

**SPOTLIGHT ON  
EMERGENCY EXPENSES**

On the Precipice: An Analysis  
of the Vulnerability of New  
Yorkers to Financial Shocks

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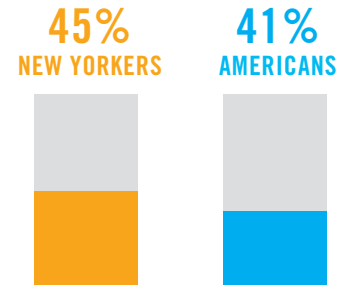


## Executive Summary:



Over 40 percent of Americans and New Yorkers alike indicate they could not pay for an emergency expense of \$400 with cash.

*45% of New Yorkers could not pay for an emergency expense of \$400 vs. 41% of Americans.*



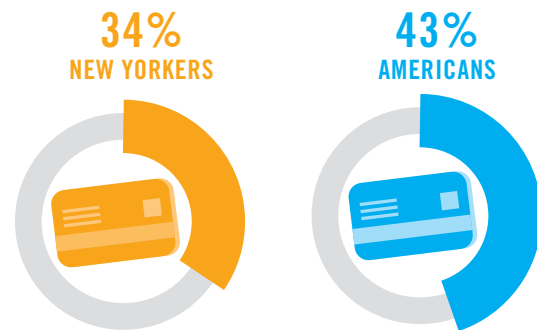
New Yorkers are more likely to say they would pay an emergency expense some “other” way, often indicating they’d take money from a savings or retirement plan or try to pay for it using a payment plan.

New Yorkers and Americans differ in how they would deal with such an expense. New Yorkers are less likely to say they’d put it on a credit card and pay it over time and less likely to say they’d sell something.

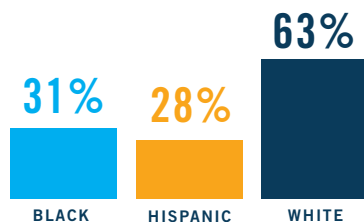


Among those who faced a financial shock, those who could pay with cash were 16 percentage points less likely to face a hardship.

*New Yorkers who said they could not pay an emergency expense with cash are more likely to experience a material hardship when facing a financial shock vs. New Yorkers who could pay an expense with cash (43% vs. 27%).*



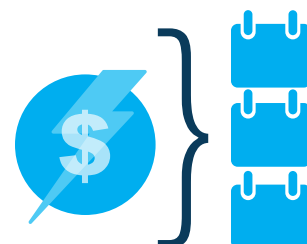
*New Yorkers are less likely to say they would fall back on credit cards to pay for an emergency expense than Americans as a whole (34% vs. 43%).*



Race and ethnicity appear to be intimately related to one’s ability to pay for such an expense, even after accounting for income.

*Only 31% of low-income black New Yorkers and 28% of low-income Hispanic New Yorkers could completely pay an emergency expense of \$400 using cash vs. 63% of low-income white New Yorkers.*

In addition to not being able to pay for an emergency expense with cash, New Yorkers are even more likely to have trouble paying for three months of expenses using only their assets. Thus, for many New Yorkers, they are just one income shock away from serious financial issues.



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# Introduction

Since the sweeping financial tremors of the Great Recession, social scientists have tried to better understand how American households make ends meet in times of distress. This type of research goes beyond questions of unemployment or income disparities, and instead captures a household's ability to weather a financial shock. Financial shocks, after all, can affect almost anyone. Financial security is often measured by a respondent's ability to pay for an unanticipated expense, and the data demonstrates that many Americans — across income brackets — are living in a continual state of financial vulnerability.

According to a recent Federal Reserve report,<sup>1</sup> 41 percent of adults say they could not cover an emergency expense costing \$400 with cash or its functional equivalent.<sup>2,3</sup> This indicates that nearly half of all Americans lack the liquid assets necessary to pay for a modest emergency expense. The Poverty Tracker, a panel study of adults in New York City, gives a quarterly snapshot of households' financial stability. We ask respondents how they would pay for an unanticipated \$400 expense and find that 45 percent of New York City adults would not be able to cover such an expense with cash, a slightly higher prevalence of financial insecurity among New Yorkers than among households nationwide. Both nationwide and in New York City there has been a slight increase in the percent who could cover such an expense with cash, coinciding with the continued improvement of the economy. Importantly, our data taps into the social fabric of New Yorkers' lives — we ask if they could count on anyone to loan them \$400. The findings are striking — among New Yorkers who couldn't cover a \$400 emergency expense (with cash) on their own, nearly half say they wouldn't be able to count on someone to loan them the money. This number is even higher (72 percent) when looking at a \$1,000 expense.

In the report that follows we compare Poverty Tracker data to national data, providing insight on how New Yorkers and households across the country make ends meet when faced with unanticipated financial shocks. The story that emerges highlights the prevalence of economic insecurity both in New York City and across the country.

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**45%** of New York City adults would not be able to cover an unanticipated **\$400** expense with cash.

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<sup>1</sup>Board of Governors of the Federal Reserve System. 2018. "Report on the Economic Well-Being of U.S. Households in 2017." Washington, DC: Author.

<sup>2</sup>Referred to as cash in this spotlight.

<sup>3</sup>Defined as using money currently in the respondent's checking/savings account, with cash, or by putting it on their credit card and paying it off full at the next statement.

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## Findings

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### How would Americans and New Yorkers cover an emergency expense of \$400?

There are a range of tactics that households rely on when faced with a financial emergency. Figure 1 shows that the most common way Americans would cover a \$400 emergency expense is to put it on a credit card and pay it off over time (43 percent). Perhaps what stands out most in this figure is that the second most common response — selected by 29 percent of respondents — is that they would not be able to pay for such an expense at all.<sup>4</sup>

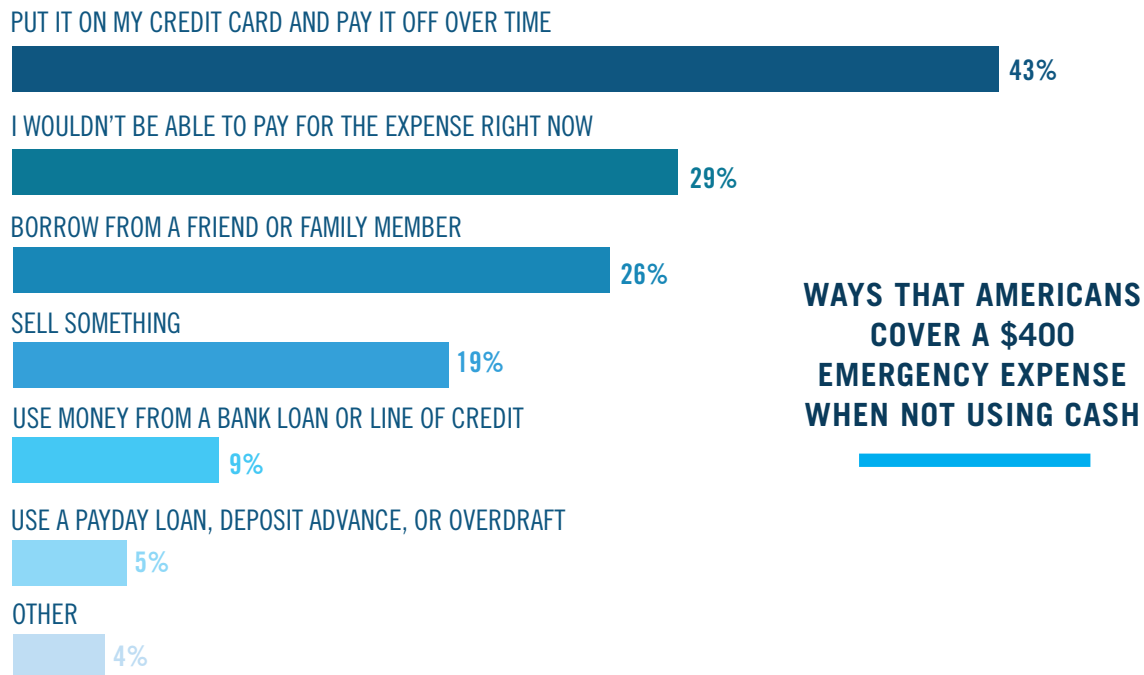
There are some key differences between American households and New Yorkers. New Yorkers (Figure 2) are nearly 10 percentage points less likely to say they would put a \$400 emergency expense on a credit card and pay it off over time (34 percent vs. 43 percent). They are also 14 percentage points less likely to say they would sell something to pay for such an expense. Ten percent of New Yorkers report that they would use some “other” method to pay for the expense. Prevalent “other” responses were to withdraw the funds from some kind of savings or retirement account, including pensions and 401(k)s, and to try to negotiate payment plans. However, in line with national rates, almost a third of New Yorkers (30 percent) indicate that they would not be able to pay for a \$400 emergency expense by any means.

FIGURE 1

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### How Would Americans Cover an Emergency Expense of \$400?

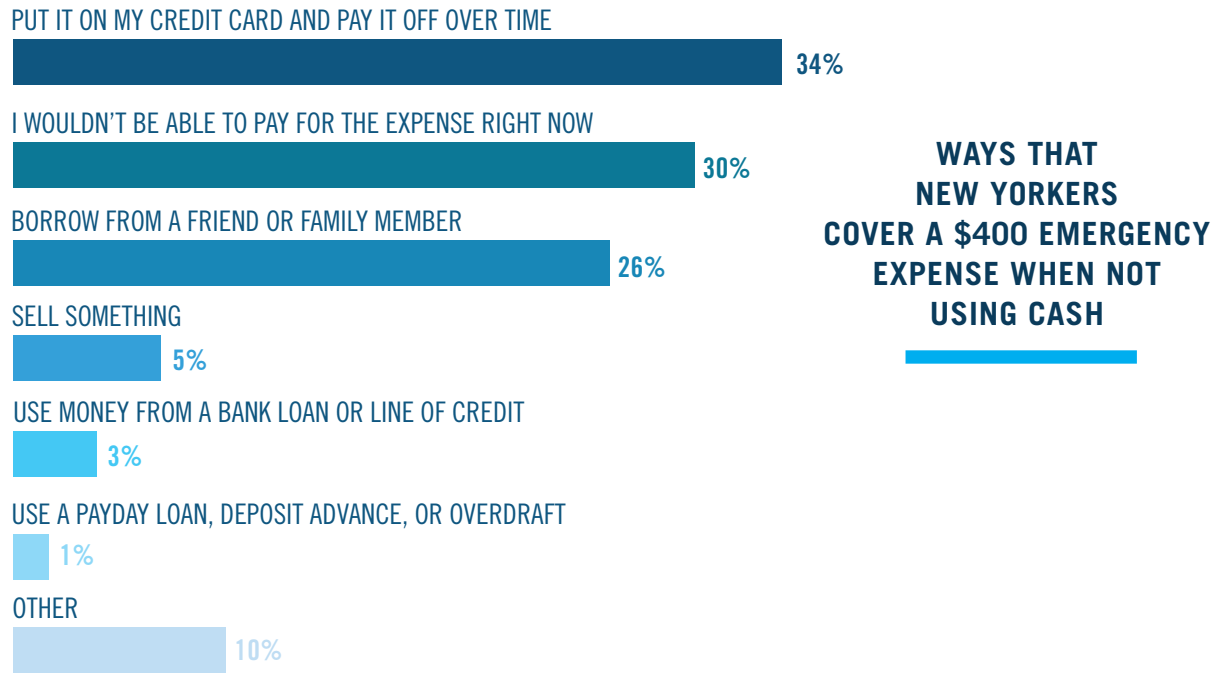
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<sup>4</sup>Note that respondents can select more than one answer, so figures do not total to 100 percent.

FIGURE 2

## How Would **New Yorkers** Cover an Emergency Expense of \$400?



Almost a third of New Yorkers (**30%**) indicate that they would not be able to pay for a **\$400** emergency expense by any means.

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## Are those who could pay with cash less likely to face hardships?

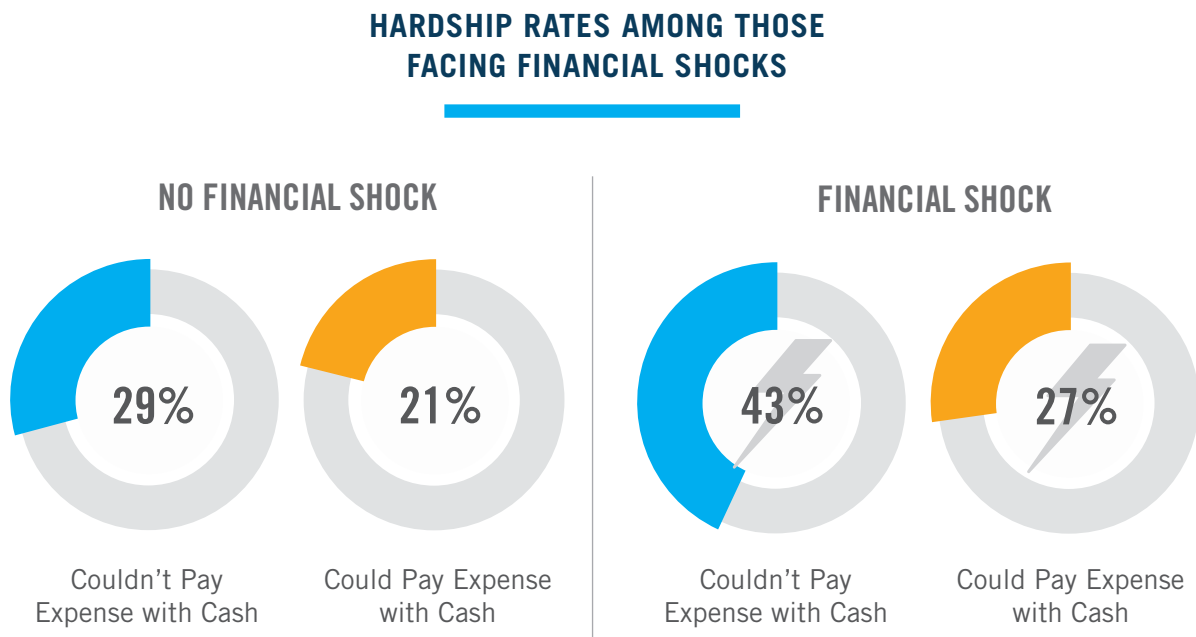
In addition to understanding what resources New Yorkers and their families have available in case of emergencies, we also look to understand what difference these types of resources make in protecting them from economic hardship and insecurity. To answer this question we predicted<sup>5</sup> the rate of hardships<sup>6</sup>, holding demographic characteristics (and income) equal, among those who faced a financial shock<sup>7</sup> and couldn't pay for such an expense (using cash) in comparison to those who faced a shock and could pay such an expense. The findings in Figure 3 illustrate that, while those who faced a financial shock were more likely to face a material hardship, the rate comes down significantly (16 percentage points) among respondents who said they could pay an emergency expense with cash. This indicates that having even a modest \$400 available in the case of an emergency can protect New Yorkers from facing additional hardships as the result of costly and unexpected life events.

**FIGURE 3**

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### Are Those Who Could Pay with Cash Protected Against Hardship in the Face of Financial Shocks?

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<sup>5</sup>Using linear regression. Results can be provided upon request.

<sup>6</sup>Defined as those who regularly can't afford adequate food, medical care, utilities, housing, or general financial expenses.

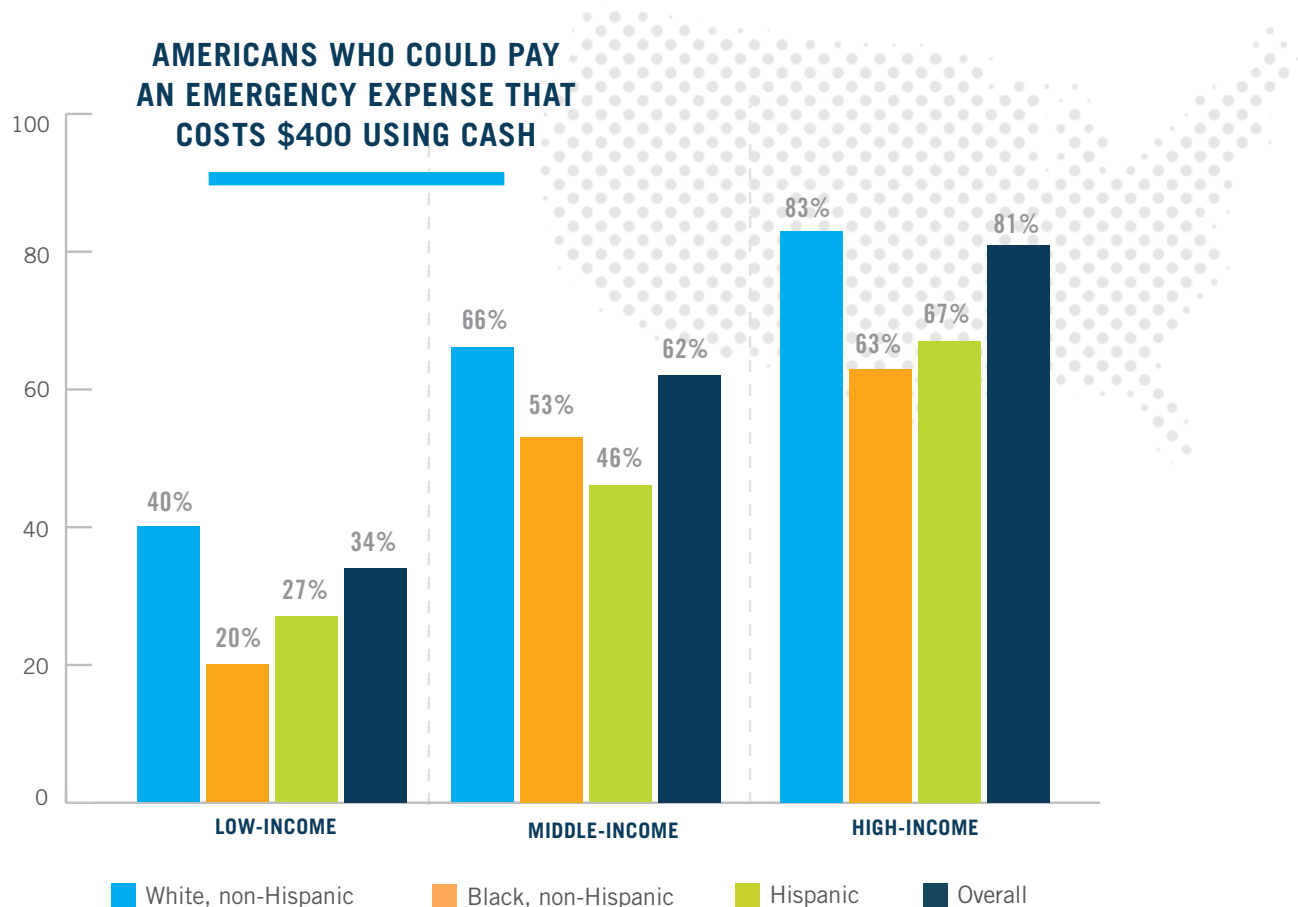
<sup>7</sup>Defined as someone in the household facing an unanticipated major expense, losing a job, having their benefits cut off, or having a major decrease in income in the past year.

## Who would be able to pay for an emergency expense with cash?

Unsurprisingly, financial security and the ability to pay for an emergency expense vary by both income and race in New York City and the nation alike. In the following analysis, we split New Yorkers into three income categories, low-income, middle-income, and high-income;<sup>8</sup> these measures were created to match those used in a recent 2016 Federal Reserve report.<sup>9</sup> National data shows that low-income black non-Hispanic Americans are the least likely to pay with cash if faced with a \$400 emergency expense, followed by low-income Hispanic respondents (Figure 4). The role of race in financial insecurity is glaring, as both in New York City (Figure 5) and nationally, white non-Hispanics are the most likely to say they could pay with funds they already have, regardless of which income group we examine.<sup>10</sup> In New York City the inequalities are especially

FIGURE 4

### Americans Who Could Pay an Emergency Expense with Cash (By Race and Income)



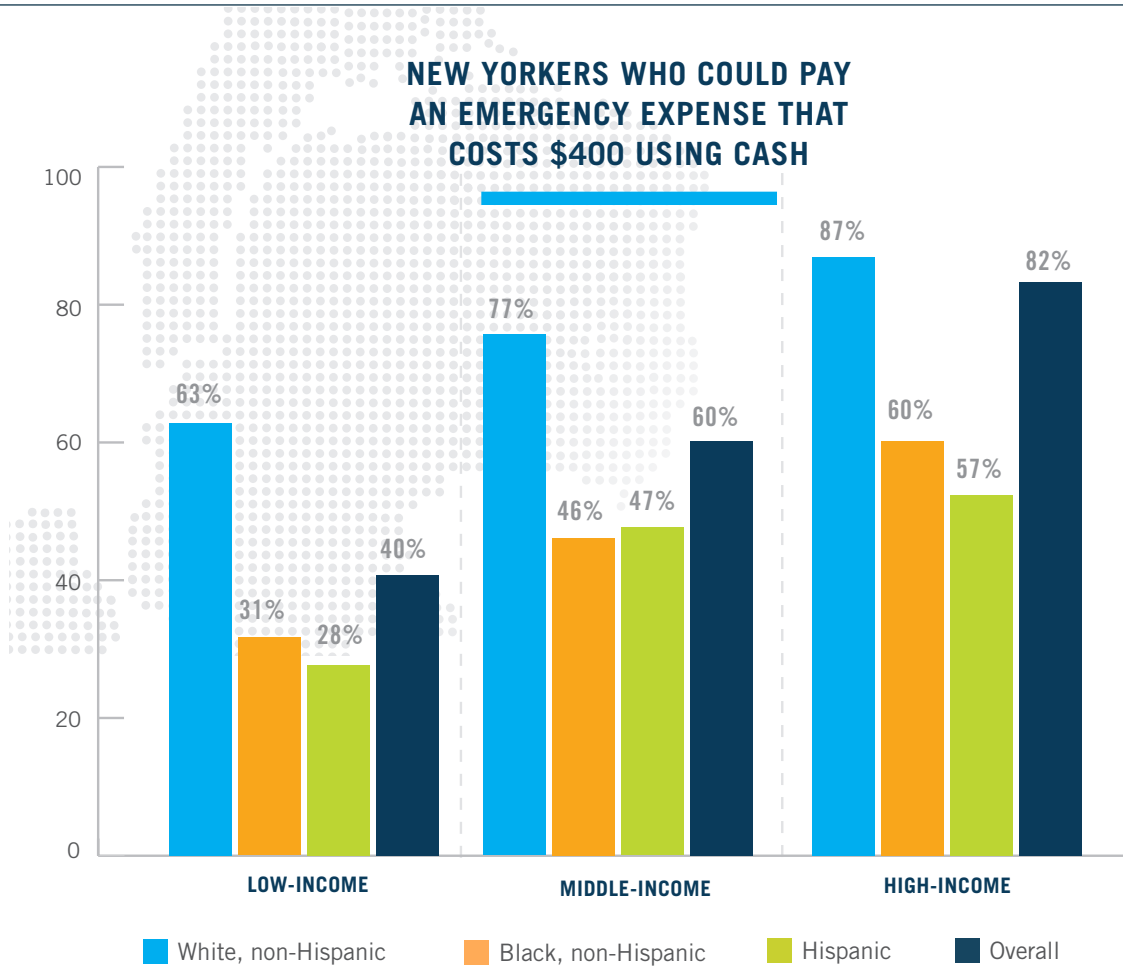
<sup>8</sup>These levels are defined using the respondent and their spouse's earnings. Low-income indicates earnings of less than \$40,000. Middle-income indicates earnings between \$40,000 and \$100,000. High-income indicates earnings greater than \$100,000.

<sup>9</sup>Authors (Jeff Larrimore, Sam Dodini, and Logan Thomas), Agency (DCCA), Date (May 2016).

<sup>10</sup>These responses come from the 24-month survey (collected, for the most part, in 2017).

FIGURE 5

New Yorkers Who Could Pay an Emergency Expense with Cash (By Race and Income)



striking. Across all income groups, white New Yorkers are at least 25 percentage points more likely than both black and Hispanic New Yorkers to be able to pay for a \$400 expense with cash or its equivalent. Additionally we looked at a number of other demographic measures including educational achievement and age.<sup>11</sup>

While the Poverty Tracker asks New Yorkers about how they could cover a \$400 emergency expense, we also survey respondents every three months about the prevalence of general unanticipated major expenses — allowing the respondent to decide what they deem to be a major expense. When aggregating those responses to cover a yearlong period, we find that about 37 percent of New Yorkers faced what they deem to be a major unanticipated expense. This is even higher among those who said they couldn't pay for a \$400 expense, with 42 percent of New Yorkers in this category saying they or someone in their household faced a major unanticipated expense.

<sup>11</sup>See Appendix, Figures A1 and A2



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## Could New Yorkers cover three months of expenses using their assets?

An additional measure of financial security is a household's ability to cover expenses over a given span of time. In the Poverty Tracker we look at what percentage of New Yorkers could cover three months of expenses using just their own assets.<sup>12</sup> This is a common measure of what's called "asset poverty." New Yorkers would not need friends, relatives, or credit cards in the face of an income shock if they held enough assets to weather such a shock on their own. We find that over half (57 percent) of New Yorkers could not cover three months of necessary expenses.<sup>13</sup>

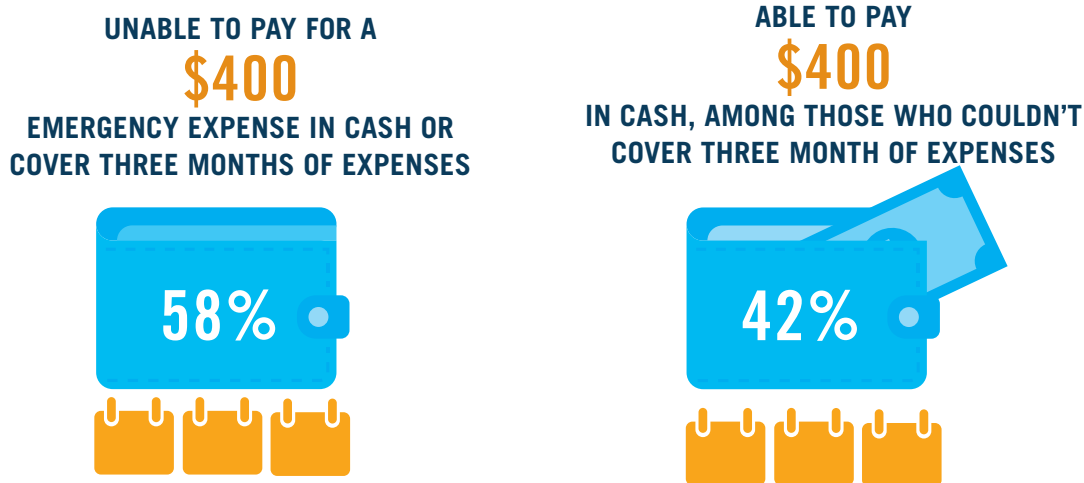
There is a noteworthy overlap between those who couldn't tap into assets to cover three months of expenses and those who couldn't pay a \$400 emergency expense with cash (Figure 6).<sup>14</sup> Fifty-eight percent of those who couldn't cover three months of expenses through their assets could not cover a \$400 expense with cash. This illustrates that while there is a large overlap in the two groups, there is also a substantial group of New Yorkers who could cover a \$400 emergency expense with cash but could not cover three months of expenses using their assets. These findings point to the particular vulnerability that New Yorkers may grapple with when faced with job loss, changes in child care, and other major changes to their income or expenses.

FIGURE 6

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### Who Could Pay for an Emergency Expense Using Cash among Those Who Couldn't Cover Three Months of Expenses Using Their Assets?

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<sup>12</sup>To calculate assets we combined all assets and subtracted out debts and their home value, which likely wouldn't be readily available to spend.

<sup>13</sup>The poverty threshold, or poverty line, is typically thought of as the cost of a core basket of necessary expenditures. Thus, using respondent's poverty threshold (defined under the Supplemental Poverty Measure) at their 12-month survey. The respondent's poverty threshold was divided by 4 estimate to estimate 3 months of expenses. Asset levels were then compared to this 3-month level of necessary expenses.

<sup>14</sup>We compare those who couldn't pay for 3 months of their 12-month poverty threshold using their assets from the 9-month survey to those who couldn't pay for an expense using cash at their 24-month survey.

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# Conclusion

The portrait of financial insecurity that emerges from the Poverty Tracker data is one that, in many ways, mirrors national trends. A sizeable share of New Yorkers and Americans are living on a financial ledge — one emergency away from not being able to make ends meet. The combined studies show that households' first line of defense when faced with a financial shock are credit cards, which often carry the risk of mounting debt. While some have social support and can borrow from family or friends in times of need, many report that a \$400 emergency is one that they simply can't pay. Unsurprisingly, low-income households and racial minorities are particularly disadvantaged and demonstrate elevated levels of inability to pay for unanticipated expenses. On an alternate measure of financial security, we also find that over half of New York City residents don't have enough funds to cover three months of expenses, highlighting a particular vulnerability to life-changing events such as job loss or the arrival of a new baby. Taken together, these findings reveal both a city and a nation in which nearly half of its citizens are unprepared for a modest emergency expense without relying on friends, family, or creditors to help pay the cost.

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Over half (57 percent) of New York City residents don't have enough funds to cover three months of expenses.

# Appendix

FIGURE A1

New Yorkers Who Could Pay an Emergency Expense with Cash (By Education and Income)

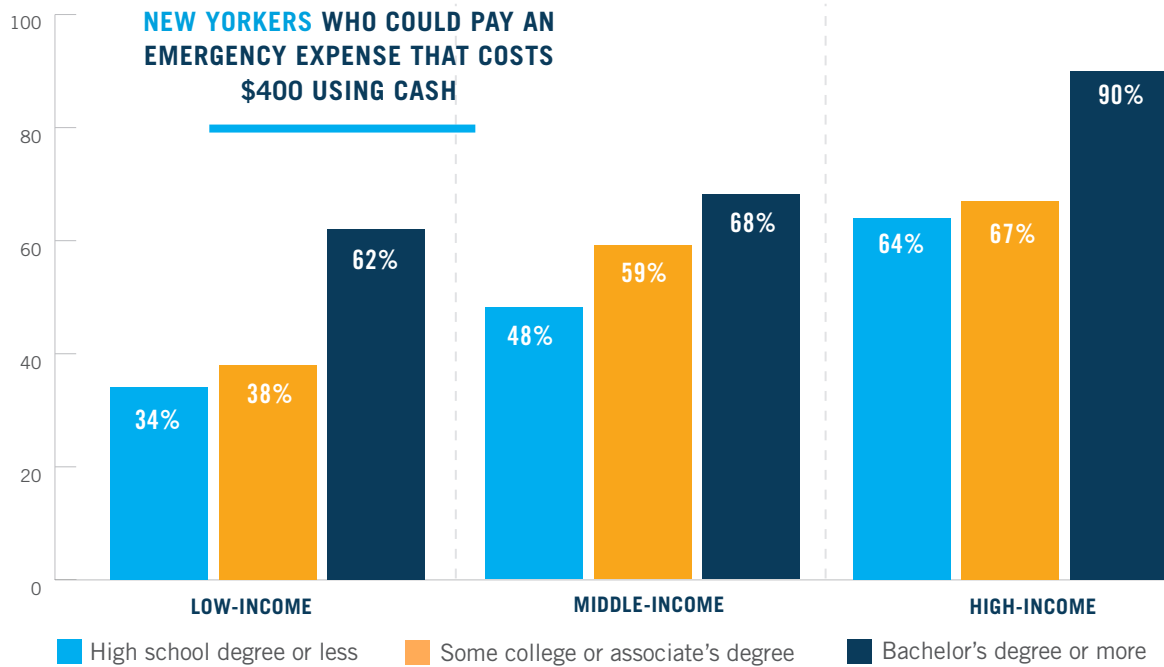


FIGURE A2

New Yorkers Who Could Pay an Emergency Expense with Cash (By Age and Income)

