Damaging effects of unemployment and unexpected wealth losses on mobility and economic security

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A new study from The Pew Charitable Trusts, "Making Hard Choices: Navigating the Economic Shock of Unemployment," examines how American families cope with unexpected financial setbacks and how those periods of economic uncertainty draw down financial resources. The report studies families across race and income levels, revealing different experiences resulting from unemployment and the difficult choices many of them face.

Building upon Pew's prior research, this report underscores the significance of financial resources other than income, particularly savings and assets, in defending family economic security and the health of the American Dream.

"Even during periods of strong economic growth, unanticipated financial shocks can harm a family's prospects for upward mobility," said Erin Currier, Pew's economic mobility expert. "Savings and assets play a critical role in ensuring that families can build the resources to protect themselves in times of need and preserve the well-being of their children."

Analysis for "Navigating the Economic Shock of Unemployment" was conducted by researchers at the Institute on Assets and Social Policy at Brandeis University. Using a combination of quantitative and qualitative analysis, the study takes a close look at varying experiences of unemployment across race and family income from 1999 to 2009.

The research shows that families at every rung of the economic ladder experienced unemployment and other financial setbacks, but families at the bottom of the income ladder, Latinos, and blacks had the greatest risk of job loss and the least access to resources to buffer negative impacts. For example, when comparing households that experienced unemployment, the median wealth of white households was at least seven times that of black households in each year of the study.

Additionally, families who experienced unemployment in the ten-year period were 1.3 times more likely to have experienced a loss in wealth during the decade than other families, even when controlling for marital status, change in family income over the study period, head-of-household gender, race, and education.

In-depth interviews conducted with 51 families that endured unemployment provide insight into how disparities in income and wealth affect how families react to and cope with economic shock. Respondents recalled:

- Tapping into resources originally allocated for their children's education or their own retirement;
- Taking out risky small-dollar loans with high fees; and
- Depleting assets in order to meet qualifications for public assistance.

The patchwork of resources families use—including depletion of household financial assets; family, friends, and kinship networks; credit, debt, and loans; and institutional resources—affect not only families' short-term economic security, but also their long-term mobility prospects as well as those for their children.

"The evidence in this report provides insight into the actions that policymakers can take to help people who have experienced unemployment," said Janet Boguslaw, researcher at Brandeis' Institute on Assets and Social Policy. "There is no question that providing mechanisms for Americans to hold and secure assets in good times and in bad will help them and the economy as a whole over the long run."

Boguslaw and her colleagues propose the following policy options in the report:

- Revise the savings tax incentive structures to encourage families to build emergency financial assets;
- Provide low-cost loan options available to families in times of economic need;
- Remove disincentives to savings and work in government safety-net programs;
- Reform the unemployment insurance system to better meet current labor market realities;
- And, help low- and moderate-wealth families take advantage of opportunity investments.

Provided by Brandeis University