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A Tsunami of Volatility:

The Impact CARES Act Unemployment Benefits on Lower-Income Households

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In June, Commonwealth began following 56 families from across the US (households in 24 states with a median annual income of $50,000) as they navigate life during a pandemic. In our biweekly interviews, we follow households' changes in income, as well as their financial resiliency strategies: how they are using savings, increasing side jobs, decreasing expenses, borrowing and postponing payment on bills.

This study enables us to observe the real-time impactof the supplemental unemployment payments that many households have come to rely on.

In this brief, we discuss that while the benefits themselves have been critical to households, their design and implementation have led to more uncertainty and volatility for lower-income households.

We also share how the families themselves used—and continue to use—key financial resiliency strategies to manage gaps before these benefits arrived. Finally, we offer recommendations for how these benefits can be better designed in the future to fit the financial lives of lower-income households; as well as how financial services institutions can support these households right now with little additional effort.

CARES Act Unemployment Benefits

The CARES Act approved in March provided two important unemployment benefits to households in the wake of the dramatic economic downturn caused by COVID-19:

- Expanded eligibility for benefits to contract and gig workers and an additional $600 per week in unemployment benefits for all.
- The supplemental $600 payments were designed to be a short-term solution that replaced the average worker's missed paychecks while also providing a quick and significant boost to the economy.

A Tsunami of Volatility

Abrupt Job Loss Upended Families Financial Stability

Most lower-income households faced a constant storm of financial insecurity well before the pandemic hit. However, for many of the families we follow in our research, the volatility of the last several months has been especially intense. The storm has become a tsunami. First, abrupt job loss upended many families' financial stability almost immediately. By the end of March, 70% of the 56 families we follow had at least one adult out of a job—several had more than one not working.

Among these 39 households, only five were lucky enough to find new jobs or sufficient gig work. Far fewer households were so lucky—a total of 10, or 25% of the unemployed households—applied for unemployment and are still waiting on the results of their application. Most households who suffered job loss—a total of 15, or 40% of the unemployed households—were receiving unemployment benefits by the time we started speaking with them in the second week of June.

Supplemental Unemployment Benefits Were a Lifeline

For the households that were able to receive the supplemental unemployment benefits, the extra money was a lifeline. These households reported feeling calm and confident about their financial state by the time we started speaking with them—and in many cases, the supplemental benefits had increased their incomes above their salaries before the pandemic.

However, this new calm came only after a significant financial shock. For a month and a half after losing their jobs, and before their unemployment benefits kicked in, these families were scrambling to make ends meet. During this time, they experienced extreme negative volatility—the median household income of this group plummeted 89%, or $3000 per month, after losing work until they started receiving the supplemental benefits.

Chart 1: Median income for the 15 households receiving unemployment

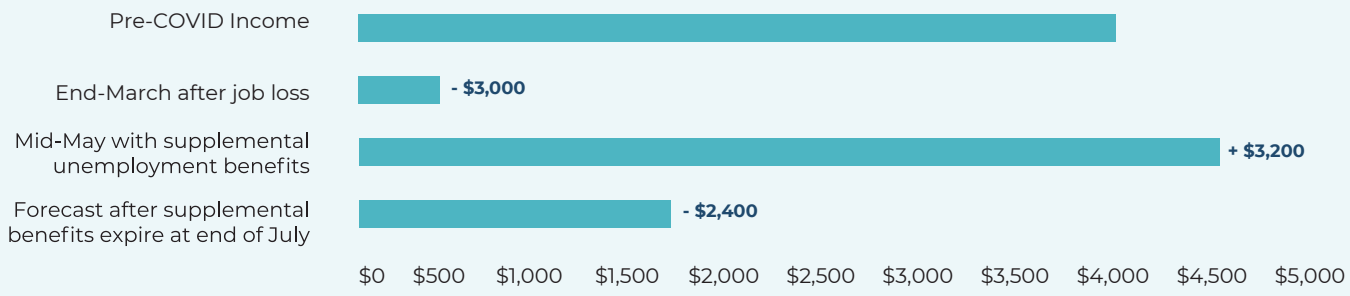


Chart 1 shows the roller coaster of median incomes from before the pandemic to immediately after jobs were lost to when unemployment benefits kicked in from before the pandemic forward. The last bar graph is our estimate of median incomes once the supplemental $600 per week benefit expires on July 31—a plunge of 63% at the median, or about $2,400 per month.

Recovering Financially After Plummets in Income Takes Time

Recovering after the initial plummet also took time. Once people began receiving benefits, they needed to settle unpaid bills, loans and rent, and re-stock on household basics they had done without. It was not until well into June that they began to feel more stable and understand their new normal. Once they started receiving benefits steadily, many found themselves with about $900 per month more than what they had earned pre-COVID.

Now, having experienced the first plunge in income, these households see the next plunge coming at the end of July. Most know that putting this extra income aside would be helpful. However, few have the right tools to understand how much they can afford to save given the volatility and uncertainty in their lives. Even if households could have put aside that full extra $900 of income they received in supplemental benefits, they would only have had time to accumulate savings of $2,700—not enough to cover even one month of lost income.

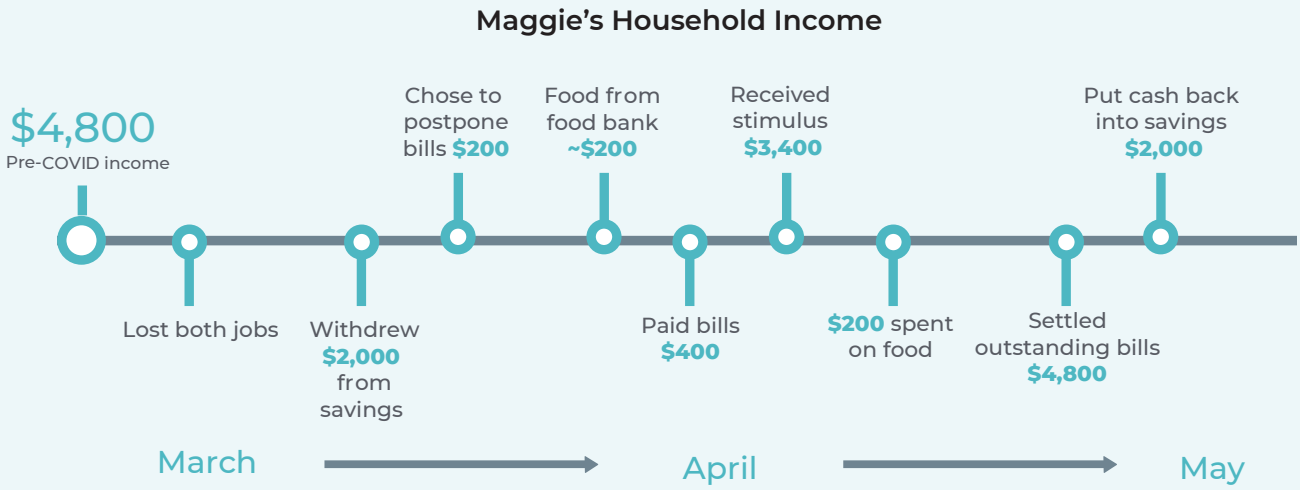
Through our interviews, we've had an up-close view into people's financial lives during the pandemic. For many, the worry caused by this extreme volatility and the uncertainty about when it will end dominates their lives. Below we share the account of one family as an example of how this tsunami of volatility has impacted lower-income households in the US.

Pandemic Financial Lives Up Close: Maggie's Family

Maggie and her husband are a white couple in their forties who recently moved back to Mississippi with their two young children to live near her parents.

- They earned a monthly household income of $4,800 before the pandemic
- Both Maggie and her husband suddenly lost their job in March
- They both applied for unemployment at the beginning of April and started to receive $811 and $751, respectively, per week by the end of April
- But, by then were already two months behind

The Supplemental Unemployment Benefits Expiration Means a **Drop in Income of 75%** for Maggie's Household



As Maggie and her husband entered May, they breathed a sigh of relief—the backlog payment from a month of unemployment plus their stimulus meant their bills were paid up. They were able to put the money they had taken out of their savings back and had enough money to keep up to date with bills without withdrawing from it again. However, after a few weeks of sorting out the finances and re-establishing a new budget—with the awareness that the unemployment benefits were giving them an extra $1,500 per month compared to their pre-COVID income—Maggie realized that the supplemental unemployment benefits would expire at the end of July, after which their monthly income would drop 75%.

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As Maggie worked through what their lives would look like in August, she needed to take into account a few new factors. First, the circumstances of her job had changed. As one of several caregivers for a quadriplegic who had recently switched to one caregiver to lower his coronavirus risk, she was not going back to that job any time soon. Moreover, she was concerned that her area would be slow to recover from COVID-19 infections and therefore felt she would need to home-school her two young children who were just three and five—a full time job in itself. Third, her husband, who was now furloughed, was hearing that his job would not be reinstated. They were lucky to have a guarantee from his employer to keep his health benefits until September, but he would need to be in a new job by then.

In our recent interviews, Maggie shared that she and her husband have been busy planning for the near term. While her husband has upped his intensity in looking for a new job, she has been searching for food banks and trying to earn money on the cash-back and game apps she uses—although both only get her, at most, an extra $400 a month. She mostly tries to put away—in these last weeks—as much money as she can to weather the next tsunami.

Searching for Calmer Waters

Although Maggie and her husband had the savings to cover their expenses before their unemployment benefits kicked in, most of the families in our study did not. Instead, they cut down on expenses, postponed bills, or accumulated debt on credit cards while they anxiously waited to start receiving benefits. Due to the uncertain nature of the benefits, these households could not predict when they would receive them and how long they would last. Now, with the benefits coming to a possible end, these families will quickly face more volatility—scrambling to make sure they have the knowledge and supplies to keep their families healthy, while also wondering where the money is going to come from.

Policy Considerations

Federal and state governments may not be able to predict the future, but they can help lower-income households by reducing the volatility and uncertainty of their incomes. They can do so by:

- Providing seamless continuation of existing supplemental benefits
- Ensuring benefits are guaranteed for a longer time
- Delivering benefits quickly and minimizing delays

Financial Services Considerations

Financial institutions and fintechs can also smooth this volatility by deploying data analytics in service to these households—note that many of these services are already available, making them easier to quickly deploy, however most are not being used for these purposes. Key opportunities include identifying:

- Who is waiting for benefits and could use an affordable line of credit or an automatic extra month to pay their bills
- Who could benefit from the waiving of overdraft fees and waiving them automatically
- Who could get a savings message in anticipation of a lump sum payment and nudging them when the payment comes in
- Who needs tax guidance (as they will need to eventually pay taxes on their unemployment benefits)

As Congress debates an extension, both the public sector and private sector financial services institutions can ensure these benefits, no matter the amount, serve to decrease rather than increase volatility for lower-income households. While there is no clear end to the current economic crisis, major systems actors (financial institutions, fintechs, policymakers, and others) can play a role to support lower-income households as they navigate this tsunami.

MetLife

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