



Conquering the Storm with Resilience: Key Success Factors

By Melissa Gopnik, Senior Vice President, Commonwealth
and Dr. Daryl Collins, co-author Portfolios of the Poor

December 2020

Acknowledgments

We would like to acknowledge the hard work of all of the team members who contributed to making the Financial Resilience Project possible: Jeremy Smith, Antonia Agbeh, Heather Kunin, and Pravarakya Reddy. We would also like to thank the people who participated in this study and shared their stories with us.



Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx and Female-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling 750,000 people to accumulate more than \$3 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.

Executive Summary

Since June we have been talking with 56 low- and moderate-income households about their financial lives. This report summarizes what we have learned from these in-depth interviews. The extreme volatility and uncertainty in the number of COVID-19 cases, the subsequent economic impact, and the actions taken by governments and the private sector have had a direct impact on individual households in our study. Their employment status, unemployment benefits, income, savings behavior, and coping strategies all varied greatly from pre-COVID through the end of September.

Despite the uncertainty they have faced, most participants in this study feel positive and self-confident about how they have managed their finances through this crisis.

They also feel positive about their ability to continue to cope for the next six months. This belief in themselves—that they can handle this financial crisis—and their adaptability in deploying multiple different coping strategies are key factors in their resilience through this crisis. Institutions can support this resilience by creating products, services, experiences, and policies that are designed to manage volatility while building on the strengths of agency and flexibility that these households are exhibiting.

Read how the coronavirus relief legislation that Congress passed in December, 2020, will impact the households in this research study [here](#).

About the Financial Resilience Project

In June 2020, we launched the Financial Resilience Project to better understand how low- and moderate-income Americans are navigating the COVID-19 economic crisis and the resulting impact on their financial resilience.

In our first interviews in June, we asked participants about their financial lives over the preceding two months including how they were earning money, paying bills, saving and managing debt. In each subsequent bi-weekly interview we asked them to provide an update on their financial lives. This project uses an innovative tech-enabled methodology that allows us to gather and analyze our interviews quickly and efficiently and as a result, capture and share rapid insights in near-real time.

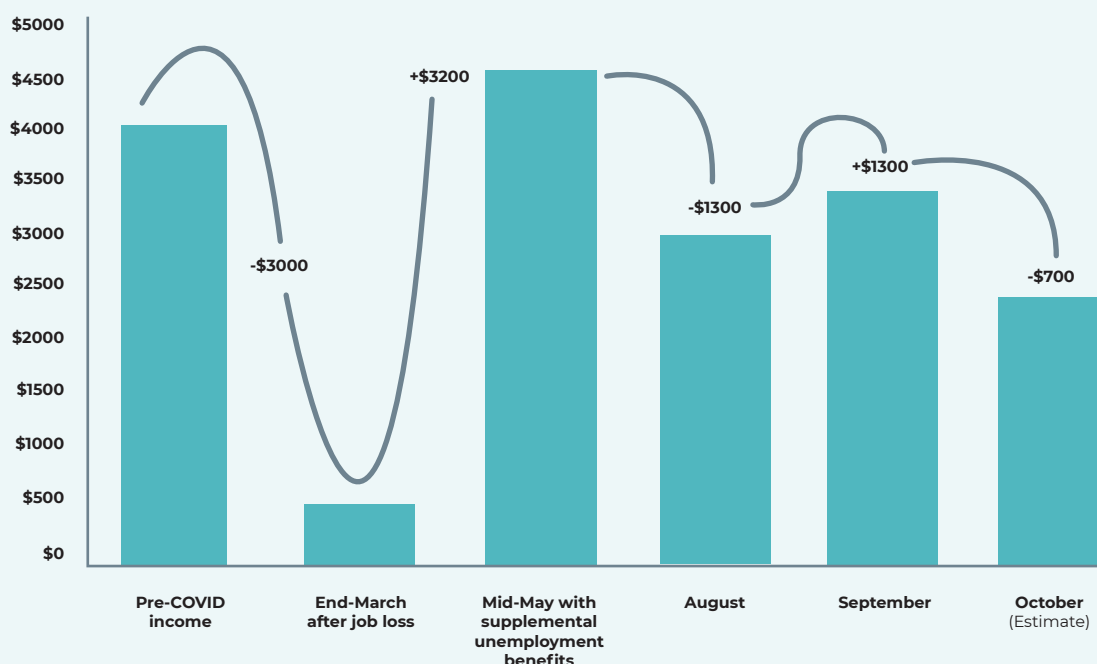
The Households: We selected 56 households from 24 states across the continental United States with a median annual income of \$50,500. Our diverse sample enables us to analyze the data by race, gender of respondent, traditional employment vs. gig or contract work, and household composition (with and without children).

Insights

Employment and Income Volatility

The households in our study have experienced a great deal of volatility in employment and income during the past four months. Among respondents, 25% changed their employment status during this time, moving from employed to unemployed, unemployed without benefits to unemployed with benefits, and from unemployed with benefits to employed. This level of volatility increases in households with multiple earners. Among the study participants, 15 households received unemployment benefits at some point during the past four months, and among those, just under half had one partner with an employment change. In addition, the respondents in our study who are unemployed lost supplemental benefits at the end of July, but received some relief in September when the Lost Wage Assistance plan was implemented. This federal program provided an additional \$300 per week starting in September. This benefit was only available for 4 to 6 weeks, depending on the state, and expired in mid-October, meaning that households will once again experienced a change in their income.

Chart 1:
Median income for the 15 households receiving unemployment



Sentiment Volatility

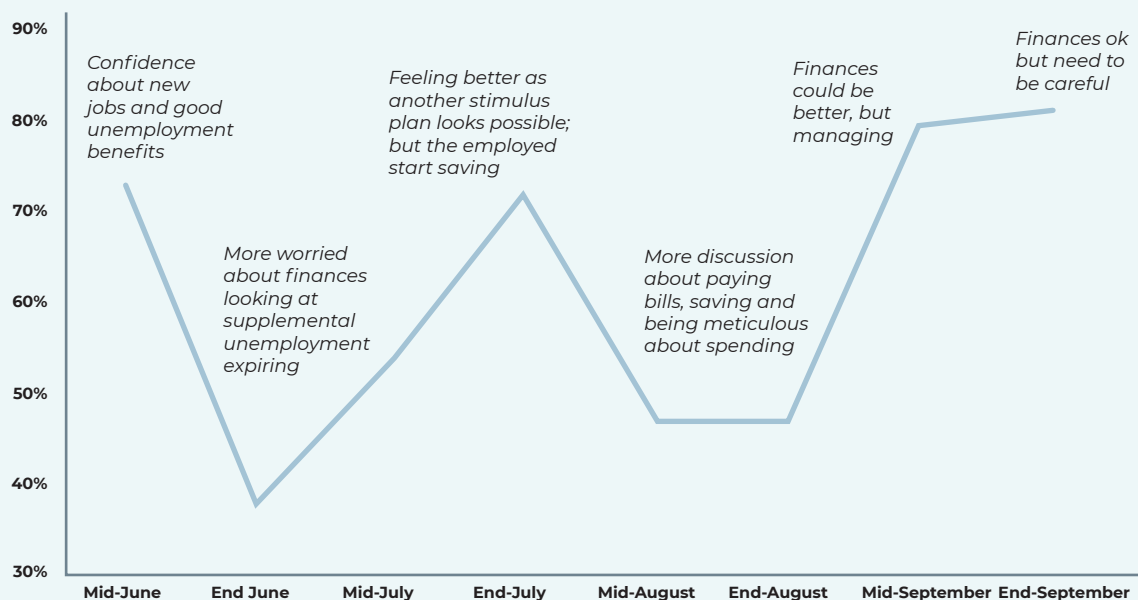
We interviewed respondents every two weeks from mid-June through the end of September. At each interview we asked them, “How do you feel your finances are going?” We also asked them at the last interview how well they thought they were managing their finances during COVID-19, and to rate (better, the same, or worse) what they thought their financial situation would be like in the next six months. We analyzed their open-ended responses using natural language processing (NLP) and assigned each response a sentiment score.

The data in Chart 2 illustrates the intense swings in sentiments experienced by these respondents about their finances. This was not impacted by the respondents’ employment status—both the employed and unemployed sentiment was impacted by the public discussions about the continuation of supplemental benefits and the potential of a new stimulus package. **Chart 2 illustrates that they were optimistic in July (70% positive score), but when the federal government did not take action in August, respondents expressed negative sentiments about their ability to manage their finances (40% positive score).** The employed also expressed nervousness about being laid off and so had additional stressors driving concern about the future of their finances.

In August, the topics that respondents discussed also changed. They started talking more about the need to cope over time, focusing on being able to pay bills, being careful about spending, and, for those who were employed, saving in anticipation of future challenges.

By the end of September, we saw a marked improvement in how people felt about their finances, with close to 80% of respondents having a positive sentiment score. However, the comments reflecting this optimism were based on being able to simply make ends meet.

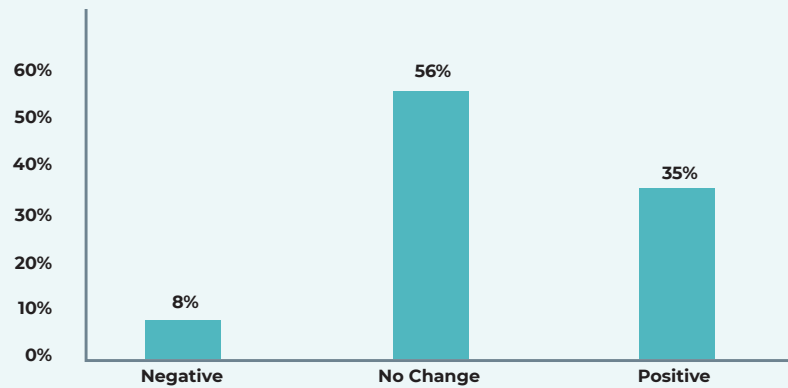
Chart 2:
Percentage of the sample showing a positive sentiment score* to “How do you feel your finances are going?”



*We used Natural Language Processing to apply sentiment code to our text data to measure changes in sentiment with respect to finance over time in our respondents

Chart 3:
Percentage of the sample showing a positive, negative or no change in responses when first answering the question:

“Do you think your financial situation during COVID was good, bad or neutral?” compared to then answering the question “Do you think the next 6 months will be better, the same or worse for you?”



Lorena, a 30-year-old Latinx mother of one, said, **“We’ve had to maybe cut back on a lot of things. And my husband isn’t earning as much—we’ve had, almost like half of the paycheck. But he has constant work, so that’s a good thing.”**

20% of respondents had a negative sentiment score at the end of September. They were worried about the reduction in unemployment benefits and the lack of a new stimulus package. Those who were employed were nervous about losing their job.

Sarah, a 61-year-old white woman, said, **“Finances are a big worry for me with regards to work. I’m not sure how long it’s going to be until the next person gets laid off, which could be me.”**

When we asked respondents about the next six months, 56% said they thought that they would continue to be able to manage their finances and 35% thought their ability to manage their finances would improve (Chart 3). These responses are aligned with findings from the University of Michigan Consumer Sentiment Index, which identified the highest positive sentiment at the end of September since COVID-19 started, and indicated that consumers feel somewhat better about the rest of the year of 2020.

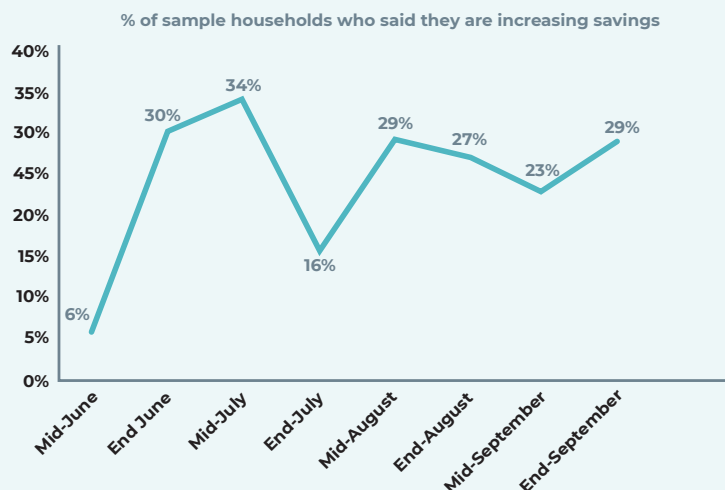
Mateo, a 27-year-old single man, said, **“My finances are still steady. I haven’t fully improved them, but I haven’t lost a bunch or anything. I’ve just been skilled at being meticulous about where I spend my money and what I’m doing.”**

The majority of respondents in the final interview described being proud and confident in themselves, and they reported that their coping skills were working.

They said that the COVID-19 crisis was motivating them to manage their finances for better future outcomes. They commented mostly on contributing more to savings. Some households also mentioned keeping credit card debt low and working extra jobs. Several households attributed their positive sentiment to a belief that they would be provided for based on their religious faith.

Chart 4:
Percentage of the sample who responded yes to the question:

“Have you increased your savings since we last spoke?”



Savings

Those who are employed are saving more (Chart 4) and those who are unemployed are using their savings as a coping strategy (Chart 5).

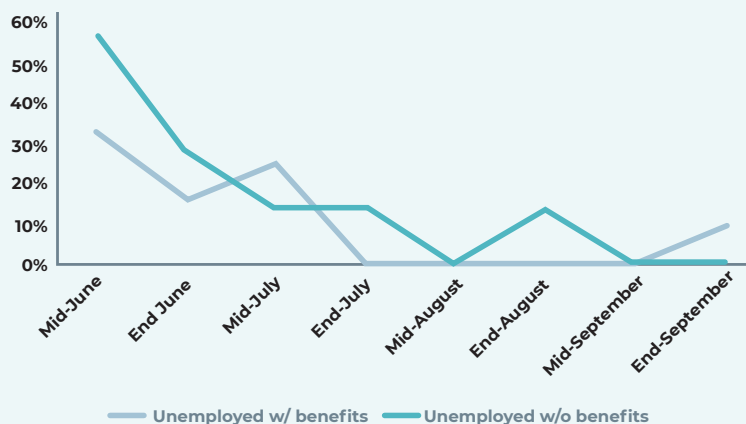
At every interview we asked respondents, “Have you increased your savings since we last spoke?” Chart 4 illustrates that, except for a sharp decline at the end of July, around a third of the respondents who were employed said that they were saving. This sharp decline in savings behavior coincided with a sharp uptick in overall positive sentiment. Savings behavior was motivated about anxiety about the future, so when that anxiety decreased, the savings behavior also decreased.

In the last interview at the end of September, we asked respondents what they would have done differently in managing their finances. Over half of the respondents said they would have saved more. As we discussed in our brief [Emergency Savings: A Life Jacket in Rough Seas](#), less than 50% of this sample came into the crisis with a lump sum of savings, and most of them only had a month’s worth of income saved.

The unemployed—those with benefits and those without—used savings as their primary coping strategy at the start of the crisis. Since then, those who are unemployed without benefits have depleted savings, while those who are still receiving benefits still have some savings that they can use. (Chart 5)

Chart 5:
Percentage of the sample who responded yes to the question:

“Since we last spoke, have you or anyone in the household withdrawn savings from a bank, credit union, 401k, IRA or brokerage account – beyond what you normally would have?”



Coping Strategies

We analyzed the use of coping strategies for all respondents who were unemployed during the study. We compared the use of these strategies between those who were unemployed and had received unemployment benefits and those who were unemployed and had not received benefits; the reasons the second group had not received benefits were either because they had not yet been approved for benefits, that they were not eligible, or they had not applied. The impact of the reduction in unemployment benefits at the end of July is evident in the increased usage of all coping strategies in August. This data also shows that respondents continue to actively manage their finances and use different coping strategies each week.

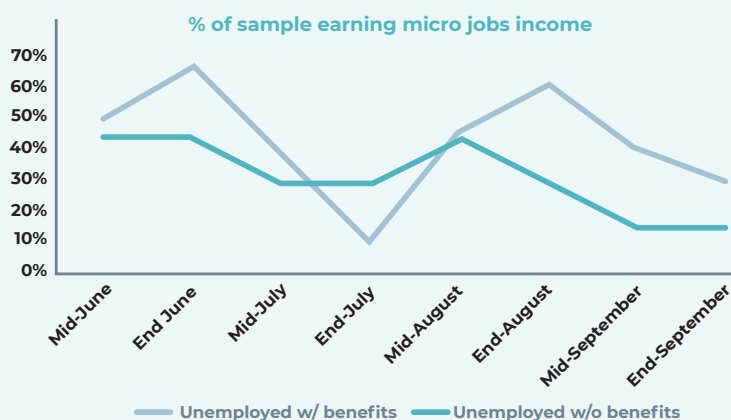
1. Micro Jobs

a. Respondents are earning extra income by doing micro jobs—small tasks that they can do from their home. These include tasks such as completing surveys, participating in research (like our study), and doing user testing of games, apps, or short videos. Both respondents who were unemployed with benefits and without benefits used this strategy at times over the past few months (Chart 6).

b. Those who have received unemployment benefits did less of this type of work in June and July while receiving additional benefits, but returned to this strategy in August. Many say that this is a key way of putting aside savings, because micro job earnings are “extra” income that comes in small amounts; usually this money is routed into a payment vehicle that requires them to take additional actions to access. This added friction in accessing the funds makes it an ideal savings vehicle for some. It is not only a coping strategy when income falls, but a preemptive way of building savings when income is steady.

Chart 6:
Percentage of the sample who responded yes to the question:

“Since we last spoke, have you or anyone in the household earned money by playing games on an app, or using a cash back app, or doing any other surveys?”



2. Credit Cards

Credit card use has fluctuated greatly in the past several months (Chart 7). Not surprisingly, those who have been unemployed without benefits have consistently used credit cards more frequently than those who have received benefits. For those with unemployment benefits, credit card use increased slightly after supplemental benefits expired at the end of July, but have now tapered off. We have repeatedly heard that respondents are wary of getting into credit card debt and only will use credit cards when they have no other options.

Courtney, a 31-year-old single Black mother, who has only been able to pay her credit card bill intermittently and sometimes less than the minimum due, said, **“Right now it’s a necessity. I’m hoping that the credit card companies understand, but it’s unfortunate that it messes up your credit.”**

3. Strategic Bill Payment

Actively deciding what bills to pay was a coping strategy that was used differently by those who were unemployed with and without benefits (Chart 8). Those who did not receive benefits started using this strategy frequently at the start of the study and have steadily decreased its use. This is a strategy that can only be used a limited number of times, because billers set limits on how many bills can be missed without significant consequences and these limits are now being reached. Respondents who were unemployed and received benefits used this coping strategy less at the start of the study, but have used it increasingly as their unemployment benefit levels fluctuate. This strategy was therefore still available to them at the end of September.

Chart 7:
Percentage of the sample who responded yes to the question:

“Since we last spoke, have you or anyone else in the household accumulated on a credit card balance – in other words, putting more on it and not paying it down, or simply not paying as much as usual?”

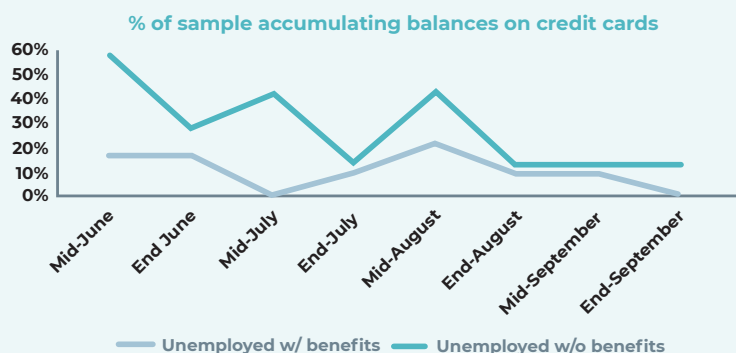
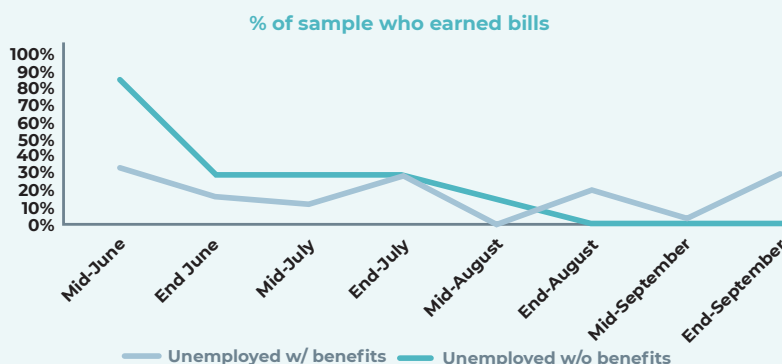


Chart 8:
Percentage of the sample who responded yes to the question:

“Since we last spoke, have you or anyone else in the household stopped, delayed or only partially paid any bills, including rent, utilities, car note or car or health insurance?”



Recommendations for Resilience

Employers

People who are still employed have not been exempted from the income volatility and uncertainty of the past six months; often, someone in their household has had their employment impacted or they are worrying about the permanence of their own job. They are taking actions now to prepare for future challenges. The main action they have taken is to increase savings. Employers can support them in starting and maintaining a savings habit by:

- Making it easy for employees to sign up for split deposit. Our research found that employees who use split deposit are 23% more likely to have \$400 in savings.
- Asking financial institutions with which they work to offer no-fee, no-minimum accounts to their employees to make savings more accessible; [Commonwealth research found](#) that 43% of lower-wage workers do not have a savings account.
- Working with their retirement plan record keeper to offer an emergency savings product. UPS [announced](#) the launch of this type of program in October 2020.
- Encouraging employees to save in an HSA and begin offering one if it's not already available. With health on everyone's mind right now, it's a great time to offer this benefit. A small seed contribution could generate a lot of goodwill among employees.

Government

Making financial decisions is hard in the best of times, but it is made much more difficult in times of uncertainty. The lack of longer-term fully funded consistent public policies has exacerbated this crisis for many. Federal, state, and local governments can:

- Pass longer-term consistent policies to reduce that uncertainty—including not only unemployment benefits, but also enacting moratoriums on evictions and loan payments.
- Pass policies that are not bound to a specific arbitrary time period, but rather remain in place until the crisis abates.
- Provide for additional funds to government agencies so they can quickly and fairly implement new policies.
- Start crafting innovative policy solutions to address the accumulated debt that households will not be able to repay once moratoriums end.

Financial Institutions

Households have to make complex financial decisions almost daily in an atmosphere of volatility and uncertainty and they need support in this process. This pandemic has also ushered in an increase in demand for money management tools that are flexible and allow people to take actions today in anticipation of future unexpected events. Financial institutions and fintechs can offer a wider range of financial products, such as:

- Savings account, with no fee and no minimum, offered automatically when a customer's balance increases. Design these accounts so it is simple to transfer funds into them and allow customers to personalize the name of the account to a meaningful goal to them. Implement the elimination of Regulation D so that customers can access funds in this new account as often as they need it.
- Lines of credit that are offered more broadly to customers based on expanded underwriting criteria.
- Overdraft fees that are waived automatically for customers who have a decrease in income.
- Car loan, student debt, and mortgage refinancing offers to all customers who have experienced volatile finances.
- Tax guidance to all customers who received unemployment benefits, because many will face an unexpected tax bill in April 2021.

Gig and Micro Job Platforms

People who are trying to manage volatility today and those who are preparing for future volatility are both engaging more in short-term income-producing tasks. These platforms need to design payment mechanisms to match these differing motivations. They should offer a range of payment mechanisms, from immediate pay on to a prepaid card or online service such as PayPal, to ACH to a bank account, to storing the funds with the platform. For those customers who are doing tasks to hedge against future volatility, a well-designed mechanism that allows them to save the funds will keep them working on the platform.

Billers and Landlords

Many companies and landlords soon will have, if they don't already, customers who are in arrears on their bills. No one wins if these bills never get paid. These private sector actors can act now by advocating for public policies to address this impending crisis and partner with philanthropic institutions and nonprofits to jointly constructively address the financial hardships faced by their customers.

Conclusion:

In June, we initiated [The Financial Resilience Project](#) to influence key stakeholders by amplifying the lived experiences of low- and moderate-income households through this economic crisis. By using new research technology, we were able to more rapidly translate these experiences into actionable insights. Throughout this research, we found that all respondents—both the employed and the unemployed— have exhibited self-confidence and adaptability in the face of extreme uncertainty and volatility since the start of this economic crisis. However, the worsening public health crisis, ongoing unemployment, and fewer available coping strategies could create the perfect storm with dire consequences for low- and moderate-income Americans. Institutions—governments, employers, financial institutions and other private sector actors—still have time to implement practical simple actions to prevent this calamity.

If you are a financial institution, fintech or employer and would like to learn more about the Financial Resilience Project and how you can improve financial security for your workers and customers, contact Melissa Gopnik, Senior Vice President at info@buildcommonwealth.org.