A Country Without a Cushion

The Potential Impact of the COVID-19 Outbreak on US Financial Health

With so much in flux, the financial health impact of the COVID-19 outbreak and its economic fallout is nearly impossible to quantify. But looking at existing data on financial health pre-crisis can help us size up its potential downstream effects and enable leaders and stakeholders to respond appropriately.

The reality is that most households entered into the crisis without much of a financial cushion. Despite tremendous economic growth since the last recession, only 29% of Americans were financially healthy in 2019. This means that 71% of Americans struggled with one or more aspects of their financial health, such as spending, saving, borrowing, or planning. The financial challenges these individuals face will make them more vulnerable to fallout from the COVID-19 pandemic, including financial shocks such as job loss, reduction of hours, and unexpected medical expenses.

In particular, there are six key factors that make U.S. households vulnerable to the financial impacts of the outbreak:

1. Insufficient Insurance
2. Income Losses
3. Inadequate Workplace Safeguards
4. Constrained Household Finances
5. Digital Divide
6. Disparate Impacts

In this brief, we share data points on each of these factors from the U.S. Financial Health Pulse study, a groundbreaking research initiative on the financial lives of Americans, as well as other data sources.¹ The data points below are intended to support a well-informed discussion of the

¹ All data presented here is from the 2019 or 2018 US Financial Health Pulse studies, unless otherwise stated. Please see those reports for detailed notes on methodology.
potential fallout from the crisis and to help design necessary remedies, especially for populations most at risk.

**Insufficient Insurance**

One of the most salient impacts of the pandemic on people’s financial health will be the elevated healthcare costs associated with diagnosing and treating the virus itself. **Many Americans, however, either do not have health insurance or have healthcare plans that generate significant out-of-pocket costs in the event of an emergency.** COVID-19 is also expected to cause deaths and periods of disability, and insurance coverage for these emergencies is also sparse.

- Millions of people either lack health insurance or maintain policies that render healthcare extremely costly. If these individuals are exposed to COVID-19, they are at a high risk for health-related financial difficulties.
  - 12% of people report not having health insurance at all. (2019 Pulse)
  - 32% of employees say they do not have access to health insurance through their work. (2018 Pulse)
  - 43% of employees with employer-sponsored healthcare plans have high-deductible health plans, and over half of those (57%) do not have associated healthcare savings accounts (HSAs) (CDC), so individuals with these plans are even less likely to have a cash cushion to pay their out-of-pocket costs.
  - Gaps in insurance coverage are worse for part-time workers. Part-time workers are twice as likely to lack health insurance than full-time workers (20% vs 10%, respectively). (2018 Pulse)

- Many people avoid seeking healthcare because it is too expensive.
  - 27% of the adult population report skipping needed medical care because they could not afford it. (2019 Pulse)
  - 20% of the adult population report skipping needed medication because it was too expensive. (2019 Pulse)

- Insurance coverage in life and disability is also lacking.
  - Only 55% of the adult population report having life insurance. (2019 Pulse)
  - Even fewer (31%) report having disability insurance. (2019 Pulse)
Overall, 42% of people are not confident their insurance will provide sufficient coverage to manage an emergency. (2019 Pulse)

Income Losses for a Large Labor Force

Broad swaths of the economy, comprising tens of millions of workers, are exposed to income reductions from the economic fallout of the COVID-19, such as furloughs, layoffs, schedule cuts, and pay cuts.

- Approximately 60 million people (nearly 40% of the labor force) work in sectors such as retail, manufacturing, transportation, hospitality, personal care, and entertainment that stand to face large-scale employment shocks. (CPS)
  - Of these, approximately 26 million work in typically low-wage jobs. (BLS)
- An additional 45 million people (nearly 30% of the labor force) work in sectors – like construction, mail and food delivery, nursing facilities, home health care, and other social assistance – that may require them to be on-site and/or mobile, exposing them to health risks. (CPS)
  - Of these, approximately 13 million work in typically low-wage jobs. (BLS)
- Small business owners and other non-traditional employees make up a large proportion of the workforce and may be more vulnerable as well.
  - Small business owners, sole proprietors, and contractors make up 12% of the adult population. (2019 Pulse)
  - Approximately 13% of the adult population participated in the gig economy in 2019 and are likely to see reduced demand during the crisis. (2019 Pulse)

Inadequate Workplace Safeguards

Large proportions of the workforce do not have access to essential benefits and workplace policies to support them through the outbreak. Many workers will be unable to work from home or stay home if they are sick.

- 43% of employees do not have paid sick leave. (2018 Pulse)
- 83% of employees do not have the ability to work from home. (2018 Pulse)

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2 Figures in this section are roughly approximated by adding the total number of workers within specific subsectors in the CPS that may be deemed “non-essential” in government shutdown orders, or whose labor forces may be otherwise adversely impacted.

3 To determine which industries/subsectors were “low-wage”, we used a cutoff of $14.80, which is 80% of the U.S. median hourly wage of $18.50 as of May 2018.
• With child care facilities closing, workers with new children (who remain employed) may have to choose between income and child care. Only 41% of workers with children 1 year old or younger report access to paid parental leave.

• Other workers are vulnerable to shift reductions, furloughs, and layoffs.
  ○ 31% of workers learn their schedules less than 2 weeks in advance. (2018 Pulse)
  ○ 18% of workers have a schedule that varies according to the needs of their employers. (2018 Pulse)

Constrained Household Finances

Many households lack basic financial backstops. Liquid savings buffers are important for weathering any financial shock, and will be particularly important in the longer-lasting economic impacts of the COVID-19 outbreak. Likewise, access to credit is imperative for households seeking to bridge a gap in income. But significant gaps exist in both of these areas among Americans.

• 47% of the population doesn’t have enough liquid savings to cover three months of living expenses. (2019 Pulse)
• 34% of the population has a subprime credit score, no credit score, or doesn’t know their credit score. If they deplete their savings, these people may find themselves unable to access affordable credit at all to help pay their bills. (2019 Pulse)
• 30% already have more debt than is manageable. (2019 Pulse) As economic fallout from the outbreak continues, consumers may find it more and more difficult to repay their debts, which can cause additional financial strain for creditors as well.
• 34% of the population are unable to pay all their bills on time, which will likely be exacerbated by the crisis. (2019 Pulse)

Digital Divide

Millions of Americans do not have sufficient digital access to support work, distance learning, or social connectedness fully during a pandemic, a lack that is particularly prevalent for low-income individuals. Those who earn less are less likely to be able to work remotely (if their job allows them to do so at all), to access needed financial services online, or to access distance learning content for students, because they do not have access to adequate internet services. They also may face additional strains related to social isolation as a result of mandated distancing.

• 19% of the adult population does not have a smartphone. (Pew)
● 13% of the overall population does not have access to broadband internet. (BroadbandNow)

● Low-income households are much less likely to have internet access.
  ○ Only 71% of those making less than $30,000 per year own a smartphone, compared with 97% of those making over $100,000 per year. (Pew)
  ○ Only 56% of those making less than $30,000 per year subscribe to home broadband, compared with 94% of those making over $100,000 per year. (Pew)

● Access to mobile financial services is correlated with income as well.
  ○ 45.4% of those who make less than $30,000 per year use online or mobile banking, compared with 90.5% of those who make over $100,000 per year. (2019 Pulse)

Disparate Impacts

The factors that make the overall population vulnerable to the economic fallout from the outbreak are particularly prevalent among economically vulnerable groups. Below are several examples of disparities that will likely drive further inequality:

● Workers in many affected sectors are disproportionately women and disproportionately black and Latinx.
  ○ In nursing facilities, home health care, and other social assistance, women make up over 80% of the workforce. Workers in these fields are also nearly twice as likely to be black as in the overall workforce. (CPS)
  ○ Workers in hospitality sectors⁴ are 50% more likely to be Latinx than in the overall workforce. (CPS)

● Black and Latinx households also have less in savings and less access to high quality credit than white households.
  ○ Black and Latinx respondents are, respectively, 38% and 25% less likely than white respondents to have a prime credit score. (2019 Pulse)
  ○ Black and Latinx respondents are, respectively, 18% and 28% less likely than white respondents to have at least three months of liquid savings. (2019 Pulse)

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⁴ “Hospitality sectors” refers to workers in traveler accommodations and food and beverage services.
Women are less likely than men to have adequate workplace safeguards. Among workers:

- 53% of women and 61% of men have access to paid sick leave. (2018 Pulse)
- 63% of women and 73% of men have access to health insurance (63% vs. 73%) from their employers. (2018 Pulse)

Responding to a Crisis

The COVID-19 pandemic and its economic fallout will have a dramatic impact on the physical health and financial health of millions, with many of the most underserved populations at the greatest risk. Government, employers, financial institutions, healthcare providers, technology companies, universities, nonprofits, and more all have a role to play in the short and long term to stem this crisis’ most negative outcomes and prepare for a new economic reality.

For more information:

- Explore additional resources on our COVID-19 Resource Hub
- Read more research from the US Financial Health Pulse

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