Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

The $400 Question: Financial Insecurity and the COVID-19 Pandemic

February 12, 2021

The economic disruption caused by the Coronavirus Disease 2019 (COVID-19) pandemic heightened awareness of household financial insecurity. Financial insecurity was not new for some households—they were financially insecure at the onset of the pandemic. Adults with children were disproportionately financially insecure. For some households, financial security *improved* between fall 2019 and summer 2020, following extraordinary economic relief provided in response to the disruptions caused by the COVID-19 pandemic.

This Insight uses survey data on responses to "the $400 question" to analyze the above trends. The question asks those surveyed how they would finance an unexpected $400 expense.

The Survey of Household Economics and Decisionmaking

The Federal Reserve Board conducts an annual household survey, the Survey of Household Economics and Decisionmaking (SHED), which gauges the state of American households' finances and risks to their economic well-being. The first survey, conducted in 2013 in the shadow of the Great Recession, found that half of all adults said they could finance an unexpected $400 expenditure based on financial resources on hand during the current month: from available cash, from checking or savings accounts, or by placing the expense on a credit card and paying it off that same month. The other half of adults said they would finance the expense through other means, such as borrowing, selling an asset, or not immediately paying for the expense.

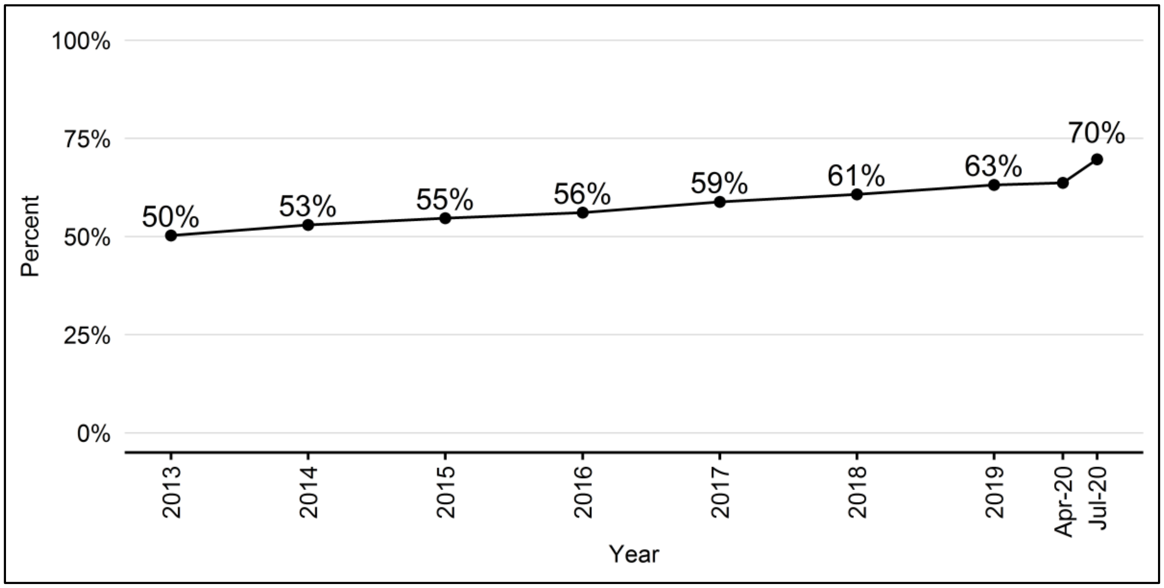
Trends in Financing an Unexpected $400 Expense

During the economic expansion that ended in early 2020, the percentage of adults who responded that they would cover an unexpected $400 expense based on financial resources on hand increased. In fall 2019, that percentage stood at 63%. The year 2019 was the last full year of the longest economic expansion on record, with employment rates for prime-age workers near their historical peak and estimated poverty rates at their lowest point observed since 1959 (the first year the measure was available). In fall 2019, 36% of adults said they would finance an unexpected $400 expense by borrowing, selling an asset, or not immediately paying for the expense.

Congressional Research Service
https://crsreports.congress.gov
IN11602

The Federal Reserve Board fielded special supplements to the survey in April and July 2020 to help assess the impact of economic fallout from the COVID-19 pandemic on household finances. In July 2020, the share of adults reporting that they would finance an unexpected $400 expense from resources on hand had *increased* to 70% (**Figure 1**).

Figure 1. Percentage of Adults Who Said They Would Finance an Unexpected $400 Expense with Financial Resources on Hand, 2013-2020



Source: Congressional Research Service (CRS) tabulations of the Survey of Household Economics and Decisionmaking, 2013 to 2019, and special supplements conducted in April 2020 and July 2020.

Notes: "Financial resources on hand" means that the respondent would pay for the unexpected expense through cash, through checking or savings accounts, or by placing it on a credit card and paying it off that month. It also means they would not pay for the expense by putting it on a credit card and paying for it over time; using a bank loan or line of credit; borrowing from friend or family; using a payday loan, deposit advance, or overdraft; or selling something; and that they would not be unable to pay it.

In spring 2020, the Treasury sent direct economic impact payments of $1,200 per adult and $600 per dependent to households (amounts were reduced for higher income households) and fully enhanced unemployment insurance benefits were in place. These injections of cash from the federal government to households helped increase aggregate personal income for the calendar quarter of April to June 2020 compared to income in previous quarters. Whether the improvement in household finances measured by the responses to "the $400 question" observed in July 2020 will be ephemeral or lasting is not known at this point. (Data from the fall 2020 survey are scheduled to be available later this year.)

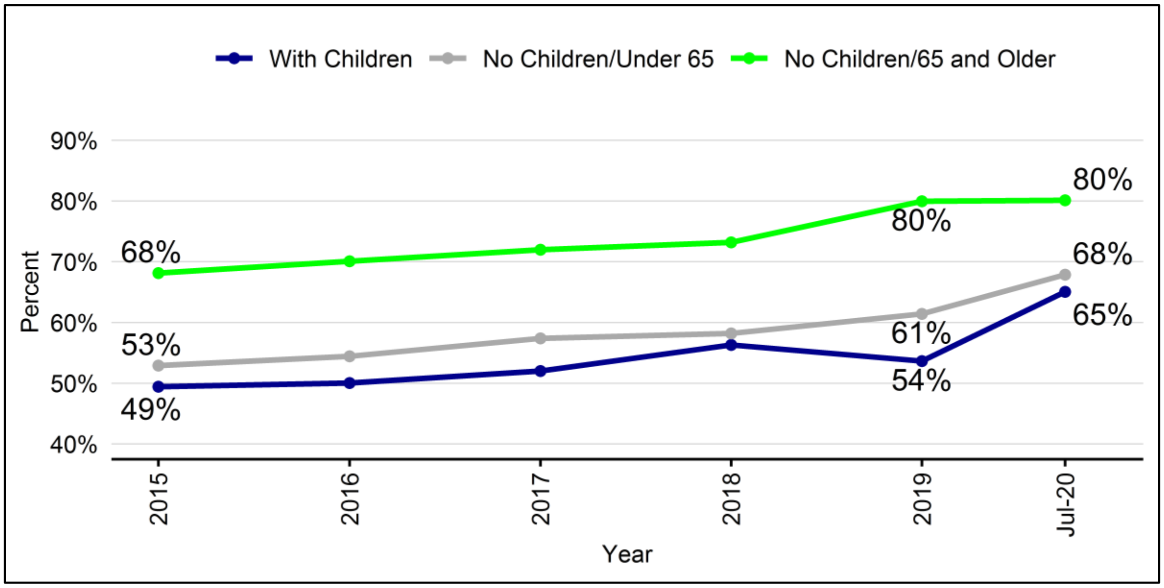
Adults with Children Versus Other Adults

Adults with children under 18 were consistently less likely than other adults to say they would pay for an unexpected $400 expense with financial resources on hand. This is despite families with children being a main target group for many programs that aid low-income people, although most of that aid is in either a noncash form (e.g., Medicaid, Supplemental Nutrition Assistance Program benefits) or once a year refundable tax credits (earned income and child credits).

In 2015 (the year the survey first asked whether adults lived with their own children under age 18), a little less than half (49%) of adults with children would pay for an unexpected $400 expense with financial resources on hand. This rate increased to 54% in fall 2019. It further increased 11 percentage points to

65% in July 2020. The trend for non-aged adults was similar, though slightly higher than the rate for adults with children. Aged adults (65+) without children consistently had the highest rate of saying they would pay for an unexpected $400 expense from financial resources on hand (**Figure 2**).

Figure 2. Percentage of Adults with Children and Other Adults Who Said They Would Finance an Unexpected $400 Expense with Financial Resources on Hand, 2015-2020



Source: Congressional Research Service (CRS) tabulations of the Survey of Household Economics and Decisionmaking, 2013 to 2019, and a special supplement conducted in July 2020.

Notes: See note to **Figure 1** for the definition of "financial resources on hand."

Conclusion

The "$400 question" provides a different lens on households' financial well-being and security to complement more traditional measures such as the poverty rate. It asks a relatable question—how do you pay for this unexpected expense? The trends in responses to that question might provide context as Congress considers additional COVID-19 pandemic-related economic relief or later legislation intended to address household financial well-being and security.

Author Information

Gene Falk
Specialist in Social Policy

Disclaimer