Table 1).[5] Additionally, households with dependent children received up to $2,500 more for each child. These amounts are substantial.

Table 1. Economic Impact Payments for Single (< $75,000) and Married Households (< $150,000)

Payments	Date	Amount per adult		Amount per dependent child
		Single	Married	
1st	4/20/20	$1,200	$2,400	$500 (up to three, under age 16)
2nd	12/29/20	600	1,200	600 (under age 16)
3rd	3/11/21	1,400	2,800	1,400 (no age limit)
Total		$3,200	$6,400	

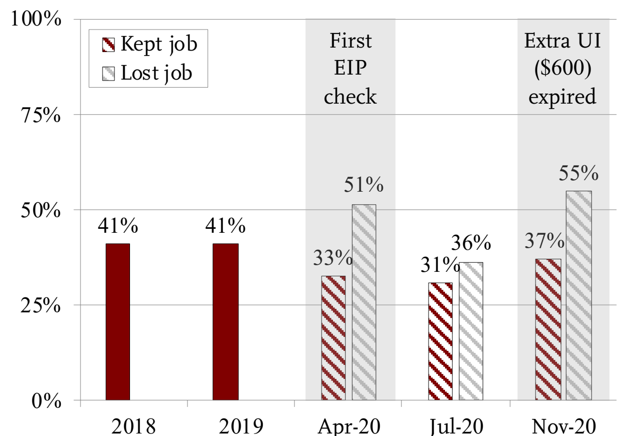
Note: Payments were phased out for workers making above the income limits.
Source: Internal Revenue Service (2021).

The question is, how did households use these payments? Households that lost income during the pandemic likely needed the EIP checks to make ends meet. While temporary COVID-19 Unemployment Insurance (UI) programs provided an additional $600 per week in benefits, these additional benefits expired in July 2020 and a second round was not approved until late December.[6] Without the federal supplement, average UI payments typically replace less than half of lost wages,[7] so the EIP checks were likely crucial for those who lost their jobs. In contrast, for households that kept their jobs, these payments could provide a much-needed financial buffer.

While full information about the longer-term impact of the stimulus payments will not be available for a few years, the 2020 SHED (which was conducted in November 2020) and the U.S. Census Bureau's *Household Pulse Survey* (which has been conducted almost weekly since April 2020) can offer some insight on the short-term impacts of the first EIP checks.[8]

As one would expect, the impact differs by employment status (see Figure 4). For those workers (about a quarter) who either lost their jobs, were asked to take unpaid leave, or had their pay cut, the first EIP provided some temporary relief. Among this group, the percentage unable to cover a $400 expense dropped from 51 percent to 36 percent between April and July 2020. However, this beneficial effect evaporated before the end of 2020, potentially because the initial UI supplement of $600 per week expired. By comparison, among workers who kept their jobs, the share reporting difficulty covering a $400 expense dropped to a third early in the pandemic – from the pre-pandemic level of about 40 percent – and stayed roughly in this range through the rest of the year.[9]

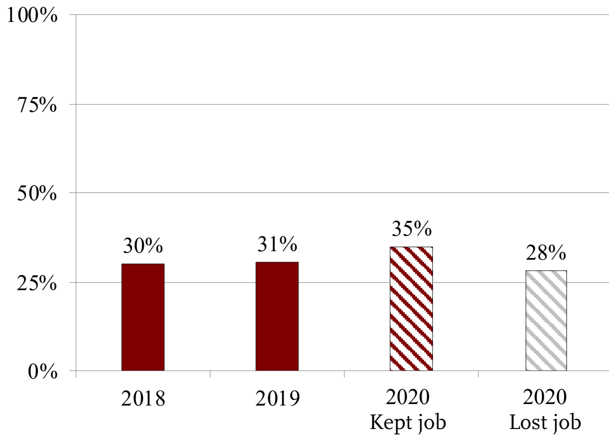
Figure 4. Percentage of Households Ages 25-64 that Have Trouble Covering a $400 Emergency Expense, by Job Status, 2019-2020



Notes: Solid bars represent *all* households. Job loss includes those who took unpaid leave or had their pay or hours reduced. It does not include workers who voluntarily quit.
Sources: SHED annual surveys (2018-2020); and SHED supplements (April 2020 and July 2020).

Some households that kept their jobs were not only able to accumulate precautionary savings; they were also able to reduce their debt. Among those who kept their jobs in 2020, 35 percent had less debt than in the previous year, compared to about 30 percent in 2018 and 2019 (see Figure 5 on the next page).

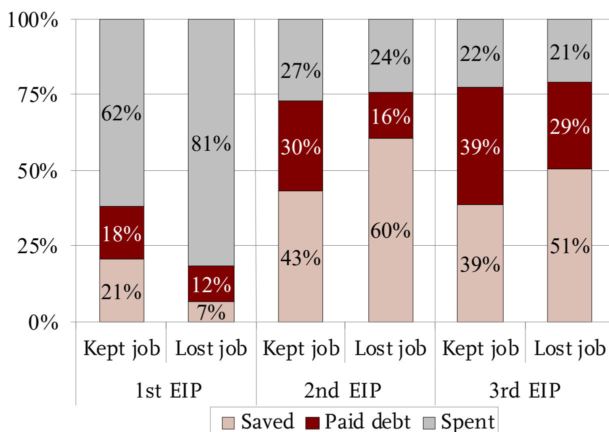
Figure 5. Percentage of Households Ages 25-64 that Had Less Debt Than the Previous Year, 2018-2020



Notes: Solid bars represent *all* households. Job loss includes workers who took unpaid leave or had their pay or hours reduced. It does not include those who voluntarily quit.
Source: SHED (2018-2020).

While the first EIP mostly allowed those households that lost their jobs to make ends meet, early indicators suggest that the second and third EIPs helped many improve their balance sheets. About three-quarters of households saved their second and third EIP checks or used them to pay down debt, and this share was similar, regardless of job loss status (see Figure 6). Extended regular and new supplemental unemployment benefits also likely contributed to this outcome.[10]

Figure 6. How Households Used the Majority of Their Economic Impact Payments, by Job Status



Source: U.S. Census Bureau, *Household Pulse Survey* (2020-2021).

Conclusion

Before COVID-19 put a halt to the economic expansion, about 40 percent of U.S. households had little set aside to absorb financial shocks and many carried high-cost credit card debt. Living on such a tight budget makes it hard for households to save for long-term goals such as retirement. The pandemic would have stretched household finances even more but, fortunately, Congress provided EIP checks totaling thousands of dollars for most households.

While the long-term impact of the EIP checks on household balance sheets will not be known for a few years, short-term indicators suggest that the first payment served as a much-needed lifeline for workers who lost their jobs to make ends meet and helped those who kept their jobs build precautionary savings and pay off some debt. Early indicators also suggest that many workers, even those who lost their jobs, were able to save or pay off debt using their second and third payments. The question is how long these favorable balance sheet developments will last.

Endnotes

1 The specific SHED question is: "Suppose that you have an emergency expense that costs $400. Based on your current financial situation, how would you pay for this expense?" Households that *say* they would need to "borrow, sell, stop paying other bills, or just would not be able to pay" are deemed unable to cover the expense. In 2019, 24 percent of households either had no bank account or used alternative financial services products, such as payday loans and pawnshops (U.S. Board of Governors of the Federal Reserve System 2019). See McKernan et al. (2020) for a discussion.

2 Kaplan, Violante, and Weidner (2014) and Beshears et al. (2020).

3 Reynolds (2019), Strain (2019), and Kapadia (2019).

4 See Chen (2019) for a detailed analysis.

5 A back-of-the-envelope estimate using IRS *Statistics on Income* W-2 data shows that between 70-80 percent of taxpayers were eligible for the full EIP checks, and most of the remaining taxpayers received partial checks.

6 Several temporary COVID-19 UI programs aided the unemployed. The CARES Act provided most UI claimants with an additional $600 per week. These additional benefits expired on July 25, 2020. The Continued Assistance Act provided an additional $300 per week from December 26, 2020 to March 14, 2021. There was no Congressionally approved supplemental UI benefit between July and December 2020; however, President Trump issued a presidential memorandum that allowed the Federal Emergency Management Agency to provide grants to states to supplement weekly benefits for certain UI claimants. The grants provided an additional $300 per week in UI benefits. Practically, the impact of the grants was limited because the funding could only provide additional benefits between August 26, 2020 and September 6, 2020. The American Rescue Plan Act provided an additional $300 per week in benefits starting on March 14, 2021; this provision is set to expire on September 4, 2021. However, 25 states have opted to terminate temporary pandemic UI programs by June or July 2021. See Whittaker and Isaacs (2021) and Isaacs and Whittaker (2021) for more details.

7 von Wachter (2019).

8 The *Household Pulse Survey* began on April 23, 2020, and has run weekly in three phases: April 23-July 21, 2020, August 19-October 26, 2020, and October 28-March 29, 2021. A new phase is underway, which started on April 14, 2021.

9 The unemployment rate was under 4 percent in 2018 and 2019, so virtually no difference existed between those who were employed and the overall average in the pre-COVID period.

10 Most states provide up to 26 weeks of UI benefits. Congress approved a total of 49 additional weeks of federally financed UI benefits for workers who exhaust state benefits (Pandemic Emergency Unemployment Compensation). Congress also provided a total of 75 weeks of temporary UI for workers who are not typically eligible for UI (Pandemic Unemployment Assistance). These workers include the self-employed, independent contractors, gig workers, the partially employed, those unable to work due to COVID-19, and those who are not able to telework. The second and third EIP checks were sent out at the end of December 2020 and March 2021, respectively. The additional $300 per week in UI benefits came into effect around the same time. See footnote 6, Whittaker and Isaacs (2021), and Isaacs and Whittaker (2021) for more detail.

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Contact Information

Center for Retirement Research
Boston College
Hovey House
140 Commonwealth Avenue
Chestnut Hill, MA 02467-3808
Phone: (617) 552-1762
Fax: (617) 552-0191
E-mail: crr@bc.edu
Website: https://crr.bc.edu

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