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Financial Coping Strategies:
How Households Are Staying Afloat During COVID-19

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

Introduction

When Commonwealth began conducting interviews in June 2020, 21 households in our study had already lost 50% or more of their income due to COVID-19-related job loss or a severe reduction in hours. By the end of July, these households still had not recovered this lost income. The reasons for households' continued financial vulnerability included the inability to find another job or hours not being restored; unemployment insurance benefits were also a contributing factor, as some of these households were not approved, did not qualify, or did not apply for these benefits.

During this sustained and dramatic loss of income, households are employing a range of financial coping strategies to stay afloat. In this brief we highlight the strategies that households have used most, how impactful they have been, and how their use has changed over time. Low- and moderate-income households have long relied on various financial coping strategies to get by, but the extreme uncertainty and scale of the COVID-19 economic recession will test these households like never before. The impact of these households' coping strategies will have lingering effects on businesses that go unpaid as well as on the workforce. As the economy struggles to recover, the support of policymakers, financial services providers, and private sector companies will be critical in building financial resilience through this crisis and beyond.

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 biweekly interviews, we follow how households are earning money, paying bills, using savings, and managing debt. 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).

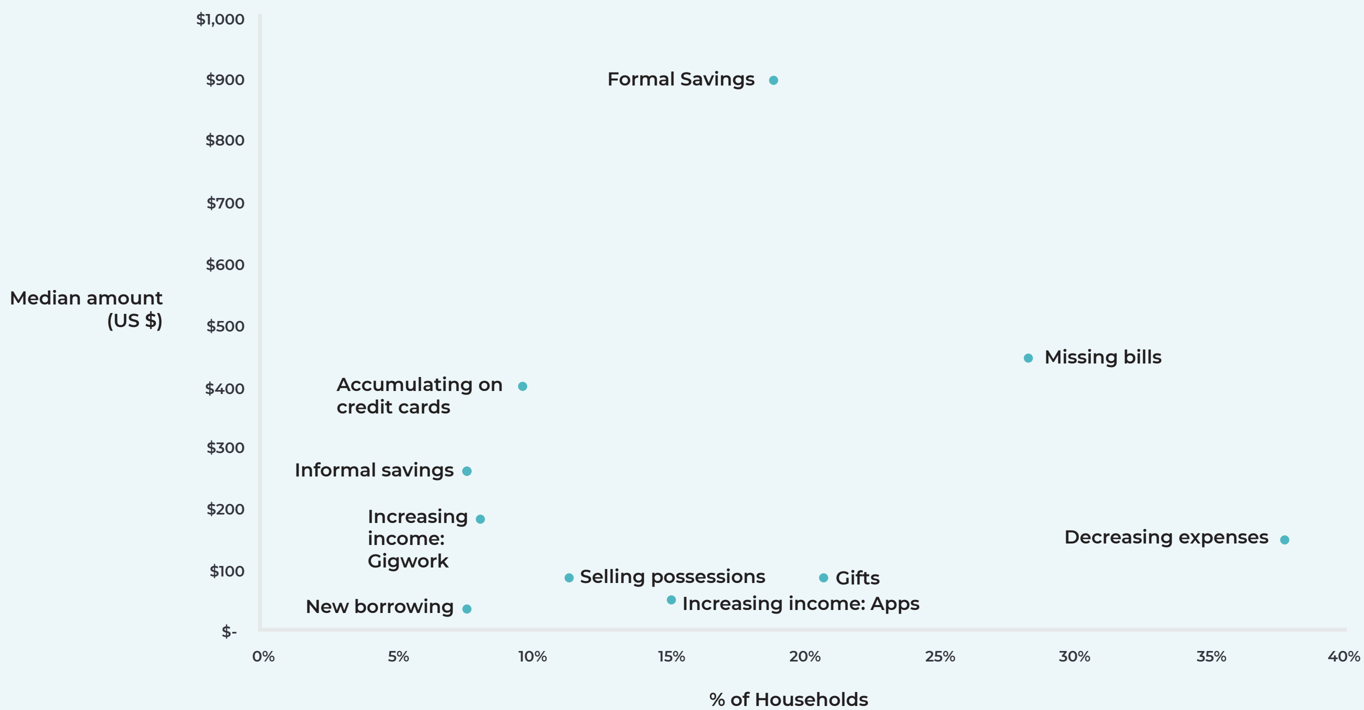
Rapid Insights

The Top Three Strategies

These households are using a range of financial coping strategies, including using savings, working more, accumulating balances on credit cards, not paying bills, and earning income to get by, along with some other tactics. However, the three strategies that were most employed or had the greatest impact on household budgets were using accumulated savings, employing strategic bill payment, and decreasing expenses. Chart 1 illustrates the percentage of households who reported using each strategy at least once through the end of July and the median dollar impact of that strategy on household budgets.

Chart 1:

Percentage of coping strategies used and their financial impact*



*The data used in this chart is based on the 21 households who lost at least 50% of their income or more and had not recovered that income from March through end of July 2020. Percent of households represents households that employed a coping strategy at least once over the study period. The median amount is the median amount that the household raised with each strategy and the median of that over time.

Accumulated Savings

As we discussed in our brief *Emergency Savings: A Life Jacket in Rough Seas,* using accumulated savings had the most impact on households' ability to stay afloat but it was only available to the few households that entered the crisis with savings. Those households that had accumulated savings before the crisis (50%) did not have to borrow, accumulate debt on their credit card, or postpone bills.

Strategic Bill Payment

Almost 30% of households decided not to pay certain bills as a coping strategy—prioritizing some expenses over others. Strategic bill payment was the second-most used and the second-most impactful strategy. Households made strategic decisions about which bills they could pay, and which they could miss, based on the immediate consequences to their finances and daily life. Although strategic bill paying was common among lower-income households before the pandemic, the outcomes of this strategy are different now that the consequences of not paying certain bills have changed due to COVID-19.

- Electricity, water, phone/internet were the most common bills people decided not to pay because they had seen public statements that late fees would be waived and disconnections would be paused. Pre-pandemic, when there was less flexibility around missed payments, people prioritized phone/internet bills as a disconnection would significantly impact their ability to earn a living through the gig economy.
- Most respondents who were renters were staying on top of rent payments—they were unclear about whether they could be evicted and therefore continued to prioritize paying this bill.
- Most respondents who owned their homes were seeking to make new payment arrangements on their mortgages because of the possibility of forbearance. Households had different reasons for this bill payment decision, although most agreed it was necessary given their financial challenges.

Courtney, a Black single mother from Rhode Island, decided to go into forbearance to direct the money she would have otherwise spent on mortgage payments into savings, just in case she needed ready cash. She understood that she could extend the term of her mortgage if necessary.

Decreasing Expenses

Decreasing expenses was the most-used coping strategy (40%), but it had less impact on households' finances. In the first several months after the crisis, the households that experienced a significant loss of income cut about $475 (12% of their current income) from their expenses. Households continued to cut expenses, although with decreasing impact on their household finances, through the end of July. By the end of June 15% of households cut an average of $85. By mid-July 6% of households cut an average of $18, and by the end of July 6% cut an average of $20. They started by cutting subscriptions (such as video streaming services) and shopping at lower-cost grocery stores, followed by changing the food they bought.

John, a 51-year-old married White man with two children living in Chicago, reports "we're spending $65 less on red meat per month [and eating canned tuna and salmon instead]. I have mixed feelings about it because I don't like denying ourselves, but we need the money and maybe there are even some benefits in health."

COVID-19's Impact on Coping Strategies

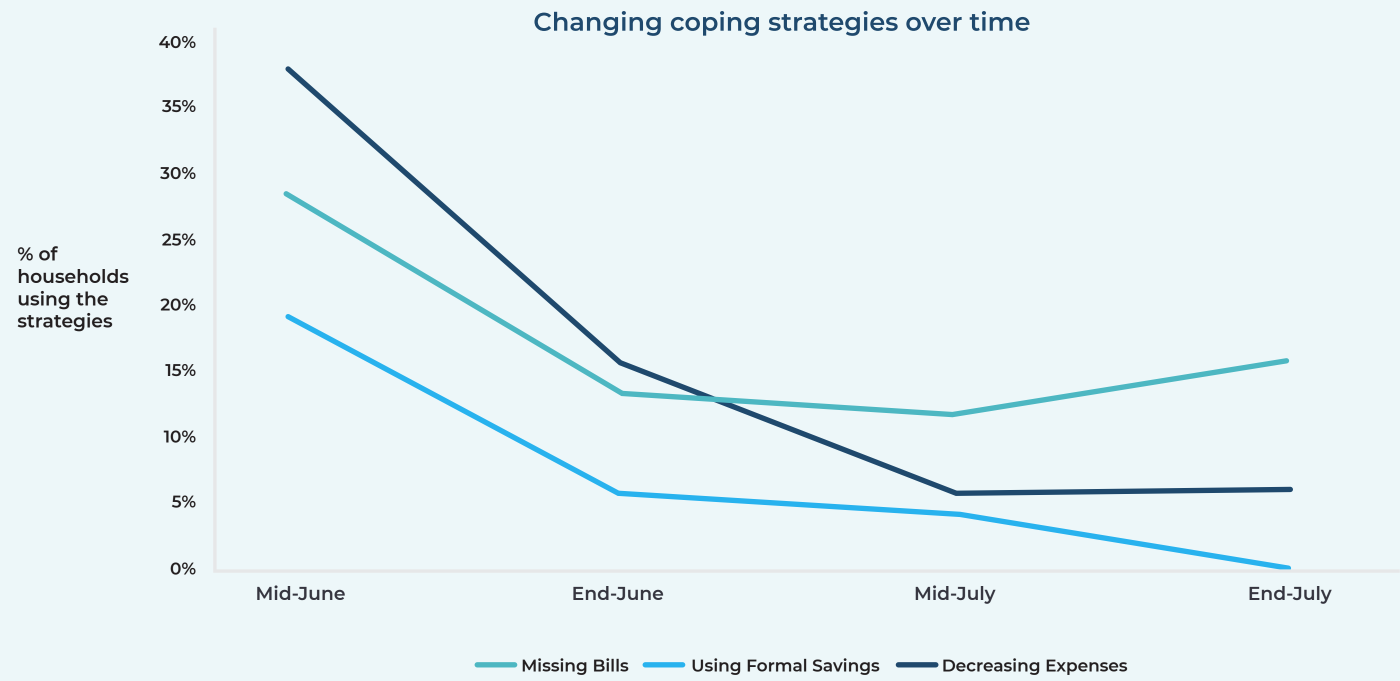
How respondents selected and prioritized financial coping strategies was partially impacted by the unique nature of the current crisis. Two key examples:

- Earning additional income through gig work—a strategy we have previously noted in our research as a key volatility management strategy—was used less by respondents because fewer gig opportunities were available as a result of the shutdown, with many more people looking for ways to earn money. Additionally, households could not turn to families and friends for support because they were also impacted.

- On the expense side of household budgets, respondents had fewer places to spend money due to the shutdown. Also, these households no longer had employment-related expenses such as commuting costs. Additionally, as noted above, it was easier to postpone bill payments due to the moratorium on rental evictions, deferrals on student loans, utility shut-offs, and other actions by private billers to allow for short-term delays.

As the crisis continues, the availability of these strategies is changing. As Chart 2 illustrates, using savings has decreased as funds have been depleted and households have cut all the expenses that they can. Missing bills continues, for now, to be a strategy used by approximately 15% of households, although which households use it changes at every interview.

Chart 2:



Two Strategies at a Time

Households used, on average, two strategies at a time because of the complexity both of their lives and of managing multiple strategies.

> **Dalilah**, a multiracial mother of a toddler from rural Tennessee, had to make up for a monthly income shortfall of $1,000 per month as her freelance work disappeared. At first, Dalilah's main strategy was to cut her family's expenses and to use their accumulated savings. However, her savings ran out at the end of June, and she needed to use her credit card to cover her family's needs in July. In August, she was considering which bills she could miss. As she juggled taking care of her two-year-old child, looking for work, and frequently calling to check on her unemployment benefits, she only had limited bandwidth to investigate, plan, and execute more than a few strategies at the same time.

Combining Strategies Can Amplify Impact

Some strategies appeared to be less impactful when used on their own, but when applied in conjunction with another strategy their impact can be outsized. For example, although gifts have a minimal dollar impact on household budgets they can enable savings to last longer.

> **Maggie**, a White mother of two young children, receives food from a church, which saves her $200 per month in groceries. She also earns $200 using cash-back apps and being a beta tester for video games. This $400 per month is only 8% of her pre-COVID income, but it is enough to keep her family afloat.

Recommendations for Resilience:

Policy Considerations

In August, the President signed executive actions extending moratoriums on evictions and federal student loan payments. While these extensions are helpful in the short term, they only delay the crisis for many low- and moderate-income households who will continue to have precarious financial situations after the immediate crisis is over. Policymakers need to start crafting innovative policy solutions to address the accumulated debt that households will not be able to repay once moratoriums end.

Financial Institutions Considerations

Households have to make complex financial decisions almost daily during this crisis and they need support in this process. Financial institutions and fintechs are in a unique position to better serve these customers (and all customers) by offering data-informed, transparent, easy, and actionable options through a wider range of financial products.

Private Sector Considerations

It is clear that many companies will soon have, if they don't already, customers who owe them money. Given the unique nature of this crisis—that it is caused by a widespread, ongoing, and unpredictable public health crisis—many of the traditional risk mitigation strategies are unlikely to work. What innovative approaches could companies begin to craft now to address these issues? For example, companies could form cross-sector partnerships with philanthropic institutions and nonprofits to jointly address the financial hardships faced by customers. This crisis is a powerful moment to meet your customers where they are—and as result, build greater loyalty, trust and confidence.

Conclusion:

The duration and severity of the COVID-19 crisis, as well as the actions utility companies and policymakers have taken to temporarily pause payments, has had a direct impact on how households in our study have chosen and employed financial coping strategies. These households, who have experienced dramatic income loss as a result of the pandemic's financial impact, have had to exhaust savings, miss bills, and cut household expenses, while many are using a combination of these coping strategies to stay afloat. The widespread impact of these financial actions will have a ripple effect throughout the economy, as landlords and businesses will have unpaid bills and future employers will have a workforce distracted by lingering financial issues. These households might also provide a preview of what is to come for the families who have already lost jobs or expect to be laid off and are now facing a dramatic loss of income as supplemental unemployment benefits expire or are not available. Additionally, hundreds of thousands of Americans continue to apply for unemployment insurance claims, with more job losses expected in the travel and hospitality industries by the end of this year. Major systems actors taking action now could prevent households caught in COVID-19's financial undertow from sinking deeper.

BlackRock's Emergency Savings Initiative

This report is made possible thanks to the generous support of BlackRock's Emergency Savings Initiative. BlackRock has announced a $50 million philanthropic commitment to help people living on low- to moderate income gain access to and increase usage of proven savings strategies and tools to help them establish an important safety net. Led by its Social Impact team, BlackRock, along with nonprofit experts known for their innovative approach to consumer finance, Commonwealth, and Common Cents Lab, and Financial Health Network (formerly CFSI) are working to address the savings crisis and fuel the future of savings innovation.

For more information on this brief, please contact Melissa Gopnik at info@buildcommonwealth.org

Follow the Financial Resilience Project online for our latest insights, stories from the households we are following, and more:

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