

THE
PEW
CHARITABLE TRUSTS

Hard Choices

Navigating the Economic
Shock of Unemployment

APRIL 2013

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

By forging broad, nonpartisan agreement on the facts and drivers of mobility, the economic mobility project fosters policy debate and action on how best to improve economic opportunity and ensure that the American Dream is kept alive for future generations.

THE PEW CHARITABLE TRUSTS

Susan K. Urahn, executive vice president

Travis Plunkett, deputy director

This report was authored by Janet Boguslaw, Hannah Thomas, Laura Sullivan, Tatjana Meschede, Sara Chaganti, and Thomas Shapiro of the Institute on Assets and Social Policy, or IASP, at Brandeis University. IASP would like to acknowledge the Ford Foundation for its generous support for development of the qualitative database upon which this research draws.

ACKNOWLEDGEMENTS

The economic mobility project—Erin Carrier, Diana Elliott, Lauren Wechsler, and Denise Wilson—thanks Pew staff members Ellyon Bell, H.J. Derr, Jennifer V. Doctors, Laura Fahey, Samantha Lasky, and Liz Voyles for providing valuable feedback on the report, and Jennifer Peltak for Web support. Many thanks to our other former and current colleagues who made this work possible.

The report benefited from the insights and expertise of external reviewers Marybeth Mattingly, director of research on vulnerable families at the Carsey Institute at the University of New Hampshire, and Kristin Smith, family demographer at the Carsey Institute. These experts have found the report's approach and methodology to be sound; neither they nor their organizations necessarily endorse its conclusions.

This report was supported in part by the Charles Stewart Mott Foundation.

For additional information, please visit www.economicmobility.org.

References to specific companies do not constitute an endorsement, sponsorship, or recommendation by The Pew Charitable Trusts.

©2013 The Pew Charitable Trusts. All Rights Reserved.

901 E Street NW, 10th Floor

Washington, DC 20004

2005 Market Street, Suite 1700

Philadelphia, PA 19103

Table of Contents

Pew Overview	1
Unemployment and Household Resources in the 21st Century	3
Figure 1: One-Third of All Households Experienced Unemployment With Minority and Low-Income Households at Greater Risk	4
Figure 2: White Households That Experienced Unemployment Had Higher Median Family Income Than Fully Employed Black Households.	5
Figure 3: Regardless of Employment Status, White Households Had Higher Median Wealth Than Black Households	6
How Families Negotiate Income Drops Caused by Unemployment	8
Figure 4: Black Households That Experienced Unemployment Had No Assets to Fall Back On	10
Figure 5: White Households Were More Likely to Have Private Annuities and IRAs Than Black Households	12
Figure 6: Black Households That Experienced Unemployment Saw No Increase in Home Equity.	13
Figure 7: Unsecured Debt Was Highest For White Households That Experienced Unemployment	18

Policy Recommendations 25

Conclusion. 28

Appendix 1: Quantitative Data and Analysis 29

Appendix 2: Multivariate Analysis of Panel Study Data . . . 30

Appendix 3: Longitudinal In-Person Interviews 33

Endnotes 34

Pew Overview

During the Great Recession of 2007 to 2009, millions of Americans faced severe economic hardship, forcing difficult decisions about how to stabilize their families' financial well-being and prevent downward economic mobility. Americans with savings were forced to weigh immediate needs against long-term investments, choosing whether to deplete personal assets in order to stay afloat. Those without wealth to fall back on were in an even more precarious position, leading them to turn to family assistance, debt, and other public and private supports when available.

The scale and scope of the Great Recession raised awareness among policymakers and the public of the challenges families face in periods of financial strain. These difficulties, however, occur in both good and bad economic times: A full third of American families experienced a period of unemployment between 1999 and 2009. An economic shock, such as the loss of a job, a sudden illness, or other unanticipated expense or loss of income can profoundly affect a family's mobility prospects, even during periods of strong economic growth.

This study examines how families weather economic shocks through a close focus on one particular event—the experience of unemployment, with specific attention to differences by race and family income. The analysis used a nationally representative sample of working-age families from the Panel Study of Income Dynamics or PSID, following the same households from 1999 to 2009. To provide greater insight into the challenges and choices families faced, the report also drew on a unique longitudinal data set of in-depth interviews with 51 families that endured one month or more of unemployment between 1998 and 2012.¹

Through this combination of quantitative and qualitative data, the relationship between unemployment and family wealth was investigated. The study found that while families at every rung of the economic ladder experienced unemployment and other financial setbacks, their ability to withstand and recover from losses differed dramatically. Low-income families and those of color had both the greatest risk of job loss and the least access to resources to soften the blow. For example, when comparing

those 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.

Moreover, families that experienced unemployment not only suffered lost income during their period not working, but also longer-term wealth losses, compromising their economic security and mobility. Those who experienced unemployment between 1999 and 2009 were 1.3 times more likely to have suffered 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.

Further insights from the interviews, along with additional analysis from the panel study, demonstrated how disparities in income and wealth affect the ways families react to and cope with economic shocks. The stories in this report provide rich detail on families' efforts to patch together a variety of resources and strategies during periods of unemployment, including household financial assets; family, friends, and kinship networks; credit, debt, and loans; and institutional resources.

The interviews highlighted that unemployment and the trade-offs it requires affected not only families' short-

term economic security, but also their long-term mobility prospects. Those without personal savings and kinship support frequently used resources they had allocated for their children's education or their own retirement to fund short-term needs. They were also the most likely to turn to sources of credit or loans with high fees and interest rates. Institutional resources, including public benefits, played a critical supporting role, but they were not always sufficient and sometimes required families to deplete assets or turn down opportunities to maintain eligibility for assistance.

The findings in this report provide insight for policymakers seeking to help families build assets that can protect them in times of need and provide a foundation for future upward mobility. Mechanisms that encourage families to build savings and access low-cost loans in times of economic shock, as well as public safety-net programs that prevent downward mobility and also promote recovery and return to the labor market, are all needed. In exploring the ways wealth affects families during an economic crisis and the difficult choices they face, this research makes a crucial contribution to our emerging understanding of the role financial resources other than income, particularly savings and assets, play in family economic security and mobility and in the health of the American Dream.

Unemployment and Household Resources in the 21st Century

Unemployment is a significant disruption to family well-being, which may last for only a short time or can be a longer-term and more devastating event. With asset insecurity widespread and many families with little capacity to save for a rainy day, a loss of income can dramatically reshape economic lives. National-level data from the PSID showed that unemployment among working-age families that were followed for a decade leading up to and including the Great Recession was fairly common and was experienced disproportionately by black, Latino, and low-income households, further compounding economic disadvantages (see Appendix 1 for details about the methodology).

One-third of all households studied experienced unemployment, with blacks, Latinos, and low-income families at greatest risk of job loss.

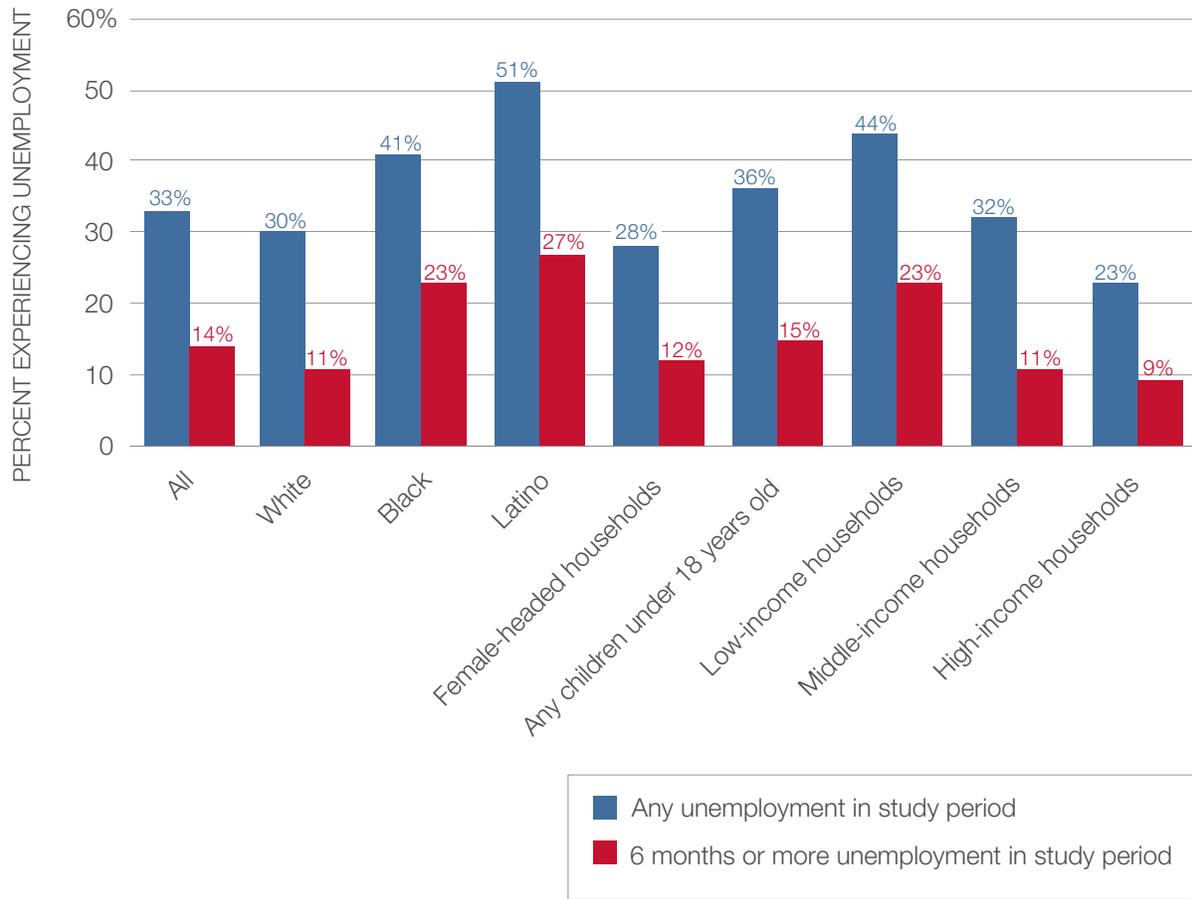
One-third of households (33 percent) headed by adults in their prime working years experienced a period of

unemployment by at least one earner during the 10 years studied. Notably, blacks, Latinos, and low-income households were more likely than whites and the more affluent to experience job loss (see Figure 1 on page 4). For example, 30 percent of white families had a period of unemployment in the decade, compared with 41 percent of black families and 51 percent of Latino families. Similarly, the top third of households by income was much less likely to face unemployment than the lowest third—23 percent and 44 percent, respectively.²

Vulnerable groups experienced the longest unemployment.

Overall, 14 percent of households experienced long-term unemployment—a total of six months or more—but vulnerable groups were substantially more likely to face this outcome.³ Twenty-three percent of black families, 23 percent of the lowest third of households by income, and 27 percent of Latino households suffered long-term unemployment in the 10 years studied (see Figure 1).⁴

FIGURE 1: ONE-THIRD OF ALL HOUSEHOLDS EXPERIENCED UNEMPLOYMENT WITH MINORITY AND LOW-INCOME HOUSEHOLDS AT GREATER RISK (1999-2009)



SOURCE: Panel Study of Income Dynamics, 1999-2009

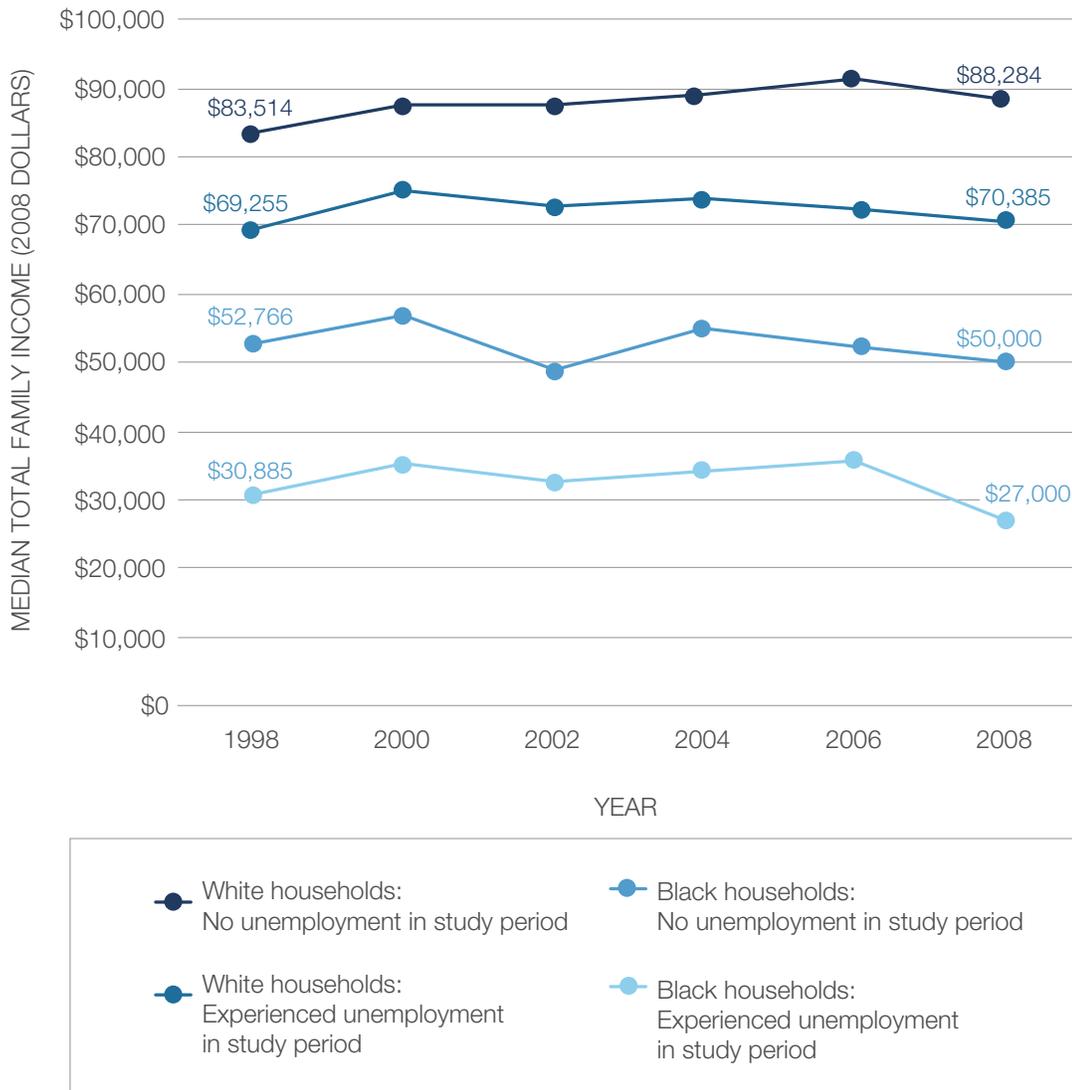
Households that experienced unemployment had lower family incomes throughout the decade.

For all households, regardless of race, any period of unemployment in the past decade was associated with reduced median income in each year of the study compared with those that did not have any unemployment.

White households that experienced unemployment earned more than fully employed black households.

Figure 2 (see page 5) shows substantial income disparities between black and white households. Median white households consistently had higher incomes in each year of the study than median black households, even when the former experienced unemployment during the decade and the latter did not.⁵

FIGURE 2: WHITE HOUSEHOLDS THAT EXPERIENCED UNEMPLOYMENT HAD HIGHER MEDIAN FAMILY INCOME THAN FULLY EMPLOYED BLACK HOUSEHOLDS



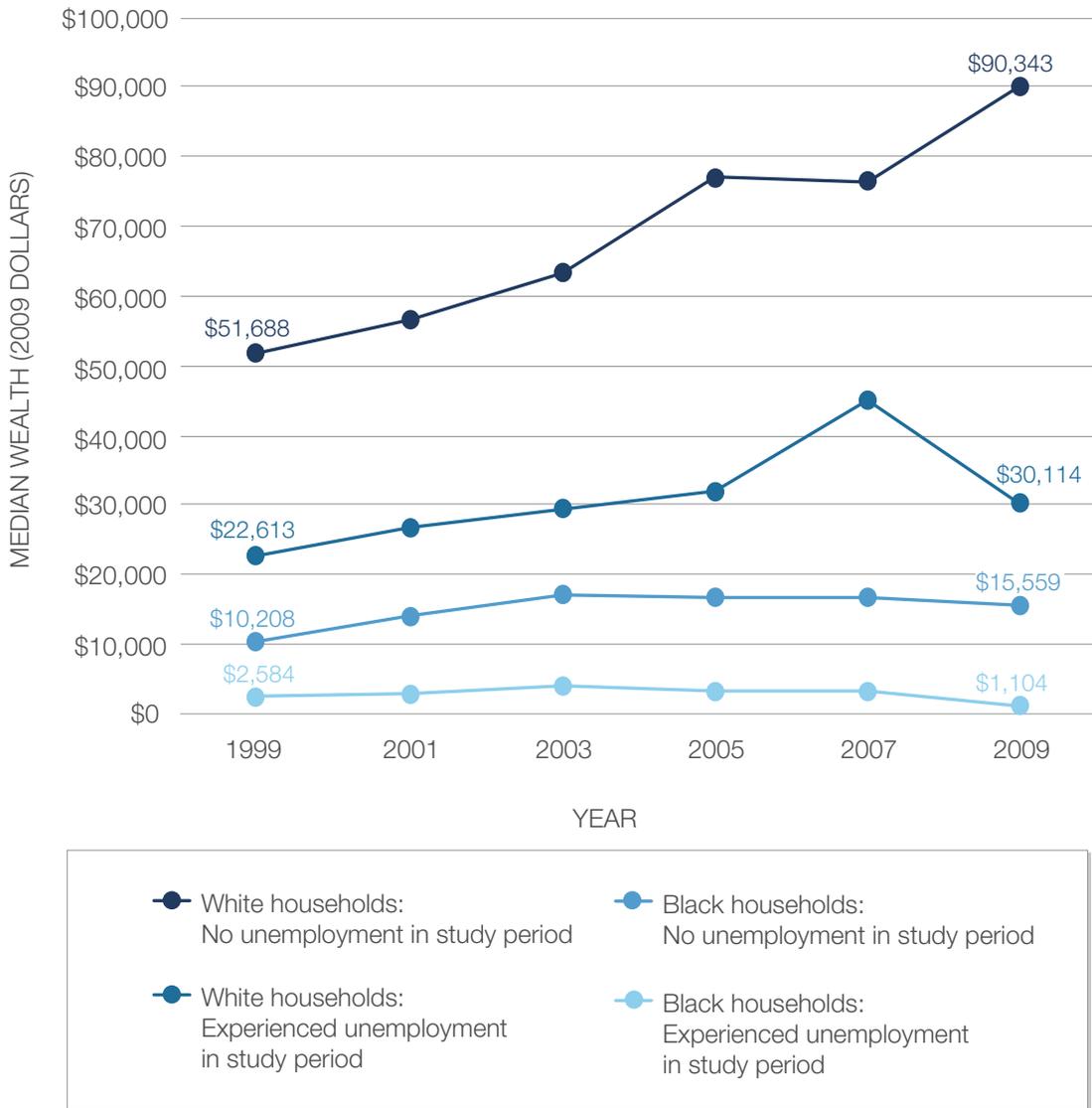
SOURCE: Panel Study of Income Dynamics, 1999-2009

Very low wealth left black families more vulnerable to the impacts of unemployment.

In addition to higher income, white families, even those that experienced unemployment, had substantially more

wealth than blacks.⁶ Figure 3 (see page 6) shows that regardless of employment status, white households were in a notably better situation than black households in terms of asset holdings. Even when comparing only those households that

FIGURE 3: REGARDLESS OF EMPLOYMENT STATUS, WHITE HOUSEHOLDS HAD HIGHER MEDIAN WEALTH THAN BLACK HOUSEHOLDS



SOURCE: Panel Study of Income Dynamics, 1999-2009

experienced unemployment, the median wealth of white households was at least seven times that of black households in each year of the study.

Figure 3 also shows that white households that did not experience unemployment had more wealth than all other groups and saw the greatest asset gains in the first decade of the 21st century. Starting from a higher initial level of asset holdings, the median white family that did not

experience unemployment saw its assets increase almost \$40,000 in real dollars, from \$51,688 to \$90,343, between 1999 and 2009.

By contrast, over the same period, asset growth among median households was much lower for blacks who were fully employed (\$5,351) as well as among whites who experienced at least one spell of unemployment in the decade (\$7,501). Among black households that experienced unemployment during the decade, median wealth actually declined by almost \$1,500, with median holdings of just \$1,104 in 2009.

Notably, all types of households, except fully employed white households, saw wealth decline during the Great Recession. In particular, white households that experienced unemployment had a striking decline in wealth between 2007 and 2009.

Unemployment contributed to overall losses in family wealth in the last decade.

Additional analyses indicate that unemployment during the 10-year period

was significantly associated with wealth losses (see Appendix 2). Families that experienced any unemployment were 1.3 times more likely to have experienced a loss in wealth between 1999 and 2009 than other families, even when controlling for marital status, change in family income over the period, head-of-household gender, race, and education.⁷ The significant decrease in wealth-building due to unemployment suggests that families often turned to savings or drew down other assets in response to losing employment income.

The substantial disparities in income and wealth demonstrated by this analysis fundamentally affect the ways families can react to and cope with economic shocks. Not only are low-income households and families of color more likely to experience an economic shock due to unemployment, but they also have significantly fewer economic resources to buffer the impact. Without substantial emergency funds or access to institutional supports, low-income families and households of color are much more vulnerable to economic hardship during any financial downturn.

How Families Negotiate Income Drops Caused by Unemployment

The national-level findings presented in the previous section provide a picture of the prevalence and distribution of unemployment across the United States over the past decade. Such findings are enhanced by 51 interviews with black and white parents in their 40s and 50s, with teenagers and older children, who experienced unemployment for one month or more between 1998 and 2012. (The names of those interviewed have been changed to protect participants' confidentiality.) Their stories document the resources families use to negotiate the shock of unemployment, how they make difficult decisions, and how those decisions affect their immediate well-being and future mobility (see Appendix 3 for details about the methodology).

Families patched together a variety of resources and strategies to manage their periods of unemployment:

Household financial assets: They often drew first on personal savings, investment income, home equity, and other assets,

depleting resources set aside for long-term purposes such as retirement and college.

Family, friends, and kinship networks: Many families also depended on help from relatives and friends.

Credit, debt, and loans: Some families turned to credit and loans to cover costs, incurring significant debt in the process.

Institutional resources: When eligible, families also accessed institutional resources, such as help with cash, food, education, housing, and utilities, offered through governments, nonprofits, and private entities.

Accounts from the interviews are interwoven with national-level data from the PSID and highlight the extent to which negotiating the economic shock of unemployment required using many strategies and making hard choices.

THE JOHNSONS: NEGOTIATING UNEMPLOYMENT REQUIRES MANY STRATEGIES

In 1998, Bob Johnson, a father of two, was a news reporter. His wife, Ellie, was a stay-at-home mother who worked occasionally as a substitute teacher and hoped to teach full time. Bob had experienced one previous bout of unemployment, during which the Johnsons had drawn \$30,000 out of a retirement account, despite significant financial penalties, to manage living expenses.

When interviewed again in 2012, Bob had experienced another period of unemployment, though he was re-employed. During the eight months Bob was laid off, the family used \$16,000 from liquidated stock options and \$50,000 from the sale of an investment property to cover immediate needs. They also relied on help from family and friends. Ellie moved in with relatives in a southern state, where she could live with fewer expenses, while Bob sought work in a northern state.

During this period, one of the Johnsons' daughters was hospitalized. To cover the unexpected medical bills, Bob incurred significant debt from multiple sources and encountered repayment challenges:

"It's taken me the last ... two years to get out of debt to these payday loan people because when my daughter was at the hospital ... there were some costs that were not covered by the insurance. I think to the tune of about ... \$6,000. ... So I had to come up with that. And that meant borrowing money that we really didn't have and I couldn't afford."

Ellie did not seek a full-time job so she could stay home with their daughter, who was home-schooled due to her medical issues.

At the time of the interview, the family income was \$117,000, similar to what it had been in 1998. As a result of the unemployment and medical expenses, however, Bob and Ellie had only \$200 in savings and were \$17,500 in debt. Although Bob had been re-employed for almost two years and was trying to rebuild his retirement savings, the family remained economically insecure.

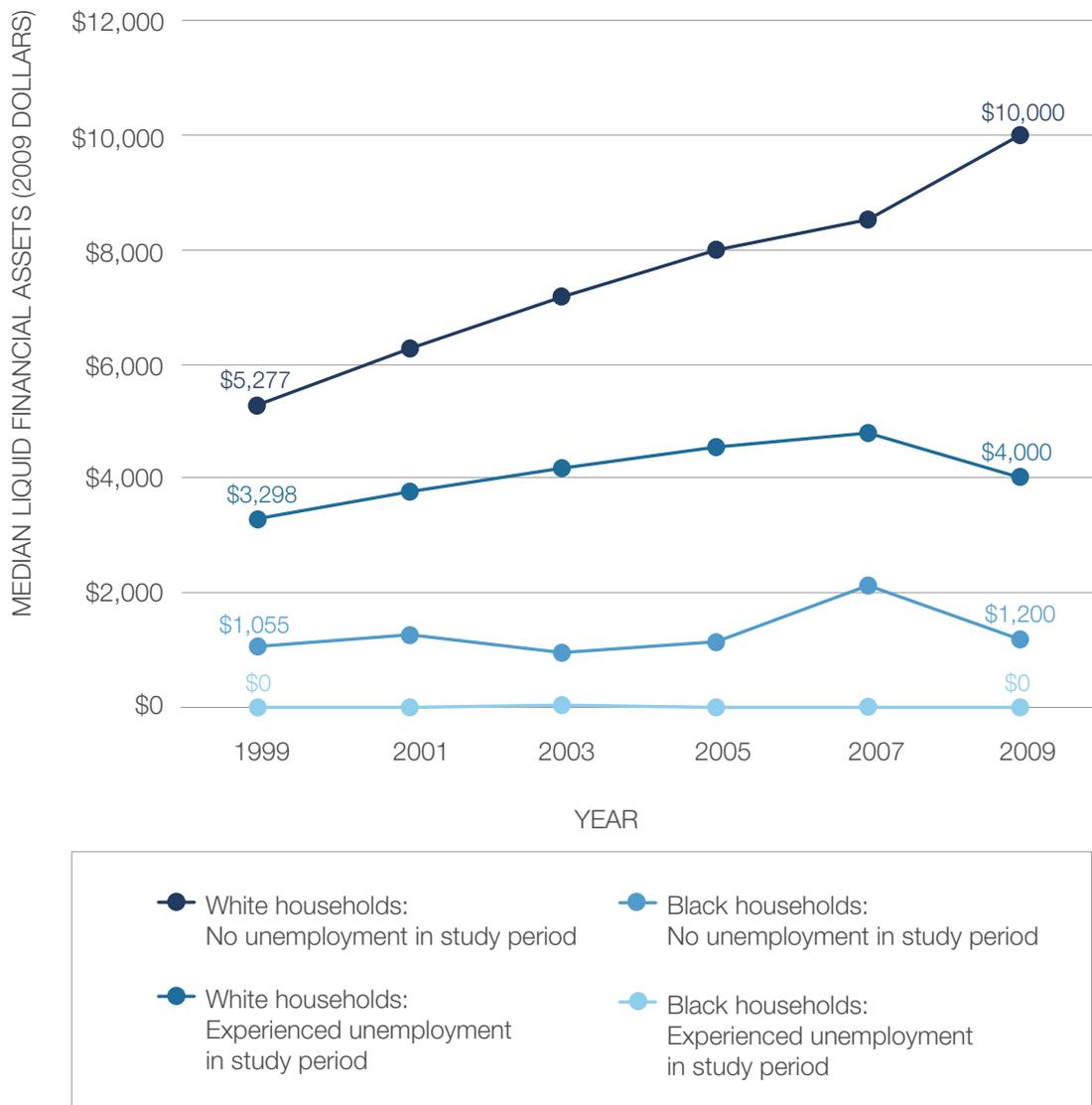
Household Financial Assets

In the face of unemployment, drawing on financial assets that can be liquidated or leveraged—such as savings accounts, retirement accounts, home equity, and stocks—is often the first step in slowing the impacts of unemployment. This helps

explain why families that experience unemployment build less wealth than those who do not.

Additional analysis from the PSID reinforces these findings. Between 1999 and 2009, the percent of families with

FIGURE 4: BLACK HOUSEHOLDS THAT EXPERIENCED UNEMPLOYMENT HAD NO ASSETS TO FALL BACK ON



SOURCE: Panel Study of Income Dynamics, 1999-2009

zero or negative wealth (excluding home equity) who had not experienced unemployment remained at about 13 percent. Among families that did suffer unemployment during the decade, however, it ranged from 20 to 26 percent.

Figure 4 (see page 10) shows the change over the decade in median liquid household assets by unemployment experiences and race.⁸ Among whites who experienced unemployment, overall cash levels were higher than blacks regardless of unemployment experience, and families were able to save more, ending the decade with \$4,000 in median liquid assets. In contrast, blacks who experienced unemployment typically had no cash to fall back on and both started and ended the period with no liquid assets. Fully employed whites had the most financial assets and the most growth in assets overall, almost doubling their median cash reserves from \$5,277 in 1999 to \$10,000 in 2009.

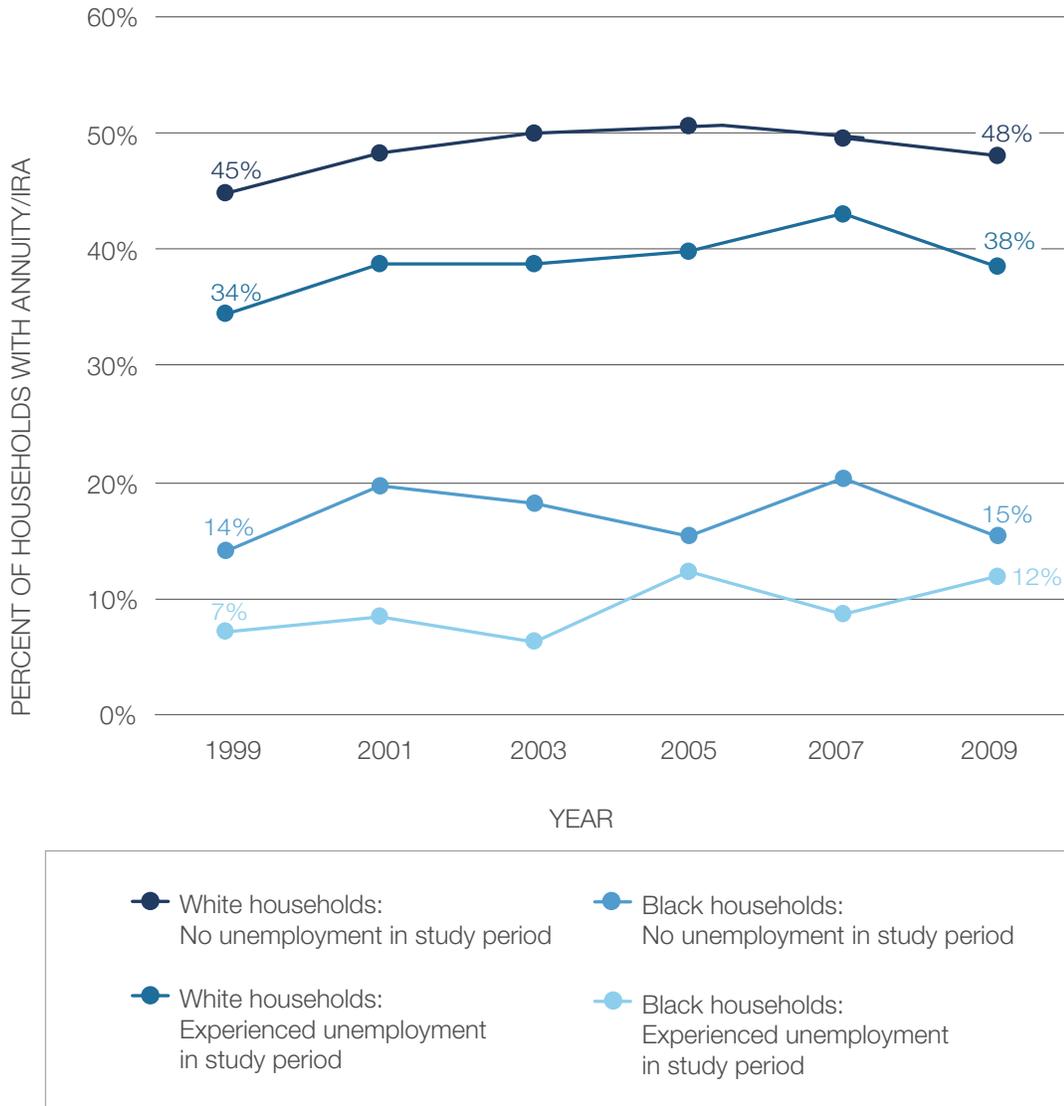
Data from the interviews reinforced that the economic position of families at the onset of unemployment strongly influences whether and how they are able to maintain their well-being. For instance, during unemployment, those with inherited assets were able to liquidate them or draw on interest (from financial investments or inherited and rented property) to help offset the decline in earned income flow. Jan and Farrah Kruger

inherited \$50,000 in mutual funds and used income from these investments each month during a period when Jan was not working. The additional funds meant that Jan did not have to take the first job that came along and instead was able to start a business.

Families without an inheritance generally have fewer economic reserves in the form of cash, stock, or property to draw upon. When faced with an economic shock, they typically have to draw down personal assets such as retirement accounts and housing. For instance, as a result of the Great Recession, Ross and Kim Barzak were unemployed at the same time. Ross cashed out his retirement accounts in the amount of \$50,000 to help pay bills, but this did not stop them from having to sell their house in a short sale. They lost any retirement security they once had, as well as their housing.

Inherited assets are not evenly distributed among families. Research has shown that black and Hispanic families receive lower overall levels of support from private transfers than white families and are five times less likely to receive inheritances and large gifts.⁹ These differences in private assistance contribute to the large differences in wealth accumulation by race, providing a leg up for many white families for household investments and during economic challenges.

FIGURE 5: WHITE HOUSEHOLDS WERE MORE LIKELY TO HAVE PRIVATE ANNUITIES AND IRAs THAN BLACK HOUSEHOLDS

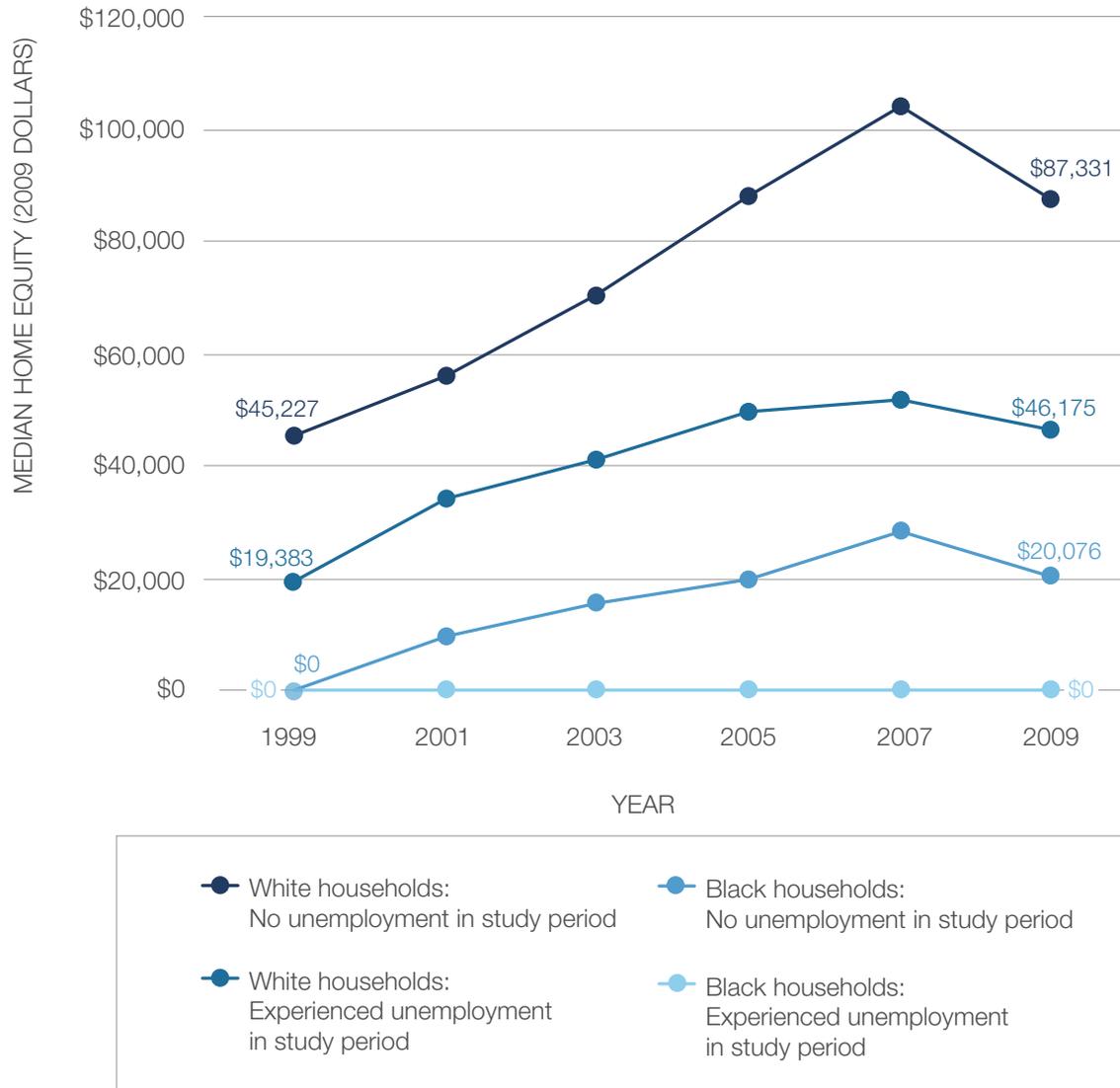


SOURCE: Panel Study of Income Dynamics, 1999-2009

Nationally, employer-based pensions and savings mechanisms are more likely to be held by white families than those of color, leading to less access to retirement wealth in times of financial hardship.¹⁰ Figure 5 shows the proportion of households that held IRAs or private annuities between

1999 and 2009 by unemployment and race. While fewer than half of all households held these accounts, whites were substantially more likely than blacks to have them, a fact that has implications for both emergency funds as well as later retirement security.

FIGURE 6: BLACK HOUSEHOLDS THAT EXPERIENCED UNEMPLOYMENT SAW NO INCREASE IN HOME EQUITY



SOURCE: Panel Study of Income Dynamics, 1999-2009

Across the country, as defined-benefit pensions are being replaced with defined-contribution plans, more households have access to their pension savings in times of need. Penalties are charged, however, for early withdrawals, and retirement savings are diminished. The financial costs can

be high in terms of direct costs and lower retirement security.

Vulnerable households also have less home equity as part of their portfolio of household financial assets. Actually tapping into home equity to secure

additional resources will be discussed further in the section on credit, debt, and loans. Regardless whether families use their housing wealth, however, having home equity affects families' perception of their financial security and assessment of the risks or benefits associated with drawing upon other more-liquid assets.¹¹

In 2009, 32 percent of all households had zero or negative home equity, because they did not own their homes or had already used their home equity or the value of their homes had declined. Black households that experienced unemployment in the decade were most likely to be renters or have no home equity, while white households with no unemployment had the highest home equity levels.

Figure 6 (see page 13) shows the change in household home equity by race and experience of unemployment between 1999 and 2009. While all groups with equity saw growth and declines related to the recent housing boom and bust, overall holdings were consistently higher for white households, especially those that did not experience any unemployment. While median white families, regardless of recent unemployment experiences, and fully employed black families saw their home equity appreciate, median black households that experienced unemployment saw no increase, starting and ending the decade with no equity at all.

Families with personal assets and savings, including home equity, are able to use those resources to negotiate an economic shock.¹² Not all households, however, have access to such personal assets, as Figure 6 shows. In fact, half of the families interviewed had no significant assets to draw upon, and in many cases, turned to family and friends for help.

Family, friends, and kinship networks

Friends, extended family, and kinship networks often offer rich resources, financial and nonfinancial, to help manage a period of unemployment. Nearly half of the families interviewed (45 percent) received family assistance—financial gifts (rarely framed as a loan), and other help, including loans, housing, employment, and child care—from extended family or friends when they were unemployed.

Some came from networks with substantial wealth. For example, Anne and Jake Bateman, a white, middle-income couple, had wealthy parents who were able to give them \$100,000 over the years to manage Jake's periods of unemployment. In the interview, Anne described how she would ask: "Dad, I need some money to pay for my son's school." This \$100,000 in help was in addition to the other assets that Anne and Jake accessed (home equity and income from an inherited condo). Anne's friends also lent her approximately \$15,000.

While kinship networks with fewer resources still helped families out, the amounts of direct financial assistance were more limited. Research has shown that black kinship networks are more likely to help out logistically with child care or housing, while white kinship networks are more likely to help out financially, probably because of differences in wealth.¹³ Black households typically have an average of 10 cents of wealth for every \$1 a white family has.¹⁴

Cat Perrault, a working-class, black, single mother, received financial help from her mother while unemployed. But the amount of that help was limited and not given in a lump sum. She reported receiving \$100 “every so often” or help with a utility bill. Families like the Batemans were able to maintain greater economic stability in times of hardship through their financially strong networks, while Cat’s working-class network had less capacity to draw upon.

Family networks also can be affected by economic downturns, reducing the safety net they can provide. Families often share wealth characteristics with relatives and friends. Consequently, those who are already financially disadvantaged have fewer resources to draw upon in their networks.¹⁵

Extended family wealth also played an important role in the financial pressures—or lack thereof—that families experienced

during a period of unemployment. The Perkins family explained:

“We are lucky enough to have parents that have big financial cushions, and I think that is pretty meaningful for our financial picture ... because they’re able to take care of themselves. We don’t have to take care of our parents. We’re not sitting here worrying about how to pay for their medical care, their nursing homes, [or] their retirement homes. We’re not having to worry about their financial issues at all. A lot of my friends, they are having to figure out that stuff, so it’s a big pressure off of us.”

The Johnson family, on the other hand, did not have family wealth to draw on, felt squeezed and challenged by financial obligations, and had to make difficult choices. “When you have aging parents who you’re helping,” Bob said, “and you’ve got a daughter who’s going through what she’s going through [health and disability challenges] and another daughter in college, it just gets spread out so thin.” The Johnsons’ loss of income affected not only their immediate family, but also the well-being of their aging parents, and these responsibilities affected the speed with which depleted resources could be rebuilt.

Families that can draw on financial and nonfinancial resources and opportunities through their social or familial networks

were at an advantage over families without such access. For those with networks that had few resources, access to stability and security opportunities was often limited and came at a high cost for both current and future security.

Credit, debt, and loans

In the absence of sufficient personal or network resources, many families use credit, debt, and loans as a safety net during periods of unemployment.¹⁶ Access to credit can provide a valuable source of financial stability, and some types of debt, such as student loans, may represent mobility-enhancing investments in the future. Accessing credit, however, can also put a family's assets and income at risk. Families that lack access to mainstream credit sources are particularly vulnerable, often turning to high-interest, unsecured debt from credit cards and payday loans.¹⁷

Nearly 1 in 4 families interviewed used home equity to manage a period of unemployment, for example through a mortgage refinance or a home equity line of credit. For instance, in 2000, single mother Gillian Morrow was laid off from her job. She was not receiving child support from her daughter's father, so the layoff meant losing her only source of income. To make ends meet, she refinanced her home to provide resources until she was able to find another job. At the time of the follow-up interview, she

THE KIELS: FAMILIES ARE MORE VULNERABLE TO ABUSIVE CREDIT IN TIMES OF ECONOMIC SHOCK

Cara Kiel and her family found themselves in trouble when her husband was out of work for three months. They had taken out a loan with a private consumer lender to pay for one year of their daughter's college tuition and were not able to make the monthly payments while Cara's husband was out of work. Despite trying to pay again when he was back to work, they found that the remaining \$4,000 that they owed had increased over 500 percent to \$22,000. The Kiels went to court, but the ruling was in favor of the lender, and the family's assets were seized.

The Kiels continued to fight, and the debt ended up at \$15,000, for which a lien was put on their house. Selling the house was not an option because they owed more than market value on it. The combination of this predatory loan and falling house values reduced this family's potential mobility and stalled its plans for retirement and security.

was working for the federal government. Because of the refinance and the housing market crash, she had no equity left in her house and was working extra jobs to pay the higher monthly housing costs she incurred.

Sometimes families with existing debt were unable to access additional credit. For example, Alan and Elouise Ward, a black couple, were not able to tap the equity in their home. His income was unstable because of declines in his construction business, and Eloise was unable to work due to disability. Alan's credit report was hurt when decreased demand for construction and some canceled projects led him to incur costs for unused goods. He began to fall behind on payments and to accumulate debt, having used credit for purchases in good faith of project payment. By the time Alan tried to take out a home equity loan to help with repayments, his credit had been too severely damaged.

Even those families that could draw on equity faced the challenges of paying bank fees and loan payments, in addition to any existing mortgage payments. Short-term remedies often led to long-term debt management. If re-employment was not found, this strategy could lead to foreclosure and the loss of a family's primary asset.

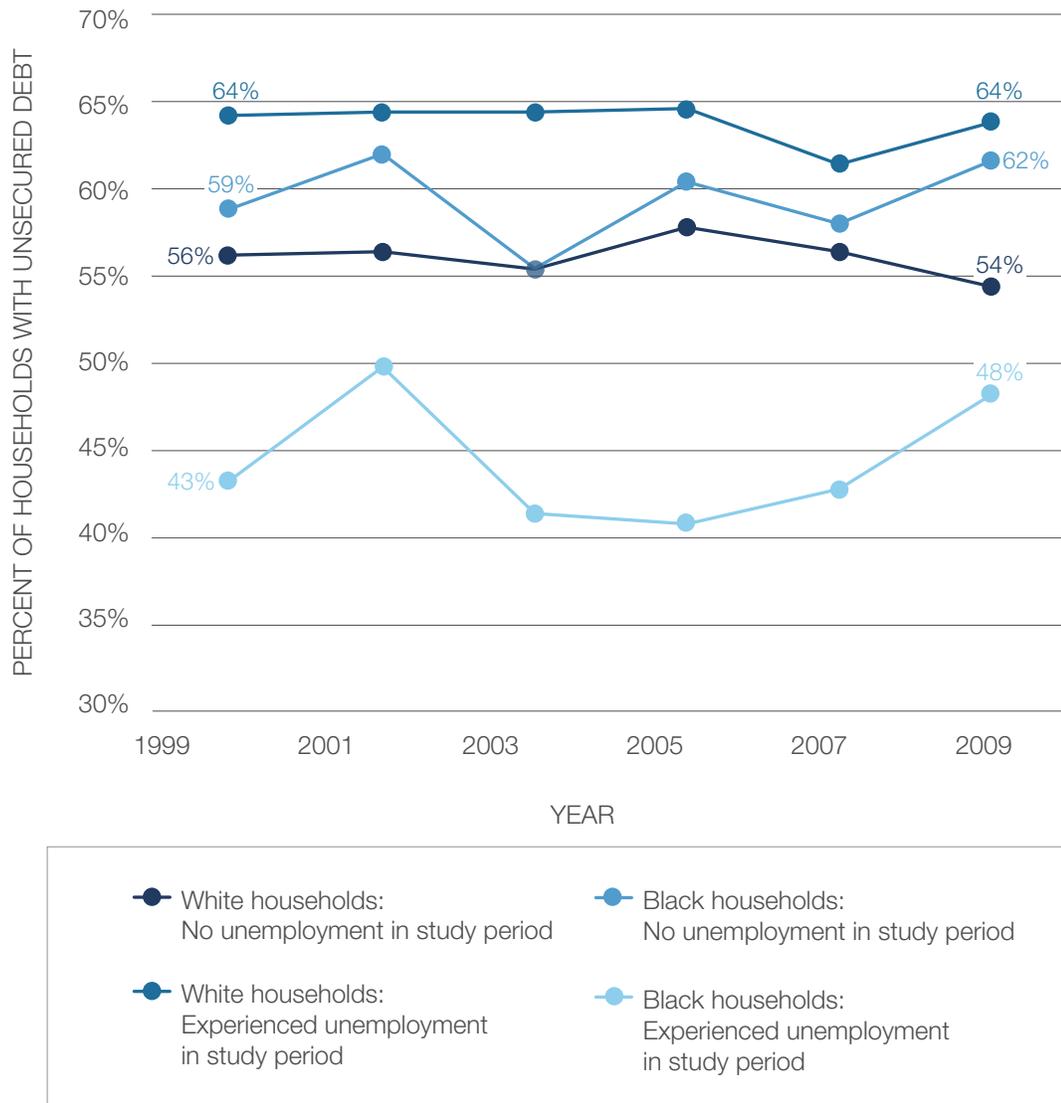
For many families, debt is an important means of managing unemployment. The

most vulnerable households, however, often do not have access to credit beyond high-interest loans. Research shows that black families are the most likely to be targeted for high-cost forms of credit, such as payday loans, predatory home equity lines of credit, and high-interest credit cards.¹⁸ Families with high-cost loans are even more vulnerable during a period of unemployment, because those forms of credit often have unaffordable payments and onerous late fees.

When all other resources were expended, credit cards and payday loans became options of last resort for the families interviewed. For instance, Robert and Kim Durant used credit cards to buy car tires and eyeglasses, along with other daily living expenses. They built up \$10,000 in credit-card debt that was a challenge to repay when re-employment at a lower salary resulted in a long-term drop in income. Amy Bonde put emergency home repairs on her credit card when her income dropped and built up \$9,000 in debt.

When families could not make their monthly debt payments because of unemployment, late fees accumulated. In several cases, families found themselves with ballooning debt payments. Sally Hopkins, whose husband was in and out of the workforce many times over the decade, took out student loans to cover her daughter's college costs. But after deferring the loans to manage sporadic

FIGURE 7: UNSECURED DEBT WAS HIGHEST FOR WHITE HOUSEHOLDS THAT EXPERIENCED UNEMPLOYMENT



SOURCE: Panel Study of Income Dynamics, 1999-2009

unemployment for the last 10 years, she found herself owing \$200,000. She said, “Forget about retirement” and was preparing for the “pine-box retirement plan.”

It is important to note, as shown by Figure 7, that unsecured debt, including credit-card debt and student loans, is common across most households nationwide. Unemployment is not always associated with higher debt levels, however,

possibly because employment income is a prerequisite to qualifying for credit.

Among white households, those that experienced unemployment included a slightly higher proportion of families with unsecured debt. Among blacks, however, experiencing unemployment in the study period was associated with lower unsecured debt, likely due to barriers in access to credit. Credit can be beneficial to families if it helps them get through a financial emergency in a non-predatory way, but the types of credit and loan terms available are crucial in determining the benefits and costs of taking on debt.

While black families hold less unsecured debt than white families, they are more financially vulnerable. Black families that do have debt have fewer liquid financial assets than white families, meaning that they have fewer savings to use in paying down debts. The national data show that for households that had unsecured debt between 1999 and 2009, the typical black household had 17 cents of liquid assets for every \$1 of debt in 2009. On the other hand, white families with unsecured debt were in a more financially secure position: Although still holding more debt than liquid assets, the median ratio was 42 cents in liquid assets for every \$1 of debt.

As families scramble to make ends meet, the choices they make have long-term consequences. It often seems a good first strategy to use credit to smooth over

bumps in employment, but many families may not appreciate the impact of this debt on future opportunities, or if they do, they feel there are no alternatives. Once unemployed and in debt, it is difficult to find a bank that will make a loan without demonstrated ability for repayment, reducing opportunities for home equity loans and other low-interest financing options. Ironically, resources for sustained security and stability become less accessible when they are needed most.

Increasing evidence points to the importance of the credit-providing institution for long-term sustainable credit provision. For example, some mortgages made by banks and credit unions regulated by the Community Reinvestment Act performed well and made credit available to their customers in times of need, helping families build sustainable equity and assets.¹⁹ But for households in financial crisis, many of the interviews revealed a lack of knowledge about access to mainstream financial products or institutions that could provide counseling to help them make more informed decisions. This points to the important role of government, nonprofit, or private institutions.

Institutional Resources

When household assets, family and friend networks, and credit and debt are not available, accessible, or sufficient to meet their needs during periods of

unemployment, eligible families turn to government, nonprofit, and private institutional resources as a safety net. More than 2 of every 3 families interviewed drew on one or more of these institutional resources, receiving help in categories as varied as income, food, health care, education and training, housing and utility assistance, and counseling. Most of these families drew specifically on government resources, although some relied on nonprofit or private organizations.²⁰

One in 5 families interviewed used unemployment insurance to make ends meet. These families were usually full-time employees of a company prior to losing their jobs. Many part-time, temporary, and self-employed workers did not qualify for assistance because they had not paid into the unemployment insurance program and did not have access to other types of collective insurance programs.

Even those eligible for unemployment insurance often needed other safety net programs to help them. For instance, Pat Rowan, a white mother living in a Midwestern city, was a waitress before being laid off. Because unemployment insurance is calculated from base wages and does not include tips, she did not receive sufficient assistance to bridge the gap, nor did she have any individual assets. She did, however, qualify for the Supplemental Nutritional Assistance Program (SNAP), commonly known as food stamps, which helped her get by.

AID ELIGIBILITY RESTRICTIONS

Government resources often are limited in duration and amount available.

Eligibility for one program does not necessarily transfer to another. For example, while access to unemployment insurance is tied to one's work history, other opportunities and resources available from the government (federal or state) depend on a family's income, assets, and work status.

For means-tested programs, eligibility is restricted to those with financial resources below a designated threshold, and limits are placed on the value of families' assets, at times restricting their ability to accumulate resources sufficient to prepare for a future economic shock or to successfully emerge from one. Thus, these families are neither able to build a buffer to manage shocks such as unemployment nor to reduce their economic vulnerability, even in times of greater stability.

Many of the interviewed families experiencing unemployment said they had never before needed social welfare programs and were surprised to find themselves in such need. When unemployment rates increase, applications for public benefits, such as SNAP, grow as well.²¹

The families interviewed had a wide range of experiences with social welfare programs and the choices required to access them. For instance, after using up their assets and losing their home, the Barzaks had to make tough decisions. They moved into separate living arrangements so Kim and their two daughters would qualify for SNAP and other benefits while Ross was receiving unemployment insurance. Cat Perrault, an experienced dental assistant, was retrained for janitorial management and could not find work in either field, pushing her onto Temporary Assistance for Needy Families (TANF), Section 8 housing assistance, and SNAP to care for herself and her three children.

For families receiving public benefits that wanted to move back into employment, certain program requirements made it difficult to do so. Most government safety-net programs, such as SNAP, Medicaid, and Section 8, have income-eligibility guidelines. As participants' incomes rise, the level of benefits they receive falls, and once incomes rise above a certain point, they are no longer eligible for the program. This income-eligibility line, however, is quite low. When the eligibility limit is reached, the family is cut off from assistance, and its expenses for food, housing, child care, health insurance, and other necessities rise dramatically. These new expenses are often significantly greater than the modest rise in income

that made them ineligible for program support. They end up “falling off a cliff”—going from barely making ends meet with very low income and government supports to not making ends meet with a slightly higher income and no government supports.²²

Such cliff effects are a particular problem when families have depleted their assets while unemployed. Several of the families interviewed struggled with this challenge. Cat Perreault, who had been looking for a long-term job for two years, talked about the fear of losing her housing, subsidized through Section 8, if she earned too much. Another respondent, Karen Beanne, recalled her fear of becoming ineligible for government supports:

“I remember that terrifying time of being on food stamps and Medi-Cal and being so afraid to let that go, and then to go forward, because of not having that safety net and not knowing how I was going to feed the kids. ... Like, when you're on welfare and you're working, you have to make sure you don't make too much money, because if you make just a little above, then you're going to be cut off, right? So, sometimes an opportunity would come up that I'd actually have to say no to, because it wasn't a permanent thing, and I couldn't do it.”²³

Karen's dilemma speaks to the challenges families face as they attempt to negotiate government supports that are important for maintaining family well-being while the wage earner re-enters the workforce.

For several families, programs growing out of the Great Recession offered additional relief. Kim Barzak and Cat Perreault were both able to take advantage of job-retraining programs offered using stimulus funds. Veronica Arrora and Janice Meador saved their homes using loan-modification programs that emerged as a result of the foreclosure crisis. Government policy and programmatic responses to the severity of the downturn offered support for some families and helped them emerge from unemployment in a less vulnerable position than they might have otherwise.

Nonprofit and private-sector institutions also provided vital stopgap and long-term resources to families, in some cases allowing them to keep the lights and heat on. Elouise Ward suffered from a chronic long-term illness and received disability support. When her husband Alan's unemployment left them unable to pay their utility bills, they accessed a local gas and electric company program that prevented utilities from being turned off for disabled families even if they were late with payments. This allowed Elouise to stay in their home and enabled them to stagger bills while her husband looked for a job. The Wards also participated in a nonprofit mortgage-assistance

program, allowing them to restructure their delinquent mortgage. These local opportunities helped them manage the economic crisis and gave Alan additional time to find employment. When interviewed, he had just found a job and was optimistic that the family would get back on its feet.

Many nonprofits offered important sources of education and training. Eva Turner had been unemployed for many years due to parental duties and health issues. She entered a training program through a local community action agency that gave her AmeriCorps credits that she used to attend the local community college and become certified in child care. Another family accessed a local nonprofit to help pay for a daughter's college tuition when the father was laid off from his job as an architect.

As demonstrated above, access to institutional resources was dependent on a household's family structure, income, and asset holdings, as well as its location (because private, state, and federal government programs vary in their availability). Families that used institutional resources also frequently relied on the other sources of support outlined above, including personal resources and help from extended family and friend networks. Families without sufficient assets or family wealth took on debt, leveraged their homes, drew on the social welfare system, and tried to hang on and safeguard their families. How did they

make these decisions and what were the trade-offs?

Decision-Making and Trade-Offs

As seen in the stories and data presented, families experiencing unemployment often had to make difficult decisions as they sought to meet immediate needs and manage a reduced income over longer periods. Unemployment and the trade-offs it required affected not only families' short-term economic security, but also their long-term economic prospects. Families frequently used resources that they had allocated for starting a small business, sending a child to college, or retirement and other mobility-enhancing investments to fund everyday expenses and emergency needs instead.

In many cases, families had to decide whether to pay for their children's college or save for their own retirement. When faced with layoffs, some turned to retirement funds to pay children's college tuitions because they had always expected to help with this cost. Others reasoned that more help was available for students in paying for education than for retired workers, so they pressed their children to go to public instead of private colleges or to start at community colleges and transfer to four-year programs.

Kim Durant was laid off from her job in 2010. At the same time, her husband's pay was cut by 15 percent. Kim received

unemployment insurance, which helped, but they had to stop paying down \$10,000 in credit-card debt and stopped contributing to their savings accounts. The Durants asked their daughter to go to community college rather than a four-year college to reduce expenses.

Other families used money they had set aside for investment purposes to maintain economic stability. Adam Alachi, a black father living abroad, had been saving up to launch a business. With the global economic downturn, his work dried up, and he found himself using all of the \$50,000 nest egg to cover living expenses and his child's school costs. He had no family resources or networks on which to draw.

Frequently, families that were surviving with the help of government supports had to choose between taking work or maintaining their economic stability. Knowing that they would lose the aid if they took a job that paid too much, they needed to be certain that any job was long term and paid enough to cover all expenses, including child care. These families were forced to balance their ability to move quickly back into the workforce, often at lower pay than their previous jobs, with maintaining their immediate economic stability and well-being.

Many choices to ensure short-term security had challenging long-term financial consequences. Parents who

decided to fund college for their children over retirement savings risked not being able to retire or faced severe economic insecurity in their older years. Children incurring college debt without parental assistance risked being less prepared to help their aging parents or advance their own future family well-being. Decisions to stay on government supports affected the ability of many families to build or rebuild work experience and assets for the future.

The stories of the families interviewed suggest that in the absence of asset wealth, there is no easy path to negotiating the economic shocks of unemployment. Trade-offs are always in play, and most have long-term negative effects on family well-being.

Policy Recommendations

While the primary focus of this report is to understand how families negotiate unemployment, it is important to ask how public policy can proactively help prepare households to hold and secure assets and protect and stabilize them in times of economic shock. The following are examples of policy options proposed by the researchers for this study, who are affiliated with the Institute on Assets and Social Policy at Brandeis University.

Emergency Funds

To be more resilient, families need both greater asset security and resources that can be accessed easily in a moment of need. Effective policy can help families build emergency financial assets and develop low-cost loan options for those in need.

[Revise the savings tax-incentive structures to encourage families to build emergency financial assets.](#)

It was clear from the interviews that families of all incomes can and do save. The institutionalized opportunities available, however, are largely in place

through tax-shield incentives that, for example, reward families for putting funds into retirement accounts but then impose a high penalty when those resources are used in an emergency.

Tax incentives to build emergency savings, capped at a set amount, could allow pretax savings direct from a worker's paycheck. Alternatively, tax-preferred savings, such as retirement, could include provisions allowing certain dollar amounts to be accessed with lower penalties and provisions for repayment, in case of severe economic shocks.

[Provide low-cost loan options to families in times of economic need.](#)

Access to affordable credit is often a challenge because of credit-score and employment requirements. The credit that is available to families in need is often expensive, even predatory. Households that fall behind on payments accrue late fees, damage their credit ratings, and have a harder time recovering once re-employed.

For already working families, the structure of credit is designed around a model that assumes permanent, full-time employment, but for many families that is not the reality. Those whose work is part time, temporary, or contract-based also need access to sustainable small-dollar loans that can help them weather periods of financial shock. Pilot programs that extend credit to families with nontraditional employment should be considered to determine the best ways to help these families sustainably address economic hardships.

Government Resources

This analysis points to the important role government resources play for families during an economic shock. Safety-net programs need to be structured to encourage and facilitate families that seek to build their assets and return to the labor force.

Remove disincentives to savings and work in government safety-net programs.

By expanding eligibility to government safety-net programs to include families with some assets and emergency savings and removing disincentives to returning to work such as cliff effects, policymakers could both enable programs to better preserve and protect family well-being and help the unemployed get back to work.

Raising or eliminating asset limits for these programs would allow more families to qualify and enable those families to maintain and more quickly build the reserves necessary for future economic self-sufficiency. Although some depletion of liquid assets is expected during unemployment, loss of all assets—including homes and cars—leads to unnecessary hardship and makes it harder to re-enter the workforce. Removing cliff effects would ensure that families are not penalized for earning more as they move into the private market for housing and health insurance.

Reform the unemployment insurance system to better meet current labor market realities.

As many of the families interviewed confirmed, unemployment insurance plays a critical role in managing periods of job loss. Myriad discussions and studies are under way to examine how best to make the system work for those who experience periodic unemployment, work multiple part-time jobs, are self-employed, and/or derive their income largely from tips not covered or compensated for under current provisions. Improving access to unemployment insurance, particularly for low-income workers, is critical to helping families sustain some level of well-being during an economic shock.

Opportunity Investments

Many families do not have access to wealth in their extended families or social networks. The interviews suggest that these families significantly deplete their assets and often take on expensive forms of credit, leaving them less able to recover. Opportunity investments in education or starting a business are set aside in favor of maintaining immediate family well-being.

Enable low- and moderate-wealth families to take advantage of opportunity investments.

Programs such as those run by the Small Business Administration and the U.S.

Department of Education (such as Pell grants and other student loans) could be used in targeted ways to enable families of low to moderate wealth that have recently experienced an economic shock to make important investments in education or starting a business. Opportunity investments that are new, allowing for education or business development that will get individuals back to work, or programs that prevent interruption of children's post-secondary education, are critical to ensuring that economic shocks do not unnecessarily limit current or future opportunity. Additional ways for states or the federal government to extend targeted support for these opportunity investments should be considered.

Conclusion

Economic uncertainties and shocks weaken families' security, economic mobility, and ability to provide for the next generation. The national data presented in this report reveal that unemployment negatively affects family wealth. These findings are reinforced by the interviews, showing how that wealth is eroded through the sources of support available and the choices families must make.

The policy responses suggested would enhance a family's ability to emerge from an economic shock with a basic level of security intact and shield them from difficult decisions and trade-offs. Importantly, the findings suggest numerous ways in which greater family security can be supported before an economic shock, mitigating its effects and enabling households to meet their needs, secure their well-being, and make mobility-enhancing investments for the future.

The public good is realized when resources and structures are in place to allow families to prepare for economic shocks and emerge from them with aspirations for tomorrow intact. Too often, families

sacrifice dreams and well-laid plans for the future to make ends meet today. The courage and resiliency of American families are exhibited time and again in the interviews, but so too are the necessary sacrifices and trade-offs that throw them off the path to mobility or make getting on that path more difficult. Public policy can and should rise to meet the resiliency of families, honor their sacrifices, and widen opportunities that put them on the road to economic security and upward mobility.

Appendix 1: Quantitative Data and Analysis

Data Source: Panel Study of Income Dynamics

The quantitative analysis presented in this report is based on national survey data from the Panel Study of Income Dynamics, or PSID, a national longitudinal study that began in 1968. Currently, the PSID surveys households every two years regarding family household experiences and characteristics, including employment, wealth, income, health, and family status, among other topics. By collecting data on the same households every other year, the data in the PSID capture important trends and changes in the lives of participants. Directed by University of Michigan faculty, the PSID is a widely used, publicly available source of data on U.S. households.

Sample

The experiences of households were analyzed over a 10-year period, from 1999 to 2009, allowing an examination of patterns of unemployment, wealth, and income of the same households over six survey periods. In 1999, the baseline sample included households with a head or spouse in the workforce

and a household head who was ages 25 to 55. Selecting households with these characteristics enabled a focus on understanding the unemployment and economic experiences of households that were actively participating in the labor market and were of prime working age.

Analysis

Using the initial sample of households in 1999, the analytical strategy focused on better understanding economic trends over time among households. Much of the analysis involved following patterns of unemployment, wealth, and income and documenting changes by time period and differences across population subgroups, such as race and ethnicity. These univariate and bivariate analyses captured how the national sample fared economically over time and explored the relationship between unemployment and financial measures, such as wealth and income. Additionally, logit regression analysis was employed to assess the impact of unemployment experiences on the loss of wealth from 1999 to 2009, controlling for income and other demographic factors (see Appendix 2 on page 30).

Appendix 2: Multivariate Analysis of Panel Study Data

Panel Data and Time Series Analysis

Analysis of panel data, which measures characteristics and experiences of the same subjects over time, requires special techniques to control for distinctive features or characteristics of study subjects that are unique to them and remain consistent over time. For example, when analyzing the impacts of a basketball training program on athletes, a particular athlete's height, which remains consistent throughout the study, will impact results in every period of the study.

For the analysis of households from 1999 to 2009, several statistical models were employed to account for the nature of the data, which included repeated measures of the same households over time. The primary interest was to test the impacts of unemployment on wealth over the study period to better understand if and how unemployment may be associated with lower wealth or asset building. As in all other analyses of national survey data using the PSID, the analysis began with a sample of households with prime working-age heads (ages 25 to 55) whose

head or spouse was in the labor force.

The analytical strategy initially began with fixed-effects regression models, which take into account panel data by controlling for the unique characteristics of each household. While it is the preferred method for many analyses of panel data, fixed-effects has the substantial limitation that time invariant variables cannot be included. This characteristic results from the fact that the model includes a dummy variable for each subject of study (in this case, households), which captures the effect of non-time-varying characteristics of the study subjects over time. While this is important for controlling for impacts of characteristics that are unique to households that carry over time when using panel data, it means that time-invariant characteristics cannot be included in fixed-effects models. This is true for both demographic characteristics, such as race and gender, and possible variables that would be important for analyzing unemployment, such as “any unemployment in study period.”

Within the constraints of the model, several models were tested analyzing the

LOGIT REGRESSION OF WEALTH LOSS, INCLUDING HOME EQUITY, 1999-2009 (2009 DOLLARS)

	Odds ratio	p-value
Unemployment	1.299	0.011
Married head (all study period)	.605	0.000
Change in log family income 1999-2009 (2009 \$)	.759	0.004
Years of education (head)	.949	0.002
Female head	.735	0.071
Black head (1999)	1.207	0.249
Constant	1.293	0.327
Pseudo R-Square		0.0372
Number of observations		2,886

relationship between unemployment and wealth using the definition of unemployment in each survey period. The variety of models employed using fixed effects did not produce significant findings; models that were tested included those using lagged effects, models of the log of wealth, and models using different definitions of wealth (financial assets versus total net worth, including home equity). These models did not produce significant results. While this finding was surprising, it may be due to the fact that there was not enough year-to-year variation in unemployment to capture a significant impact on wealth. More research using this analysis strategy would be worthwhile.

As an alternative to fixed effects, random-effects regression was considered. However, the assumptions of the

model and tests that were conducted to determine the model's validity for analysis of unemployment events demonstrated that random effects was not appropriate for this analysis. More on the assumptions of fixed and random effects and comparisons between the two models is available in Wooldridge (2009).²⁴

In the final analyses, logit regressions were performed to understand the relationship between unemployment during the decade of interest and whether wealth loss was experienced by the family. A wide data set was used to test the change in wealth over the study period, including covariates that capture characteristics that were constant throughout the study, such as gender and race of head of household, as well as control variables that were developed to capture the full time period, such as change in log income from 1999 to 2009.

The full results of the logit regression are presented in the table on page 31 and described in the report. The findings show a significant relationship between having experienced unemployment during the study and having had a loss in wealth from 1999 to 2009. Thus, the findings suggest that asset building among households is stymied by experiences of unemployment, as hypothesized.

Appendix 3: Longitudinal In-Person Interviews

The qualitative data consist of a subset of 51 interviews with families that had experienced unemployment between 1998 and 2010, drawn from a unique larger longitudinal data set of 140 in-person interviews. Baseline interviews were conducted in 1998 and 1999 with families that had children ages 3 to 10. More than 10 years later, these children were predominantly finishing high school or of college age. Their parents were between 40 and 60 years old. The subjects' names were changed in the text to protect their confidentiality.

The families originally interviewed lived in three cities: one on the East Coast (Boston), one on the West Coast (Los Angeles), and one in the Midwest (St. Louis). At the time of the recent interviews, the majority lived in the same city or nearby, while a few had moved to other states, where they were contacted and interviewed. The original data set of families was approximately half black families and half white families (couples and single heads of households) who, when first interviewed from January 1998 through June 1999, came from a broad socioeconomic spectrum, from working

poor to middle- and upper-middle income.

The Institute on Assets and Social Policy at Brandeis University developed the interview protocol, hired and trained interviewers in the three cities, and conducted the interviews with Institutional Review Board approval. The interviews lasted 1½ to two hours. Interviewers then wrote up summary memos to capture their impressions and key takeaways. For selected interviews, neighborhood condition memos were also written. Using NVivo qualitative data-analysis software, the analytic process built on a mix of tree and free (open) codes. Through axial coding, the process of relating codes (categories and properties) and emerging themes were identified common to the population experience that responded to the broad areas of the research inquiry. The full set of data was first coded to identify anyone who had experienced any period of unemployment over the 10-12-year period. This group was then the focus for the in-depth coding. The Ford Foundation funded the 2010 research initiative.

Endnotes

1 The data collection was funded by a Ford Foundation grant to the Institute on Assets and Social Policy. It is part of a larger data-collection project, “Leveraging Mobility: The Impact of Assets on Family Well-Being Over Time.”

2 High-income families were those defined as in the top income third during the study period based on average total family income, 1999-2009. For the purposes of this analysis, the sample was divided into thirds based on average income over the full study period to create low-, middle-, and high-income households. In 2009 dollars, low-income households had average income less than or equal to \$58,362, and high-income households had income greater than \$101,276.

3 Longer-term unemployment is defined as being unemployed for six months or longer during the entire study period.

4 Chi-square tests were conducted to test the difference in prevalence of any unemployment in the study period as well as unemployment greater than or equal to 6 months in the study period by race, ethnicity, and income category. All chi-square tests on the prevalence of any unemployment and longer-term unemployment resulted in highly significant differences by black race, Latino ethnicity, and income group ($p < 0.001$).

5 Analysis of wealth trends was conducted for Latino families; however, sample sizes were relatively small for Latinos and may have not been reliable; thus, they are not reported here.

6 Analysis of wealth in this report focuses on nonhousing wealth, excluding the assessed value of

one’s home. This measure of wealth reflects household resources available to the family in times of unexpected economic shocks. Though a key household asset, home equity is not as accessible as other types of wealth and is distinct due to its important use value. (Note that several families interviewed used home equity to manage unemployment—home equity was more available in the first decade of the 2000s than perhaps in previous [and possibly subsequent] years.)

7 This section is based on logit regressions that predicted loss in wealth during the 10-year period. Full details on the median regression model are available in Appendix 2.

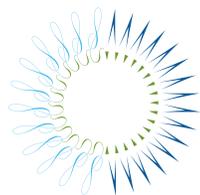
8 Liquid financial assets are the most accessible type of assets available to households. In the PSID, liquid assets include checking or savings accounts, money market funds, certificates of deposit, government savings bonds, and/or Treasury bills.

9 S.M. McKernan, C. Ratcliffe, M. Simms, and S. Zhang, “Private Transfers, Race and Wealth,” Washington: Urban Institute, 2011.

10 B. Butrica and R.W. Johnson, “Racial, Ethnic, and Gender Differentials in Employer-Sponsored Pensions,” statement before the ERISA Advisory Council, U.S. Department of Labor, 2010.

11 The Pew Charitable Trusts, “Housing Wealth and Higher Education: Building a Foundation for Economic Mobility,” Washington: The Pew Charitable Trusts, 2011, pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_college_grads_recession_report.pdf.

- 12 B. Butrica, S.R. Zedlewski, and P. Issa, "Understanding Early Withdrawals from Retirement Accounts," in *Retirement Policy Discussion Paper Series*, Washington: Urban Institute.
- A. Lusardi, D. Schneider, et al., "Households @ Risk: U.S. Households Capacity to Cope with Risk," 2010.
- 13 N. Sarkisian, and N. Gerstel, "Kin Support Among Blacks and Whites: Race and Family Organization," *American Sociological Review* 69 (2004): 812-37; T. Shapiro, *The Hidden Cost of Being African-American* (Oxford: Oxford University Press, 2004).
- 14 Shapiro, *The Hidden Cost*.
- 15 M. McPherson, L. Smith-Lovin, and J. Cook, "Birds of a Feather: Homophily in Social Networks," *Annual Review of Sociology* 27 (2001): 415-44.
- 16 J. García and J. Wheary, "Understanding the Debt Difference: Why Some Low- and Middle-Income Working Families Have Credit Card Debt and Others Don't," Demos, 2011; J.X. Sullivan, "Borrowing During Unemployment: Unsecured Debt as a Safety Net," *Journal of Human Resources* 43 (2008): 383-412.
- 17 Unsecured debt includes credit card charges, student loans, medical or legal bills, or loans from relatives. Payday loans are "last choice" loans that have annual interest rates typically around 400 percent. Borrowers take out a payday loan and must repay the full loan at their next payday. They usually cannot repay the full amount of the loan and cover their expenses, so they must take renew or re-borrow the payday loan. Each time a loan is taken out, there is a charge of \$50-100. Sullivan, "Borrowing During Unemployment."
- 18 Debbie Gruenstein Bocian, Wei Lei, Carolina Reid, and Roberto G. Quercia, *Lost Ground 2011: Disparities in Mortgage Lending and Foreclosures*, Center for Responsible Lending, Demos, 2011. "The Color of Debt: Credit Card Debt by Race and Ethnicity," Demos, 2010.
- 19 Elizabeth Laderman and Carolina Reid, *Lending in Low- and Moderate-Income Neighborhoods in California: The Performance of CRA Lending During the Subprime Meltdown*, Federal Reserve Bank of San Francisco, 2008; Lei Ding, Roberto G. Quercia, Wei Lei, and Janneke Ratcliffe, *Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models*, Center for Community Capital, 2010.
- 20 Analyses of PSID data on receipt of unemployment benefits revealed that these data are problematic. In particular, a not insignificant proportion of household heads report receiving unemployment insurance but do not report having been unemployed in the past year.
- 21 Sheila R. Zedlewski, "Supplemental Nutrition Assistance Counters High Unemployment." In *Unemployment and Recovery Project*. Washington: Urban Institute (2011).
- 22 Mary A. Prenovost and Deborah C. Youngblood, "Traps, Pitfalls, and Unexpected Cliffs on the Path Out of Poverty," *Poverty & Public Policy* 2 (2010).
- 23 Medi-Cal is California's Medicaid program.
- 24 Jeffrey M. Wooldridge, *Introductory Econometrics: A Modern Approach*, (Mason, OH: South-Western, 2009).



THE
PEW
CHARITABLE TRUSTS

STAY CONNECTED ▶ pewstates.org

 twitter.com/pewstates

 youtube.com/pew

 facebook.com/pewtrusts

pewstates.org/newsletter