

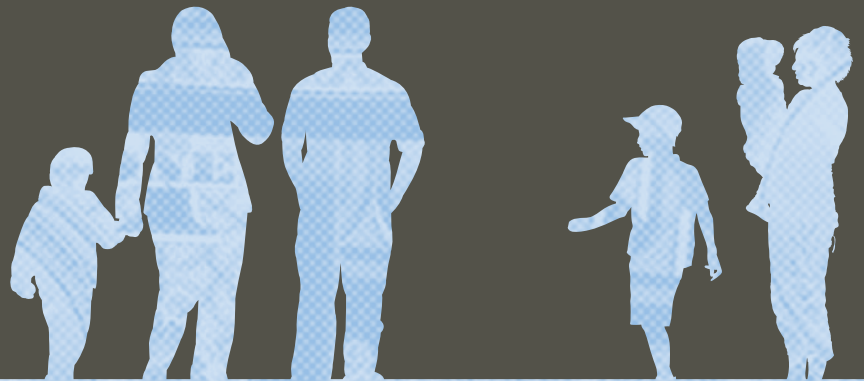
ESI ECONOMIC SECURITY INDEX

Economic Security at Risk

FINDINGS FROM THE
ECONOMIC SECURITY INDEX

July 2010

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THE
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FOUNDATION

With support from The Rockefeller Foundation

ESI ECONOMIC SECURITY INDEX

The Economic Security Index (ESI), developed by political scientist Jacob Hacker and a multi-disciplinary research team with support from the Rockefeller Foundation, is designed to provide a meaningful, succinct measure of Americans' economic security. Professor Hacker is based at the Institution for Social and Policy Studies at Yale University, which aims to facilitate interdisciplinary inquiry in the social sciences and research into important public policy arenas.

The ESI is part of the "Campaign for American Workers" initiative of the Rockefeller Foundation. The initiative strives to improve economic security among American workers and their families, in part by improving knowledge and understanding among policymakers and thought leaders of the dimensions of American economic security.

The ESI research team has been guided by a technical committee retained by the Rockefeller Foundation to provide oversight and to reinforce the intellectual and analytical integrity of the resulting work. Chaired by Brookings Institution economist Henry Aaron, the technical committee is comprised of seven leading experts on economic security:

- Henry Aaron (BROOKINGS INSTITUTION)
- Gary Burtless (BROOKINGS INSTITUTION)
- Henry Farber (PRINCETON UNIVERSITY)
- Robert Greenstein (PRESIDENT, CENTER ON BUDGET AND POLICY PRIORITIES)
- Larry Mishel (DIRECTOR, ECONOMIC POLICY INSTITUTE)
- Alicia Munnell (DIRECTOR, BOSTON COLLEGE CENTER ON RETIREMENT RESEARCH)
- Robert Solow (NOBEL PRIZE IN ECONOMICS, 1987)



Executive Summary

Even before the current recession, economic security was a major concern of most Americans. This concern has only grown amid the deepest downturn in decades.

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The ESI represents the share of Americans who experience at least a 25 percent decline in their inflation-adjusted “available household income” from one year to the next and who lack an adequate financial safety net to replace this lost income.
.....

Yet the discussion of economic security has been hampered by the lack of a simple, coherent measure that allows for the comparison of economic security over time and across Americans of different circumstances.

The Economic Security Index (ESI), sponsored by the Rockefeller Foundation, was created to fill this gap. It provides a simple measure of the joint occurrence of three major risks to economic well-being:

- 1 Experiencing a major loss in income
- 2 Incurring large out-of-pocket medical expenses
- 3 Lacking adequate financial wealth to buffer the first two risks

In brief, the ESI represents the share of Americans who experience at least a 25 percent decline in their inflation-adjusted “available household income” from one year to the next and who lack an adequate financial safety net to replace this lost income until it has returned to its original level. “Available household income” is income that is reduced by non-discretionary spending, including, most substantially, the amount of a household’s out-of-pocket medical spending. Thus Americans may experience income losses of 25 percent or greater due to a decline in income or an increase in medical spending or a combination of the two. The ESI is the share of Americans who are counted as insecure by this standard. A *higher* ESI therefore indicates *greater* insecurity, much as a rising unemployment rate signals a faltering economy.

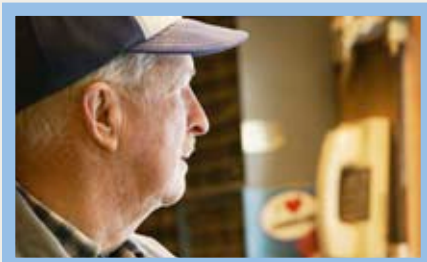


Estimates of the full ESI are currently available from 1985 through 2007, with projections provided for 2008 and 2009; future updates are planned as more recent data become available. The primary data source for the ESI is the U.S. Census Bureau's Survey of Income and Program Participation (SIPP), which is supplemented by other sources where needed. A less complete form of the ESI is available back to the late 1960s, offering a longer-term perspective on trends in economic security.

To summarize the main findings from the ESI:

- Economic insecurity has increased over the last quarter century. In 1985, 12.2 percent of Americans experienced a major economic loss sufficient to classify them as insecure in the ESI. During the recession of the early 2000s, this had risen to 17 percent. In 2007, before the current downturn, the picture had improved (13.7 percent), but measured insecurity remained higher than in the 1980s.
- Economic insecurity is likely to have increased dramatically in the last few years. Because the economic downturn after 2007 was substantial, we project the ESI forward based on the 1985-2007 experience. These projections suggest that in 2009, the level of economic insecurity experienced by Americans was greater than at any time over the past quarter century, with approximately one in five Americans (20.4 percent) experiencing a decline in available household income of 25 percent or greater. This projection is consistent with the findings from a separate poll of Americans' economic experiences conducted in conjunction with the development of the ESI.

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Economic insecurity has increased over the last quarter century and is likely to have increased dramatically in the last few years. In 2009, projections suggest, approximately one in five Americans experienced a decline in income of 25 percent or greater.
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At any given
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than in the past.
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- The ESI rises and falls with the state of the economy, and especially the unemployment rate. But at any given unemployment rate, more people are experiencing insecurity than in the past. In other words, the ESI has been higher relative to the unemployment rate in recent years than it was in the 1980s. In 1985, the unemployment rate was 7.2 percent, and the ESI was 12 percent. In 2002, the unemployment rate was 5.8 percent, but the ESI rose to 17 percent. Moreover, for those who experience drops in available income of 25 percent or greater, the size of drops has increased. Between 1985 and 1995, the typical (median) drop among those experiencing a 25 percent or greater available income loss was about 38.2 percent; between 1997 and 2007, it was 41.4 percent.
- To see beyond short-term economic fluctuations, we statistically calculate the longer term trend in the ESI. Based on this analysis, the ESI has increased by approximately a third from 1985 to 2007. If the projections up to 2009 are included, the ESI increased by almost half (49.9 percent) since 1985. Putting this trend in terms of population, approximately 46 million Americans were counted as insecure in 2007, up from 28 million in 1985.
- The share of Americans experiencing large drops in available household income has increased even more since the 1960s. Because the ESI takes 1985 as its point of departure, how we interpret the trend over the past quarter century depends in part on whether the mid-1980s were relatively secure or insecure for Americans. The less complete form of the ESI available back to the late 1960s shows that large (25 percent or greater) income losses—the core component of the complete ESI—had already risen by about a third from the 1960s to the 1980s, making subsequent increases over the past quarter century even more noteworthy.

- The extent of economic security varies substantially across the population. Those with the most income and education have faced the least insecurity. The less affluent, those with limited education, African Americans, and Hispanics have faced the most. Virtually all groups, however, experienced significant increases in insecurity over the past 25 years.

The ESI is a measure of the actual occurrence of economic losses, rather than of anxiety or fear about such losses. According to the survey evidence, many more Americans worry about economic security than experience large income declines of the sort captured by the ESI. According to the ESI, these concerns have real grounding: Major economic losses have affected between one in six and one in five Americans each year in the last two recessions, more than 60 percent of Americans experienced at least one such loss over the 1996-2006 period, and losses of this magnitude have become more common for Americans up and down the income ladder since the mid-1980s.

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Economic Security at Risk

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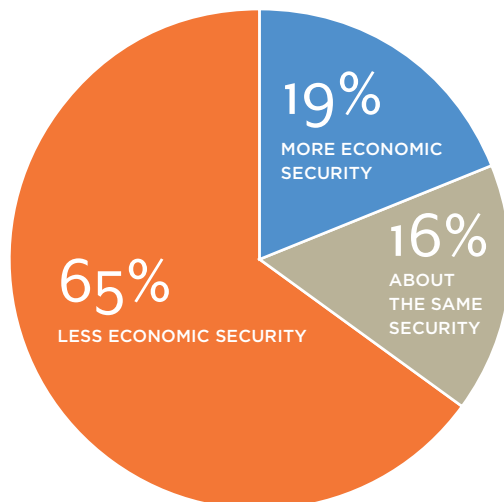
Even before the current economic crisis, economic security was a major concern of most Americans. In a Rockefeller Foundation-sponsored poll in February 2007, before the onset of the current recession, two-thirds of respondents declared the economy had become less secure in the last decade (Figure 1). The majority also expected the economy to get less secure over the next 20 years.



Not surprisingly, the recent downturn has increased public concern. A Kaiser Family Foundation survey revealed that between March 2007 and July 2009, the share of respondents who reported being worried about losing their job grew from 33 percent to 55 percent.¹

A Rockefeller-sponsored survey found that the share of Americans “very worried” about their own family’s economic security doubled in two years from 12 percent in 2007 to 24 percent in 2009; the share “fairly worried” increased from 12.2 percent to 28.5 percent.²

FIGURE 1
“Compared to 10 years ago, do you think Americans today have...”
(Rockefeller Foundation American Worker Survey, Feb. 2007)



What are we to make of these high and increasing levels of expressed insecurity? Commentators have extensively debated this question. On the one hand, Americans as a whole are substantially richer than they were a generation ago, in terms of both average income and average wealth.³ Until recently, moreover, aggregate economic indicators such as inflation and unemployment had seemingly grown more stable, leading to talk of “The Great Moderation” in the American economy.⁴



On the other hand, the gains of overall income growth have been concentrated at the top of the economic ladder: Between 1979 and 2006, according to the Congressional Budget Office, average after-tax income (including public and private income transfers and health benefits) rose by 21 percent for the middle fifth of American households, but increased by 112 percent for the richest 10 percent of households and 256 percent for the top 1 percent.⁵ In addition, a number of key sources of economic insecurity appear to have increased. Medical costs have risen much faster than inflation, and the reach of health insurance coverage has declined.⁶ Levels of household debt have risen.⁷ And there is an increasing consensus among researchers that the incomes of individual workers and families have become less stable over the last generation—although the exact magnitude and precise nature of the change remains a subject of debate.⁸

In the absence of accepted measures of economic security, however, it is difficult to know how these trends toward greater or lesser economic security balance out. The inconclusive quality of the discussion has encouraged attention to shift toward more quantifiable but distinct indicators of well-being, such as median income or wealth. As a result, surprisingly little attention has been paid to the sources of Americans’ anxiety about economic security.

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The ESI provides an integrated measure of economic security that can be used to describe long-term trends as well as differences across individuals and families of varying characteristics.

The Economic Security Index (ESI) was created with the support of the Rockefeller Foundation to fill this gap. It provides an integrated measure of economic security that can be used to describe long-term trends as well as differences across individuals and families of varying characteristics. The ESI captures three major risks to economic well-being that Americans believe are difficult to anticipate and about which they express deep concern: (1) major income loss, (2) large out-of-pocket medical spending, and (3) insufficiency of liquid financial wealth to deal with the first two risks.

Specifically, the ESI represents the share of Americans who experience at least a 25 percent decline in their inflation-adjusted “available household income” from one year to the next and who lack an adequate financial safety net to replace this lost income until it has returned to its original level. “Available household income” is income that is reduced by the amount of a household’s out-of-pocket medical spending, as well as adjusted to reflect household size, household debt burdens, and, for older Americans, household retirement assets. Thus Americans may experience income losses of 25 percent or greater due to a decline in income or an increase in medical spending or a combination of the two. An “adequate financial safety net” is defined as sufficient financial wealth to make up for an individual’s reduced income for as long as it takes the typical person to recover from a loss of comparable magnitude. If an individual has an adequate financial safety net, he

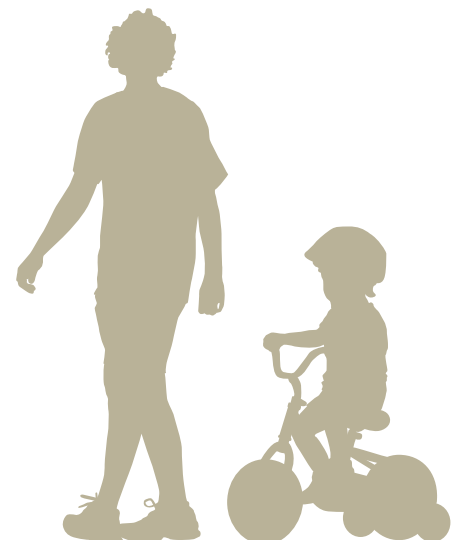
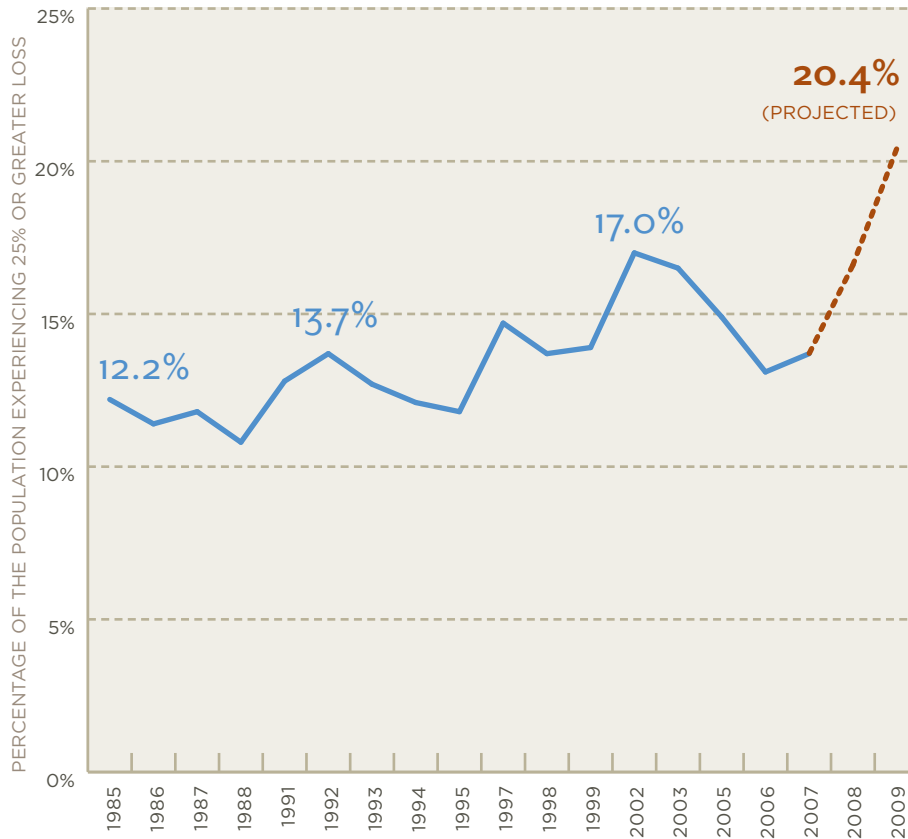


FIGURE 2

The ESI: Americans Experiencing Major Economic Losses, 1985-2007
(with 2008-09 Projections)



or she is not counted as insecure even if available household income declines by 25 percent or more.

The ESI is an annual measure:

For each year it covers, it captures the share of Americans who, relative to the prior year, experienced a drop of 25 percent or greater without an adequate financial safety net. The ESI is available in its most complete form from 1985 through 2007.⁹ To provide a more extended perspective on Americans' changing economic security, this report incorporates projections based on historical trends for the period 2008-2009. In addition,

a less complete version of the ESI is also available using an alternative data source dating back to the late 1960s.

The results from the ESI show that economic insecurity has increased in the United States over the past quarter century (Figure 2). In 1985, 12.2 percent of Americans experienced a major economic loss without an adequate financial safety net. During the recession of the early 2000s, that share rose to 17 percent. While Americans grew more secure as the economy improved through 2007, the ESI value of 13.7 percent remained above its

level from the 1980s. Projections based on the historical trend and on 2008-2009 aggregate economic data suggest the index rose sharply in the wake of the recent economic crisis to over 20 percent in 2009 (the red segment in Figure 2).¹⁰

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During the recession of the early 2000s, 17 percent of Americans experienced a major economic loss without an adequate financial safety net.
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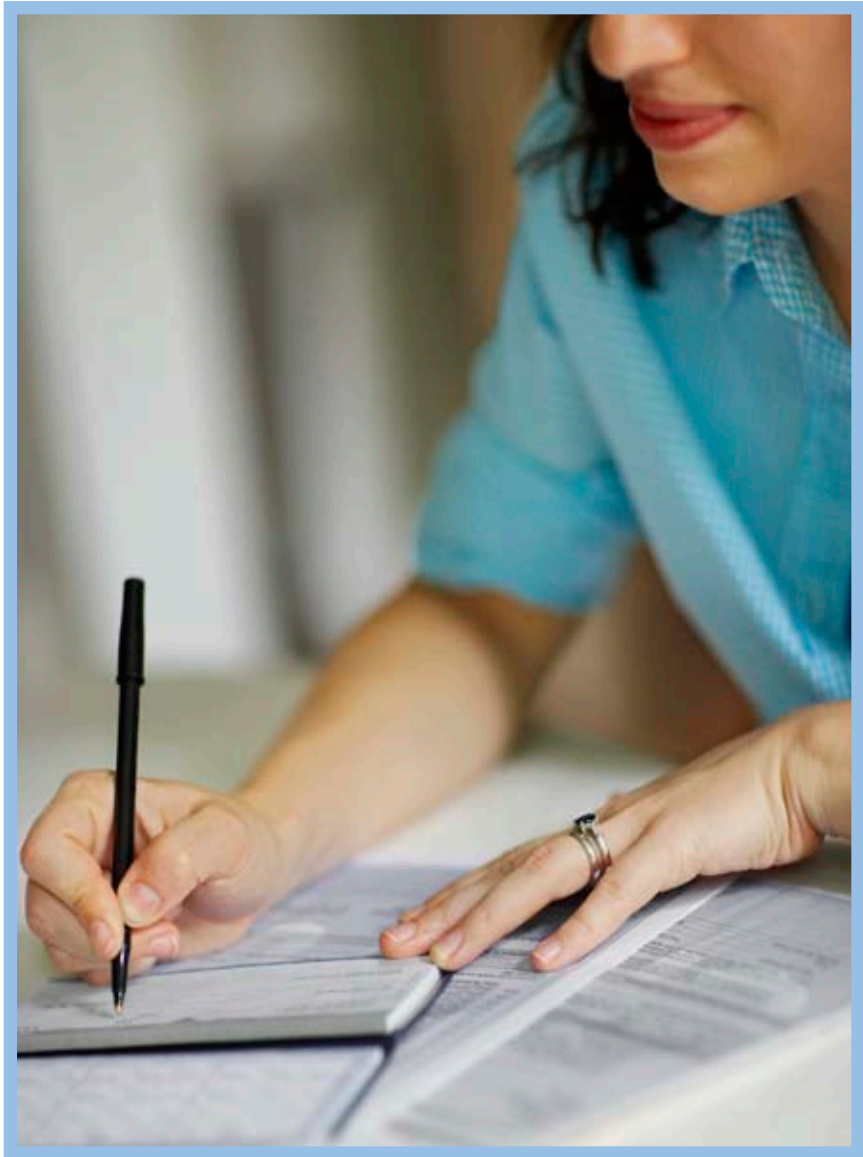
The ESI focuses on experienced insecurity because it can be more

reliably measured and is not subjective in nature. It is important to note, however, that for each American who actually experiences economic insecurity as measured by the ESI, others may be made anxious by learning about that experience.¹¹ Uncertainty about the economic future can substantially affect people's sense of well-being. Research shows that individuals are "loss averse," that is, they experience a degree of harm from expected or actual declines in

income, wealth, or other sources of economic well-being that exceeds the enjoyment they anticipate or experience from a comparable increase.¹² The ESI's focus on objective events is not meant to dismiss these psychological sources of anxiety or their impact on Americans' lives. Rather, the ESI is designed to focus on what is most readily and consistently measurable about the economic dimensions of insecurity.

This report lays out how the ESI was calculated, how insecurity is experienced across the American public, and what broad implications these findings hold. The first part of the report describes the basic design of the ESI. The second looks at trends in the ESI over time as well as differences in its level across demographic groups. The third discusses the implications of the ESI and previews future analyses and refinements.

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I

The Economic Security Index

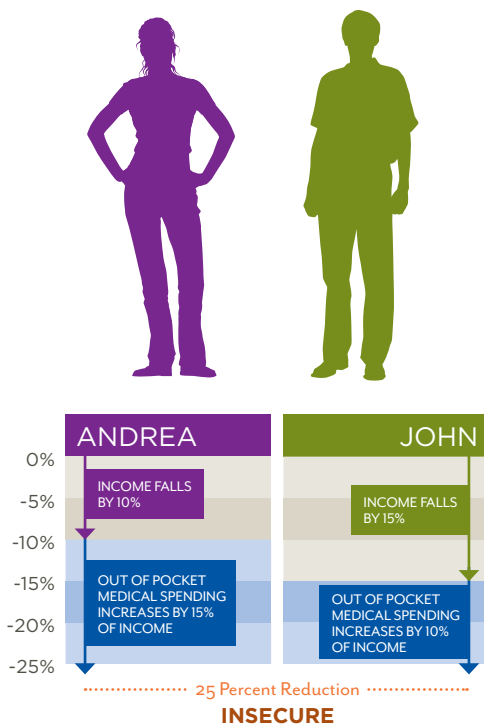


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 The core idea of the ESI is simple. Americans rely on their income to maintain their standard of living. But income can be precarious.

The core idea of the ESI is simple. Americans rely on their income to maintain their standard of living. But income can be precarious. People may lose their jobs, they may become too ill to work for months at a time, or they may become disabled and unable to work for an even longer term. Furthermore, even a good and stable income may not be enough to provide economic security when someone in a

household is faced with high out-of-pocket medical expenses, over which they have little or no control. Financial assets can provide protection against drops in income or increases in nondiscretionary spending, but households with little or no liquid financial assets lack such a cushion. This lack of a financial safety net makes income losses or medical expenses even harder to cope with.

FIGURE 3
Economic Insecurity
 Two Scenarios



ESI: WHO'S COUNTED AS INSECURE?

The "insecure" are those whose available household income declines by at least 25 percent from one year to the next (after adjusting for inflation), as a result of a decline in household income and/or an increase in out-of-pocket medical spending, and who lack an adequate financial safety net. Thus an individual is considered insecure if the sum of the increase in medical expenditures and lost annual income totals at least 25 percent of his or her previous year's available income, as illustrated in Figure 3.

Household income includes all private and government sources of income, including the estimated income value of defined-contribution retirement accounts, such as 401(k)s, for households with heads aged 60 or older. Household income is adjusted for family size to reflect the economies of scale of pooling household resources and expenses. Household income is also reduced by the amount needed to pay off liquid financial debts when net financial wealth is negative. (All income is adjusted for inflation and expressed in 2009 dollars.)

Individuals with adequate holdings of liquid financial wealth are not treated as insecure even when they experience 25 percent or greater income losses. We define "adequate" as enough liquid financial wealth to compensate for the lost income until typical recovery to pre-drop income or for six years, whatever comes first.

Those entering retirement are also excluded from the count of the insecure even if available household income declines by 25 percent or more concurrent with retirement; once retired, however, they are counted as insecure when they experience 25% or greater declines.

Furthermore, many households carry substantial debt burdens. Because those debts must be serviced in good times as well as in bad, such debt burdens only increase households' financial bind in the face of economic hardship.

The ESI reflects these basic economic realities. As already explained, it measures the proportion of Americans who experience at least a 25 percent drop in their available household income from one year to the next without an adequate financial safety net to buffer the decline. Because whether someone meets the threshold to be counted as insecure in the ESI is calculated objectively at the individual level, the ESI allows for a straightforward interpretation of the results. A higher index means more Americans (or more members

of a given demographic group) are experiencing a 25 percent or greater loss. Demographic groups with a higher index are less secure than demographic groups with a lower index. And when the index goes up over time, insecurity is increasing.

RATIONALE OF THE ESI

Income losses, medical spending increases, and wealth buffers are the three core elements of the ESI because they are crucial to Americans' economic security and to their concerns about it. Income, the first core element, has a pervasive impact on economic well-being—as reflected in the common use of median income and the share of Americans below the poverty line as markers of economic health. Medical care, the second core element, is a major

and growing drain on available income and therefore a potential source of insecurity for all Americans. As a 1995 National Academy of Sciences report on alternative poverty measures argued, a household's economic resources should be judged after subtracting out medical costs, an argument widely accepted among analysts.¹³

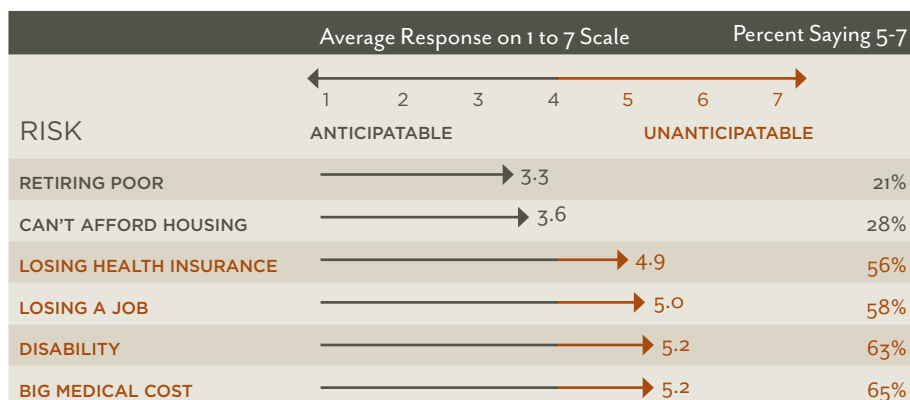
Wealth, the third core element of the ESI, is among the primary private buffers that families have against income drops or large unavoidable expenditures. On the one hand, when families have financial wealth holdings that they can access easily—"liquid" assets, such as savings and checking accounts or mutual fund holdings—they can draw down these resources to make up for lost income or large expenditures. On the other hand, when families have large financial debts, they are doubly constrained by income declines: they have debts to service even as they deal with income losses.

Surveys show that loss of income—especially resulting from job loss, short-term impairments from serious illness, and long-term disability—is consistently at or near the top of the list of Americans' leading economic worries.¹⁴ Medical spending, in the form of insurance premiums or out-of-pocket expenses for treatments, is an equally common concern.¹⁵ Additionally, survey data suggest that the forms of economic uncertainty



FIGURE 4

Americans' Views on Whether It's Possible to Anticipate Key Risks
 (American National Election Studies Longitudinal Survey, March 2009)



captured in the ESI are viewed by the public as the most difficult to anticipate and prepare for, and therefore most threatening to their sense of well-being (Figure 4).

.....
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How large a shock to available household income is required before someone is “insecure”? In practice, this will depend on each household’s circumstances. The ESI is designed to capture events that would induce insecurity in the typical household. From this perspective, a 25 percent or greater drop in available income, unless offset by sufficient liquid wealth to buffer the loss, seems an appropriate baseline.

Survey data indicate that income drops of that magnitude are large enough to induce hardship in the typical household. When asked how long their household could go without its current income before experiencing hardship, just under half of Americans indicated in the spring of 2009 that their household could go two months or less.¹⁶ A 25 percent decline in income, which is equivalent to a loss of three months’ income, would therefore be expected to cause hardship for at least half, and probably more than half, of Americans.

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AN INTEGRATED MEASURE

The ESI captures many of the crucial determinants of economic security in a single measure. This is not only because the ESI takes into account income losses, medical expenditures, and the adequacy of a household’s financial safety net; it is also because the measure of income used in the ESI is unusually comprehensive. It includes all private and government sources of income and is adjusted for inflation and to reflect the economic advantages of pooling household resources and expenses. For those who are of retirement age, the income measure also includes the estimated annual income flow from private retirement accounts.¹⁷ For those who are carrying financial debts that exceed their financial assets, income is also reduced by the amount needed to service these debts.¹⁸

Equally important, the way in which available income is calculated inherently incorporates several of the actions that people take to protect themselves from economic risk. First, losses in available income are calculated *after* taking into account the reductions in medical spending provided by private and public health insurance and the direct increase in income from public and private payments that may offset income drops, such as unemployment insurance benefits.¹⁹ Second, by basing income on the entire household, the ESI accounts for the

ways in which families compensate for the lost earnings of one of its members, such as an increase in hours worked by one household member in response to job loss by another member.

Finally, by allowing individuals to offset declines in available income by drawing down liquid wealth (precautionary saving), the ESI also takes into account households' efforts to offset income risk through savings. In the ESI, individuals with levels of liquid financial wealth that are sufficient to buffer economic losses are not counted as insecure. "Sufficient

Sharp declines in income are not rectified overnight. Indeed, the typical individual who experiences a decline of at least 25 percent in household income requires between six and eight years for income to return to its previous level.

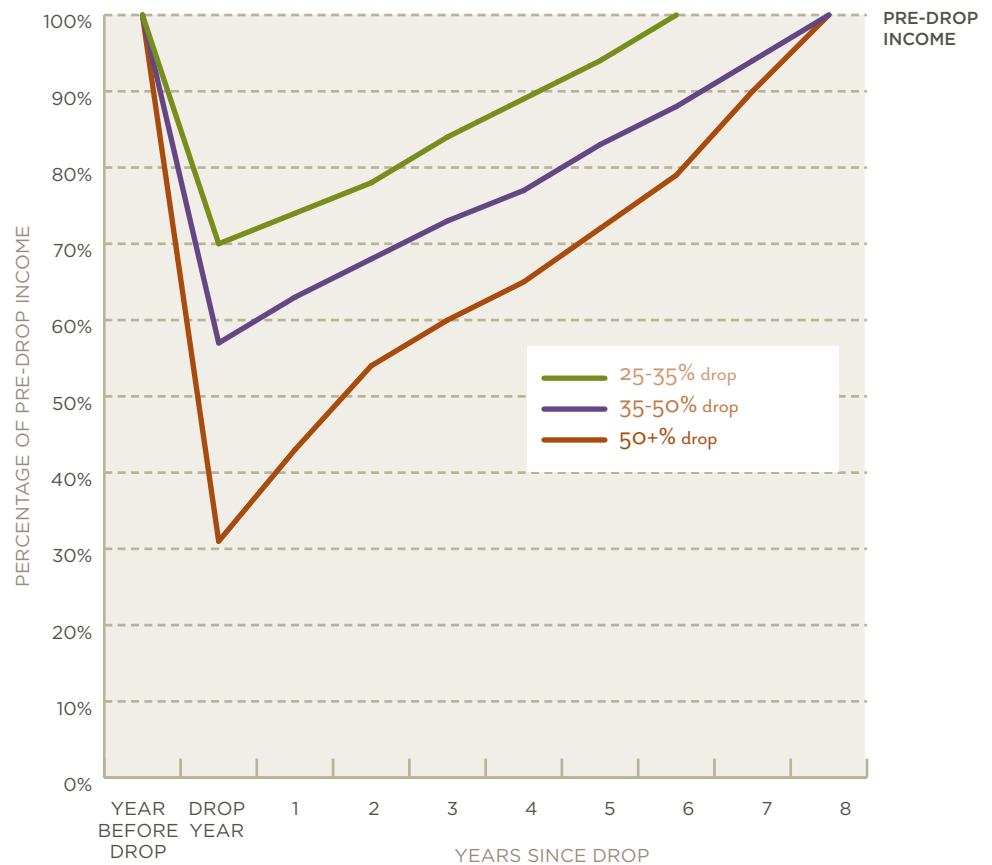
levels" of financial reserves are defined relative to the amount by which available household income declines and the expected trajectory for its recovery. Sharp declines in income are not rectified overnight. Indeed, the typical individual who experiences a decline of at least 25 percent in household income requires between six and eight years for income to return to its previous level (Figure 5).

THE DATA

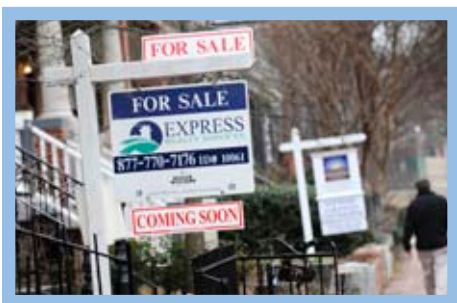
To calculate changes in individuals' available incomes each year requires a survey that follows

individuals over time (a "panel survey"). The panel data source used in the construction of the ESI is the Survey of Income and Program Participation (SIPP). The SIPP is a nationally representative sample of the households and individuals constituting the civilian non-institutionalized population of the United States. Conducted by the U.S. Census Bureau since 1984, the SIPP currently provides complete annual data for our purposes through 2007 (with some intermediate years excluded). Additional details on the SIPP and other aspects of the analyses behind the ESI are contained in a companion

FIGURE 5
Typical Recovery Paths for Americans Who Experience Major Income Losses, by Drop Size



Source: Panel Study of Income Dynamics. The figure traces the median recovery of income by year (as a percentage of pre-drop income) for those experiencing a 25% or greater income drop, for three different drop sizes.



technical report entitled, “The Economic Security Index: A New Measure of the Economic Security of American Workers and their Families.”²⁰

The SIPP has a relatively large sample compared with other panel surveys. Although individuals can be followed for only two to four years, the SIPP is well-suited for the ESI’s focus on year-to-year changes in income and other household resources. It also provides comprehensive information on household wealth holdings and debt. Because these data are not available for all years, however, the ESI cannot capture wealth changes over time; instead, a household’s wealth is averaged across all observed values for each household (which in many cases is a single observation).²¹

Although the SIPP provides a reasonably comprehensive measure of income and wealth, it needs to be supplemented with two additional data sources for the construction of the ESI.²² The first involves medical expenditure. In recent years, the SIPP has included measures of household medical spending (direct—not employer-financed—insurance payments and out-of-pocket costs). However, because medical spending information is not available with the same regularity or reliability as the income data, development of the ESI required supplementing the SIPP with medical spending estimates from the Consumer Expenditure Survey (as described further in the technical report), also conducted by the U.S. Census Bureau. Medical out-of-pocket spending includes all spending on health care, including the

individual’s share of any health insurance premiums.²³

The second area where additional data were required involves the calculation of recovery trajectories following a large decline in income. Because previous research has established that recovery trajectories typically exceed five years (beyond the duration of the longest SIPP panels), calculating the wealth required to offset income losses during recovery required a longer-term panel study.²⁴ For these purposes, we made use of the Panel Study of Income Dynamics (PSID)—an economic panel study that has been following a representative sample of U.S. families (and split-off families from the original sample) since the late 1960s. (The PSID is also the source of the more limited version of the index available for years prior to 1985.)

II

The Evolution of American Economic Insecurity



The ESI provides a revealing picture of trends in American insecurity and their proximate causes, as well as of differences in insecurity across groups.

this had risen to 17 percent. In 2007, before the current downturn, the picture had improved (13.7 percent), but measured insecurity remained higher than in the 1980s (see Figure 6).

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In 2009, the level of economic insecurity experienced by Americans was greater than at any time over the past quarter century.
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TRENDS IN THE ESI

As noted in the introduction to this report, the ESI shows that economic insecurity has increased over the last quarter century. In 1985, 12.2 percent of Americans experienced a major economic loss sufficient to classify them as insecure. During the recession of the early 2000s,

Moreover, economic insecurity is likely to have increased dramatically in the last few years. Because the economic downturn after 2007 was substantial, we project the ESI forward based on the 1985-2007 experience and 2008-2009 aggregate economic data. These projections suggest that in 2009

FIGURE 6
The ESI: The Long-Term Upward Trend, 1985-2007
(with 2008-2009 Projections)

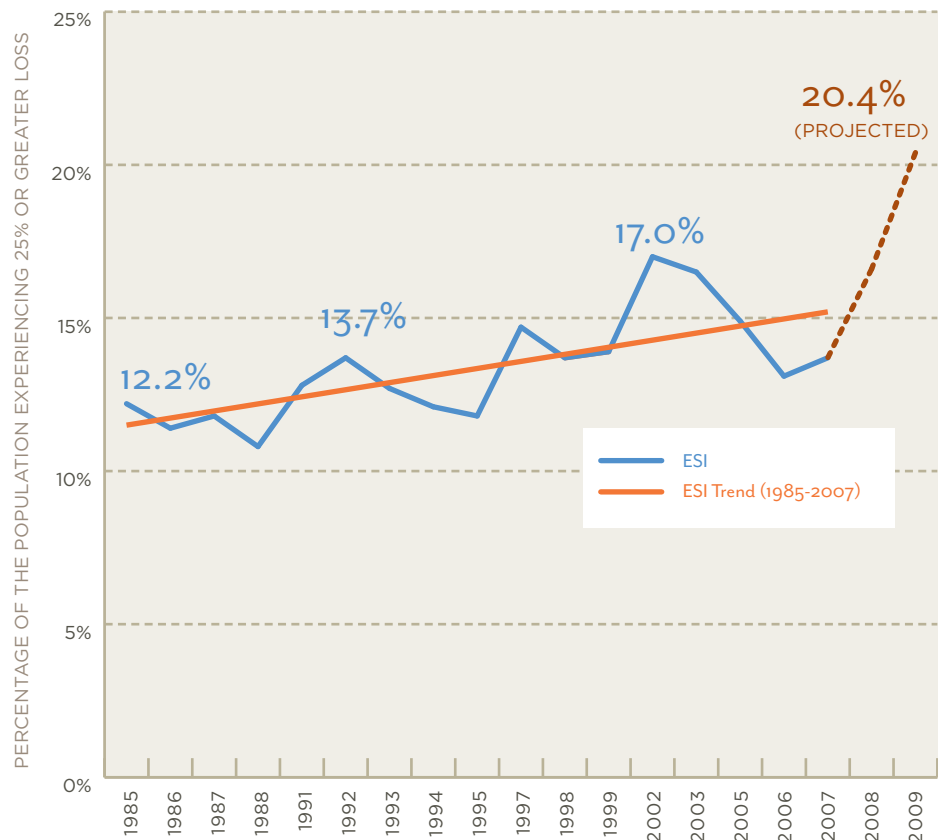


TABLE 1

ESI vs. the Unemployment and Poverty Rates, 1985-2009

	1985	1992	2002	2007	2009	1985-1995	1997-2007
Unemployment Rate	7.2%	7.5%	5.8%	4.6%	9.3%	6.3%	4.9%
Poverty Rate	14.0%	14.8%	12.1%	12.5%		13.9%	12.3%
ESI	12.2%	13.7%	17%	13.7%	20.4%*	12.1%	14.7%
Median Loss in Available Income**	39.3%	38.1%	43.3%	41.8%		38.2%	41.4%

* Projected ESI **Median percentage loss among those counted as “insecure” (i.e., with losses greater than 25%)

the level of economic insecurity experienced by Americans was greater than at any time over the past quarter century, with approximately one in five Americans (20.4 percent) experiencing a decline in available household income of 25 percent or greater. This projection is consistent with the findings from a separate poll of Americans’ economic experiences conducted in conjunction with the development of the ESI.²⁵

Americans’ level of economic security fluctuates with the general health of the economy. For example, when the business cycle experiences an upturn, Americans’ odds of suffering a large fall in income decreases. But this cyclical pattern has been accompanied by a gradual rise in the overall prevalence of economic insecurity in good times as well as in bad. During downturns, economic security has eroded, but between downturns, it has not bounced back to previous levels. The “new normal” in each subsequent economic cycle has featured a higher level of economic insecurity.

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This rise can be seen by comparing the ESI across “peaks” (or “troughs”) in the business cycle. Statistically, we can precisely identify the overall trend in the level of the ESI. In Figure 6, we superimpose this annual trend line for the 1985-2007 period (that is, without the projected 2008 and 2009 estimates) over the results presented in Figure 2. This trend line shows that the share of Americans defined as insecure has increased by approximately 3.7 percentage points over the 1985-2007 period, or proportionally by about a third (31.8 percent). If the projections up to 2009 are included, the ESI increased by approximately 5.5 points, or proportionally by almost half (49.9 percent) since 1985.

Since the ESI is simply the share of Americans who experience a 25 percent or greater drop as just defined, it can easily be translated

into estimates of the number of Americans who are insecure. In 2007, based on the linear trend, roughly 46 million Americans were insecure according to the ESI definition. By comparison, the number was approximately 28 million in 1985.

Another way to see the long-term trend is to examine the relationship between the ESI and the unemployment rate, focusing on the first and last years of the series and the years following economic downturns (1992 and 2002). In 1985, as Table 1 shows, the unemployment rate was 7.2 percent and the ESI was 12.2 percent. The 1992 unemployment rate was about the same, but the ESI was higher—at 13.7 percent. And in 2002, unemployment was 5.8 percent, but the ESI was at 17 percent. In other words, the ESI has been higher relative to the unemployment rate in recent years than it was in the 1980s. At any given unemployment rate (or poverty rate, as shown in Table 1), more people are experiencing insecurity than in the past.

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 In 2007, roughly 46 million Americans were insecure according to the ESI definition.

Moreover, those who experience at least a one-quarter drop in their available income are falling farther. In 1985, the typical (or “median”) loss for someone with an available income decline of at least 25

percent was 39.3 percent. In 2007, it was almost 42 percent. The rising size of typical drops addresses a potential concern with the ESI. It might be thought that the ESI is going up because more people are “just clearing” the 25 percent loss threshold. In fact, while a bigger share of Americans are indeed exceeding the threshold, those who do so now typically experience slightly larger drops than did those who exceeded the threshold in the past.

Because the ESI takes 1985 as its point of departure, how we interpret the trend over the past quarter century depends in part on whether the mid-1980s were relatively

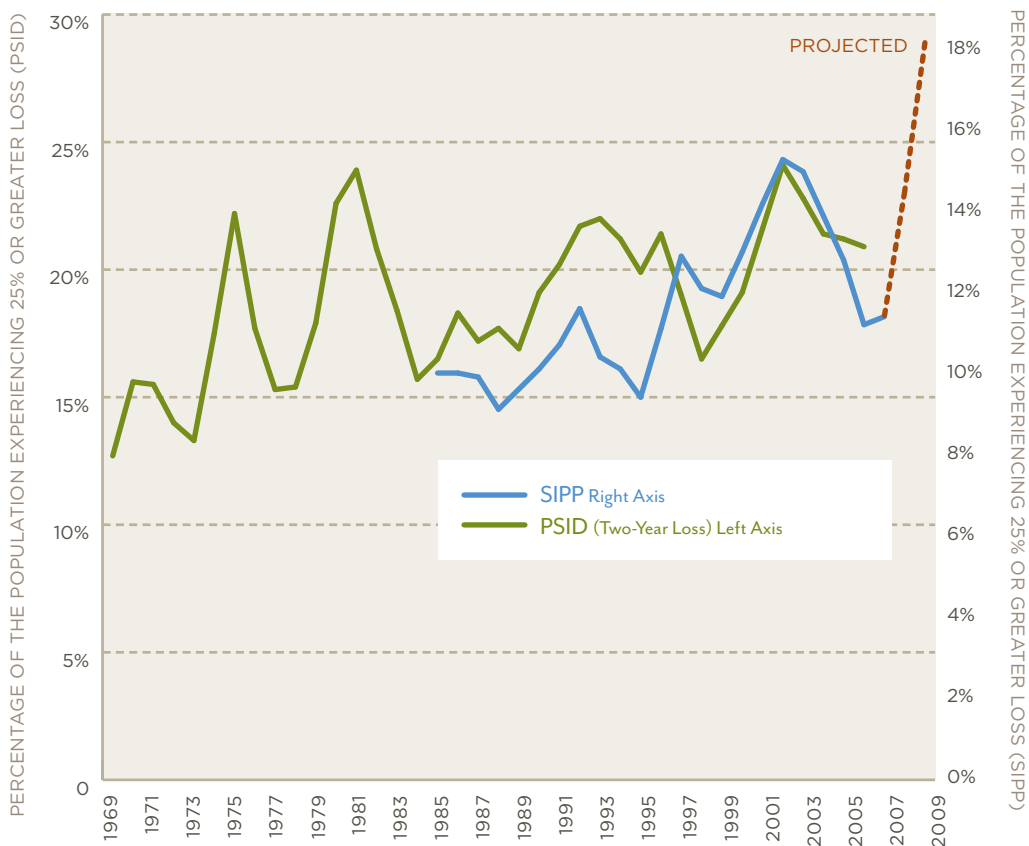
secure or insecure for Americans. While the SIPP data do not begin until 1984, it is possible to trace one dimension of the index—major income loss—back to the late 1960s by using the PSID.²⁶ Because it has been conducted only once every two years since 1996, the only way to look at income loss after 1996 is to compare income in one year to income two years later, rather than from one year to the next. Partly for this reason, the PSID shows a higher proportion of Americans experiencing 25 percent or greater income drops than does the SIPP, although the trends match relatively well during the overlapping years. Putting the earlier PSID data

on a separate axis, as done in Figure 7, makes comparing over-time trends for the overlapping years easier.

As Figure 7 shows, the more limited index available back to 1969 indicates that the risk of major income loss was almost a third higher in 1985 than it had been in the late 1960s. This suggests that, at least with regard to household income losses, 1985 was simply a way station on the long-term upward rise of insecurity since the late 1960s. Despite economic growth over the past forty years, the share of Americans experiencing large income drops has risen substantially.

FIGURE 7

The ESI: The Rising Prevalence of Large Income Declines, 1969-2007, Evidence from the SIPP and PSID
(with 2008-2009 Projections; Income Loss Only)



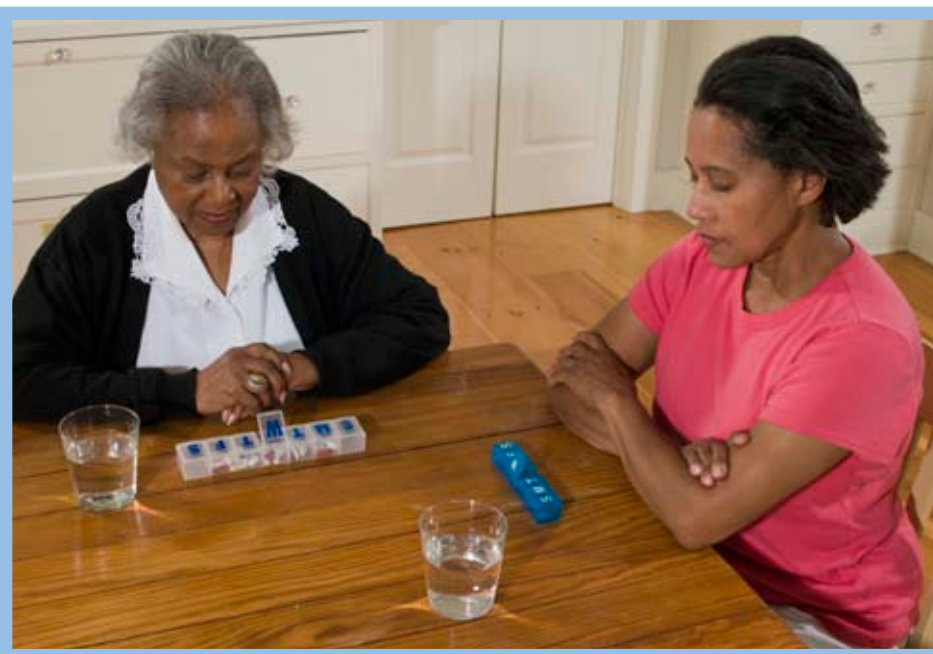
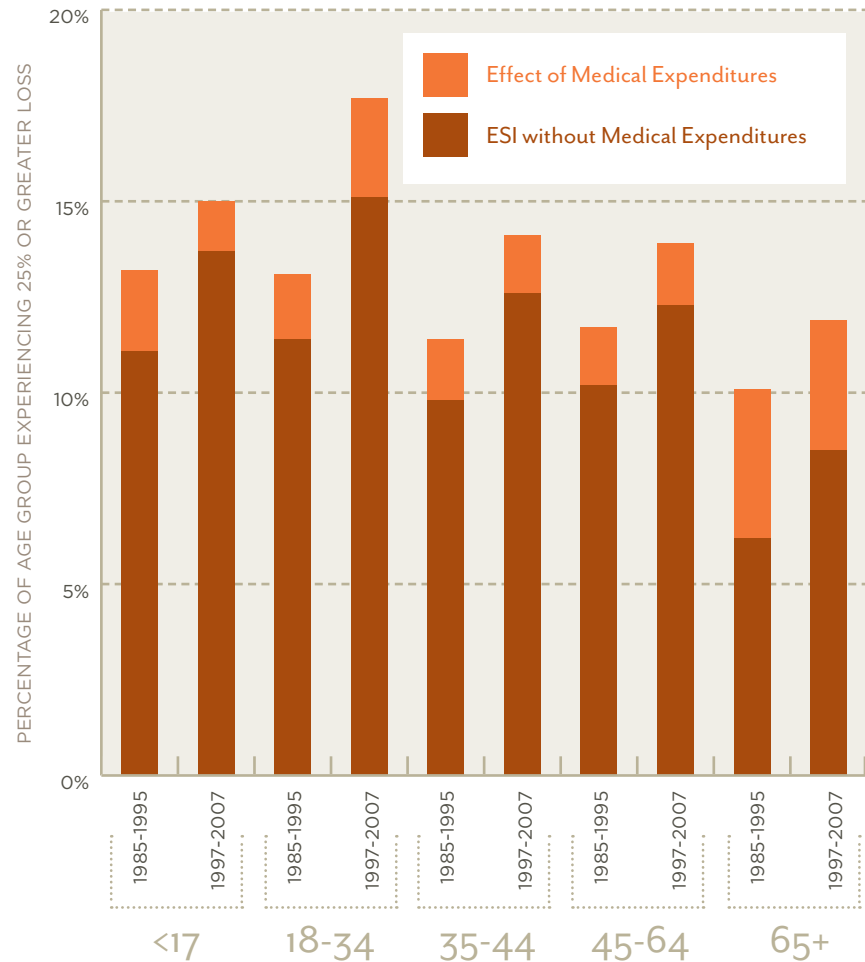
WHO IS INSECURE?

Future reports will use the ESI to examine the face of economic insecurity in greater detail, but a few preliminary comparisons provide a revealing window into the variation across segments of the U.S. population.

The first relevant basis of comparison is age (Figure 8). Older Americans are often thought to be relatively immune from major economic threats, given the strong role of Social Security and the virtually universal health coverage provided through Medicare. The ESI suggests otherwise. While older Americans are indeed less likely to experience large income losses than younger Americans, large medical spending burdens substantially offset their lesser vulnerability to large income drops.

FIGURE 8

The ESI: The Medical Component of the ESI, by Age Group and Period



While older Americans are indeed less likely to experience large income losses than younger Americans, large medical spending burdens substantially offset their lesser vulnerability to large income drops.

The incidence of a major economic loss also varies systematically by income and education (see Figures 9 and 10). The differences are large: On average over one in five (20.7 percent) of the poorest Americans—those with household incomes in the lowest quintile—suffered a major economic loss from one year to the next between 1997 and 2007, compared to 11.7 percent of those in households in the top income quintile (Figure 9). In other words, lower income households have roughly double the prevalence of economic insecurity, compared to those with the highest incomes. The gaps are not as large across the educational spectrum, but are still striking (Figure 10).

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 Notably, households with children in which at least two adults are present experience a relatively high prevalence of large available income declines.

Levels of economic insecurity also vary across household types (Figure 11). Individuals living alone have the lowest level of insecurity; single-parent households, the highest. Notably, households with children in which at least two adults are present experience a relatively high prevalence of large available income declines.

FIGURE 9

The ESI: Prevalence of Large Economic Losses, by Income Quintile and Period

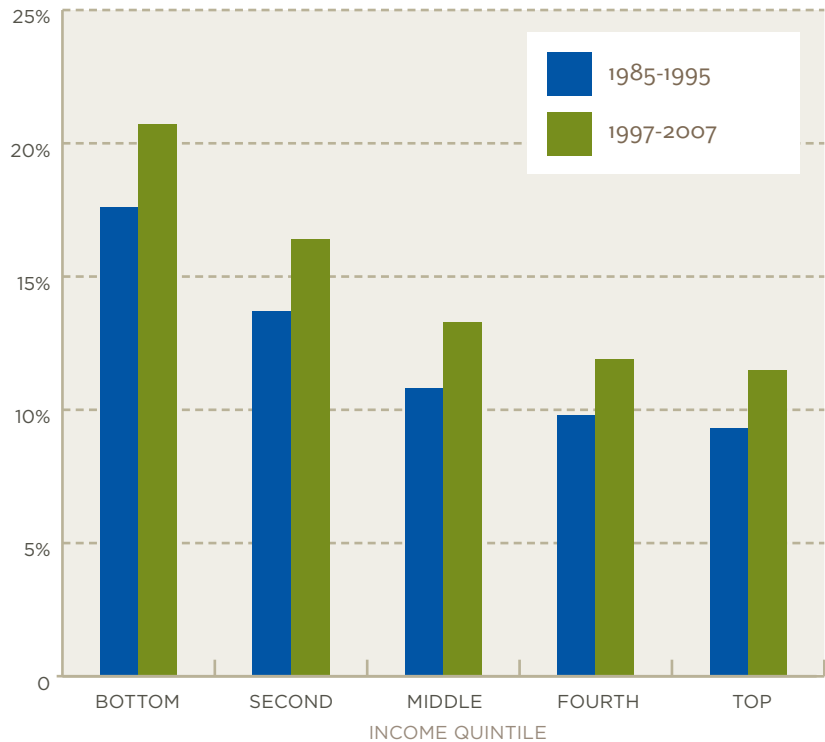


FIGURE 10

The ESI: Prevalence of Large Economic Losses, by Education Group and Period

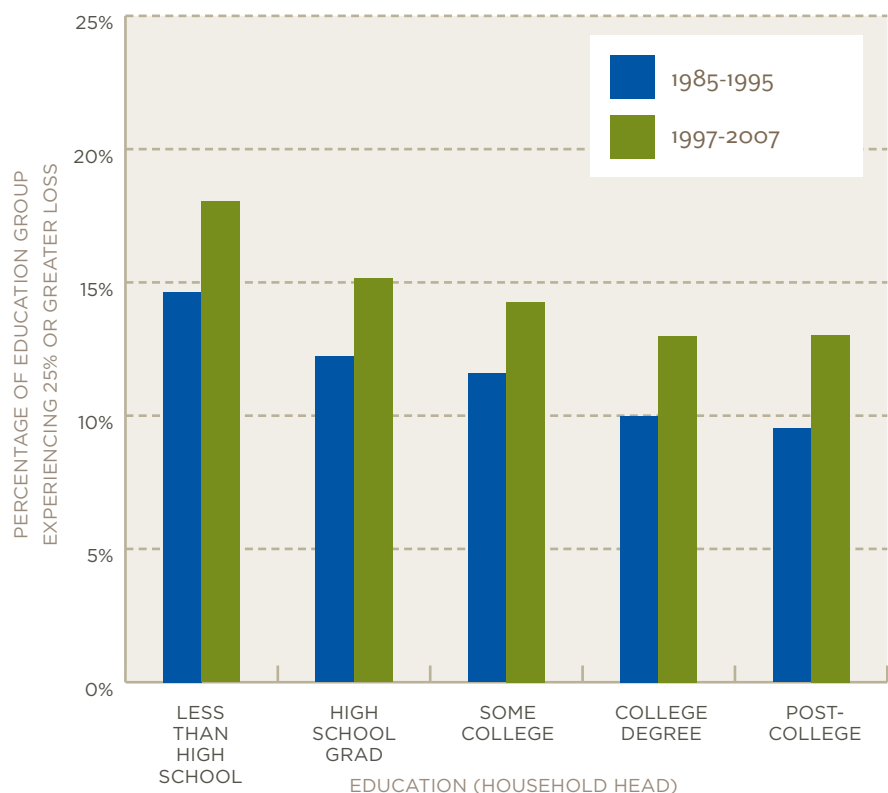


FIGURE 11

The ESI: Prevalence of Large Economic Losses, by Household Type and Period

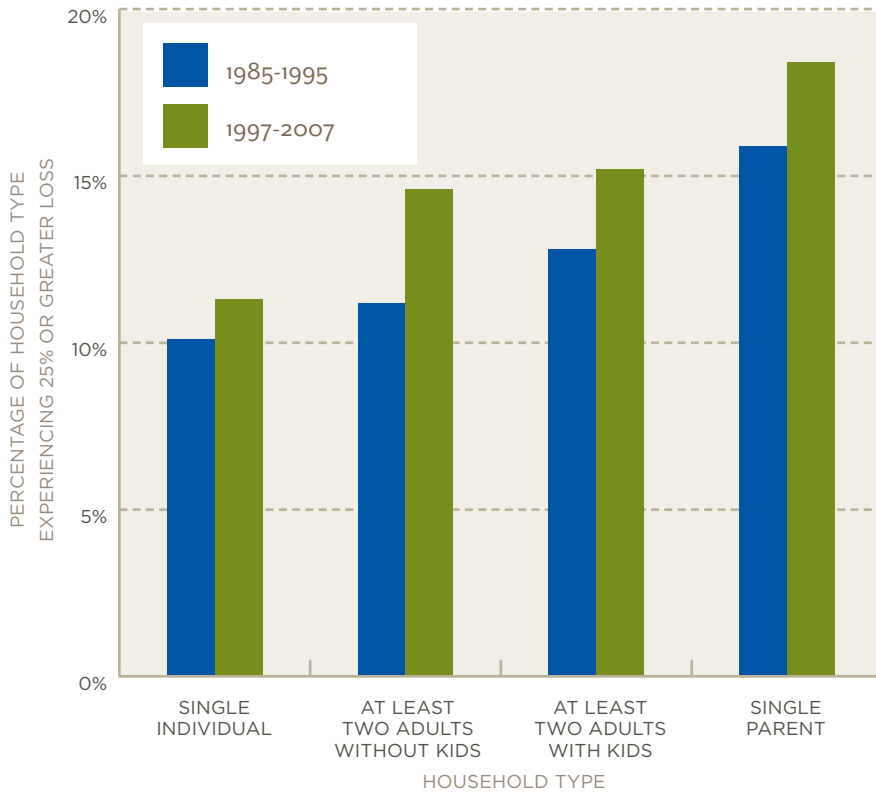
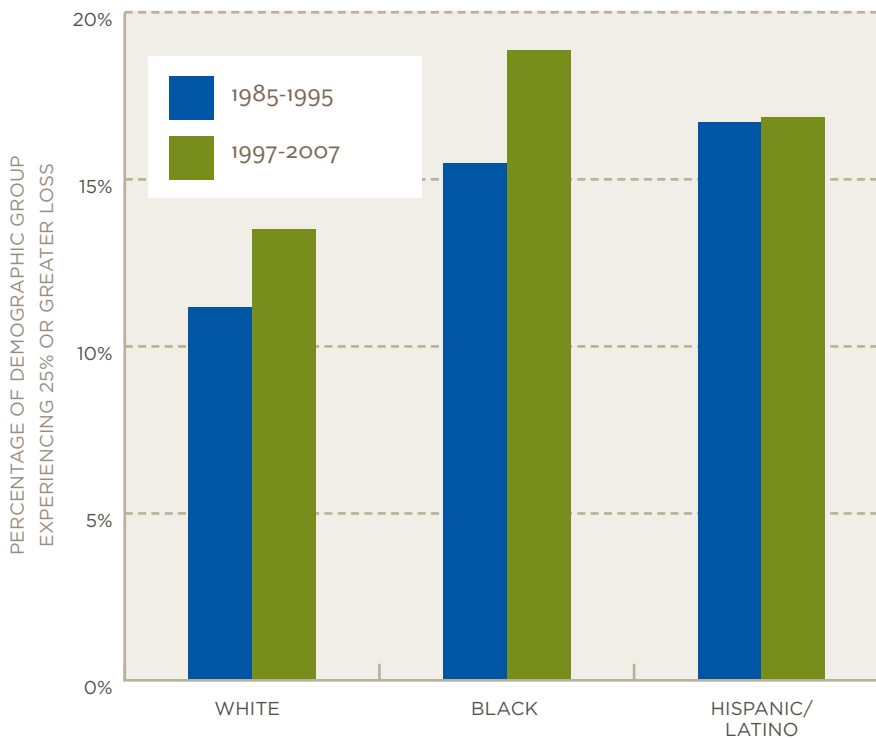


FIGURE 12

The ESI: Prevalence of Large Economic Losses, by Race/Ethnicity and Period



Finally, African Americans and Hispanics stand out as uniquely vulnerable to the economic insecurity captured by the ESI (Figure 12). Even though the ESI for African Americans was comparatively high in the 1980s and early 1990s, the share of African Americans experiencing large income losses rose significantly between 1985 and 2007. Hispanics have comparably high levels of insecurity, but saw little rise, on average, between 1985 and 2007.²⁷ Because Hispanics are much more likely to be recent immigrants than are whites and African Americans, the trend over time in their average level of insecurity may be obscured by changes in the composition of the Hispanic population. Future ESI analyses of demographic differences will explore these relationships further.

WHAT DRIVES THE ESI?

Breaking the ESI down into its component parts shows that the rising chance of income loss, growth of out-of-pocket medical spending, and rise in household debt all contribute to the upward trend (Figure 13). By contrast, the degree to which the ESI rises over time is reduced by taking into account the liquid financial wealth that some households have to cushion large losses. The largest contribution to both the level of the ESI and the upward trend is the increasing chance of large drops in household income.

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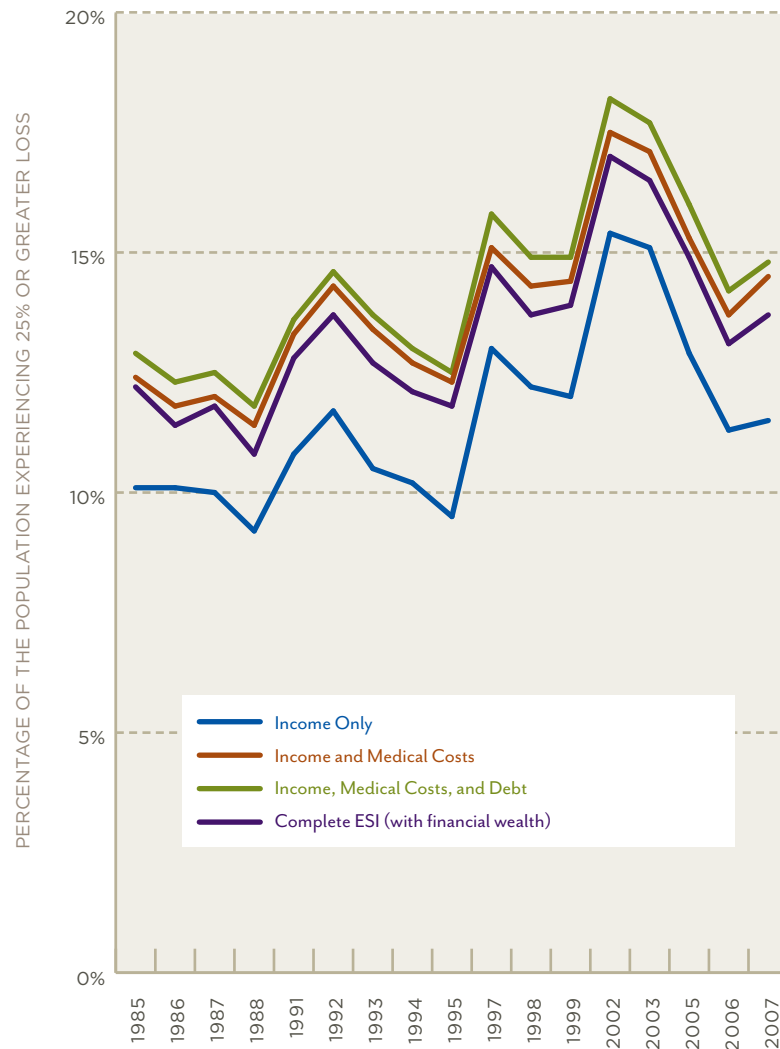
Taking up these components in reverse order, one modest reason for the rise in large economic losses is increasing indebtedness, which reduces a household's income due to debt service. The households with the least financial wealth have seen their standing fall precipitously, particularly among the bottom 10 percent of financial wealth-holders, but also among the bottom 25 percent (see Figure 14). Meanwhile, the typical level of liquid financial wealth holdings has hovered around zero over the 1985-2007 period. In other words, the majority of Americans over this period had no safety net of liquid financial wealth.

The majority of Americans over this period had no safety net of liquid financial wealth.

Turning to medical care, out-of-pocket medical costs have clearly come to represent a larger amount and share of the household budget. In real dollars, the median individual spent around 60 percent more out of pocket in 2007 than did the typical individual in 1985. This broad upward trend, however, obscures substantial differences

FIGURE 13

The ESI: The Contribution of Income, Medical Costs, Debt, and Wealth, 1985-2007



in medical spending across groups, both in terms of the level of spending and how that spending has changed over time. As a share of income, medical spending is much higher among the aged than among those younger than 65 (Figure 15). Among the nonelderly, not surprisingly, spending as a share of income is higher among lower-income Americans than it is among more affluent Americans. Yet the

upward rise in the share of income spent on medical care appears to have been more muted for the lowest-income Americans than it has been for Americans higher up the income ladder. One possible explanation is the expansion of Medicaid and the Children's Health Insurance Program, which now cover a substantial share of low-income families and poor elderly Americans. Another may

be that low-income individuals are increasingly either putting off or failing to pay for care.²⁸ A future ESI brief on medical care will investigate this issue further.

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 The long-term trend toward insecurity stems from the gradual but clear rise in the chance of individuals experiencing large declines in their household income.

Yet, above all, the long-term trend toward insecurity stems from the

gradual but clear rise in the chance of individuals experiencing large declines in their household income.²⁹ Existing studies and the ESI suggest three linked causes for this upward trend. First, the earnings of male workers have become more unstable since the 1970s, and because men still contribute more to household income on average than do women, growing variability of male earnings has a major effect on overall household income stability.³⁰ Second, transfer income—cash benefits received by

families from government programs—appears to have become more unstable since the 1970s.³¹ Third, the rising prevalence of two-earner couples does not appear to have provided a big income cushion to families.³² This may reflect the fact that income gains for the middle class have been relatively muted over the period studied so that families are working harder for only modestly more income while facing large price increases for health care.³³

FIGURE 14
The ESI: Financial Wealth Holdings at the Median, 25th Percentile, and 10th Percentile of Wealth-Holders (in 2009 \$), 1985-2007

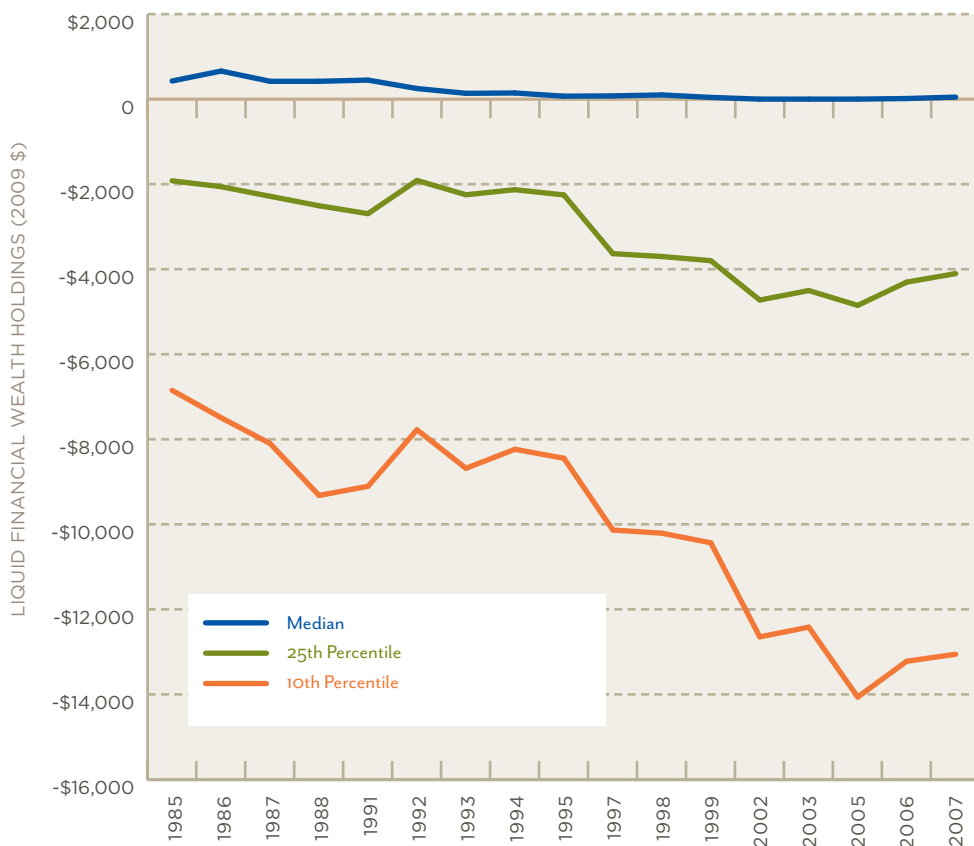
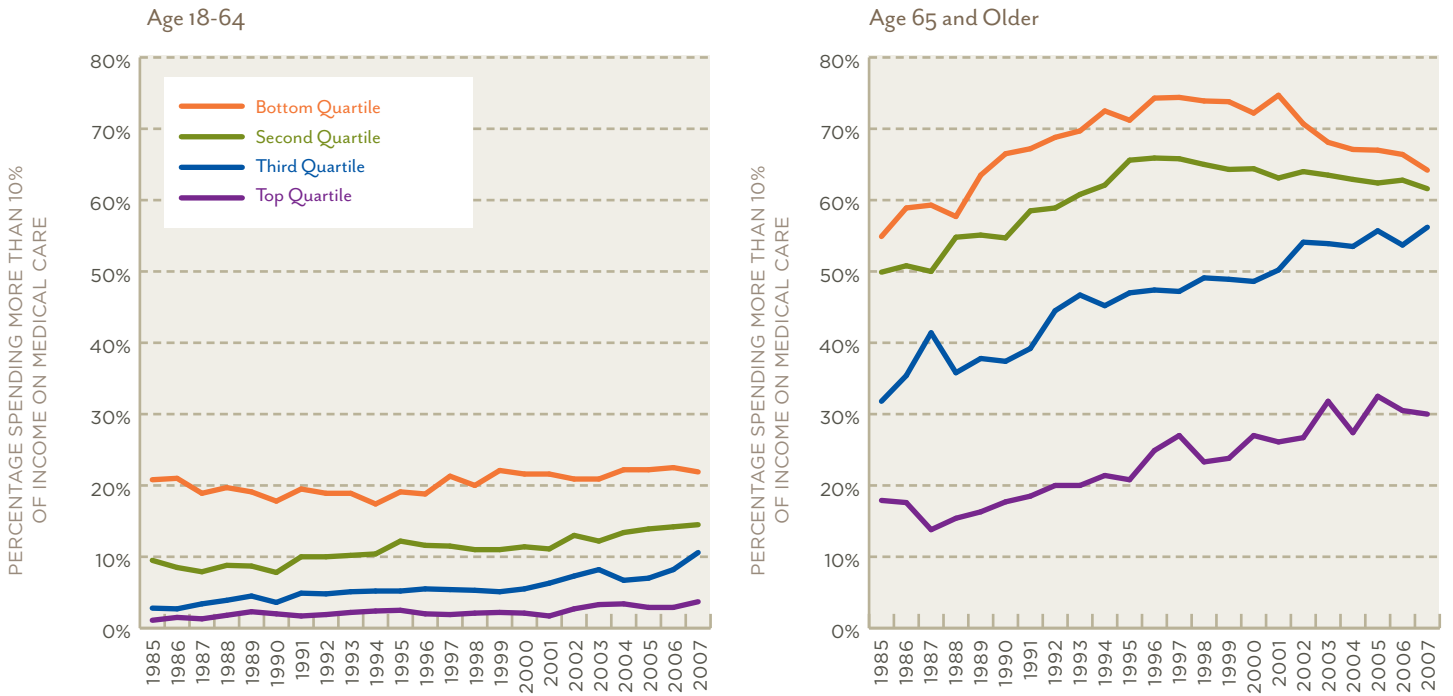


FIGURE 15

The ESI: Medical Costs as a Percentage of Income, by Income Quartile and Age Group, 1985-2007



III

Interpreting the ESI



Americans are understandably worried about their economic security today, as the unemployment rate hovers near 10 percent. Yet they were also quite worried about their economic security before the recent severe economic downturn. The ESI helps explain why. The chance of major economic loss without adequate protection has risen significantly over the last quarter century (and, if the focus is just on large income losses, even more substantially since the late 1960s).

More than 60 percent of the American public experienced at least one drop of 25 percent or larger in their annual income over the decade ending in 2006.

ECONOMIC INSECURITY AND ANXIETY

Like an unemployment rate, the ESI is constructed from observable events. It counts the number of people who actually experience economic insecurity. It is not an estimate of the share of Americans who *feel* insecure. The prevalence of public concern about economic insecurity is likely to be far broader than the personal experience of the events that give rise to insecurity. Many more Americans perceive themselves as vulnerable to large income drops or medical spending spikes than the number who actually experience these events in any given year.

This is only one of several reasons why the ESI in its current form likely underestimates the scope of economic insecurity in the United States. Another is that for many

Americans, especially the poorest or those who have the fewest financial resources, the 25 percent loss threshold may be too high. About one in five Americans, according to the survey conducted in conjunction with this study, indicate that they would face financial hardship if they were forced to go for as little as two weeks without income.

Moreover, many more households experience a large drop in available income over a span of years than experience such a drop in any given year. Using the PSID to identify these multiple episodes of economic decline, it appears that more than 60 percent of the American public experienced at least one drop of 25 percent or larger in their annual income over the decade ending in 2006.³⁴ In short, economic insecurity appears more the rule than the exception in American life, and more so over time.



EXTENDING THE ESI

The ESI captures three core elements of economic security: major loss in income, large out-of-pocket medical expenses, and lack of an adequate financial safety net. Still, it does not capture every element. Most notably, given the inability to track wealth changes reliably with panel data throughout the 1985-2007 period, the ESI does not directly capture the vulnerability of families to drops in their financial wealth, a risk highlighted by the present economic downturn. Nor is the ESI designed to capture changes in the risk of retiring without adequate income, though other measures of this risk exist and suggest it has increased sharply.³⁵ And while the ESI does account for medical spending, it does not capture other expenses that might be considered nondiscretionary, such as the costs required to earn income (including, for parents, child-care costs).

With regard to medical costs, the focus of the ESI on out-of-pocket spending (including premiums) means that those who go without necessary medical care or insurance, worsening their overall health and perhaps raising their medical costs in the future, may look more secure than they really are.³⁶ On the other hand, the ESI does not account for the ways in which Americans' medical care has become more sophisticated and efficacious, even if more expensive.

.....
ESI will be updated on a regular basis in future years as new data become available.
.....

Future reports based on the ESI will take up a number of these issues as well as others, including how different segments of American society and parts of the nation have fared when it comes to economic insecurity; the specific causes, persistence, and sever-

ity of household income declines; and how levels of and trends in economic security differ across selected affluent nations. To better understand the relationship between the events measured in the ESI and the subjective experience of economic insecurity, the Rockefeller Foundation has also supported a linked project to examine what shapes people's perceptions of economic insecurity. Some of the results from the first wave of this survey—conducted in conjunction with the American National Election Studies—have been reported on previous pages. The analyses produced from this opinion research will foster better understanding of how people's perceptions of economic security are linked to their real economic experiences.

Finally, the ESI will be updated on a regular basis in future years as new data become available.³⁷

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Americans are facing greater economic risk today than at any time within a generation and were at heightened risk even before the recent recession.
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A UNIQUE TOOL FOR RESEARCH, EDUCATION, AND DISCUSSION

Ultimately, no single measure can capture all aspects of economic security. But the ESI represents a simple yet powerful tool that incorporates some of the most important aspects—one that can be used for research as well as public education and discussion. Previous research on economic security has focused primarily on individual components of the ESI, such as income instability and the incidence of large, unexpected medical expenditures. The ESI represents the first attempt to incorporate several key influences on economic security—income loss, medical spending, and wealth and debt holdings—in a unified framework. As such, it provides a useful baseline for researchers to expand the concept of economic security beyond its existing scope, which is defined by relatively narrow aspects of well-being. It also provides a tool for those interested in identifying which segments of American society are least secure and why. And it provides a framework for evaluating the effects of public and

private policies on the economic security of these vulnerable groups and of the population as a whole.

According to the ESI, Americans are facing greater economic risk today than at any time within a generation and were at heightened risk even before the recent recession. In a nation that has grown substantially richer yet also more economically unequal and which still faces a fragile economic situation, the capacity of Americans to maintain their economic security remains a crucial topic on the national policy agenda. It is up to the public and their leaders to discuss and decide how best to address the changing face of American economic security.

Notes

- 1 Kaiser Family Foundation, “Kaiser Health Tracking Poll: July, 2009.” Publication No. 7943 (Menlo Park, CA: Kaiser Family Foundation, 2009).
- 2 Replication of the Rockefeller Foundation’s 2007 survey (filed as the March 2009 wave of the 2008–2009 American National Election Studies (ANES) Longitudinal Survey).
- 3 In inflation-adjusted terms, average net worth increased 74.7 percent between 1983 and 2004 while average income increased by 68.8 percent between 1982 and 2003, according to the Survey of Consumer Finances. Edward N. Wolff, “Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze,” Levy Institute Working Paper No. 502 (June 2007).
- 4 Ben Bernanke, “Remarks at the Meetings of the Eastern Economics Association,” Washington, D.C., February 20, 2004; Olivier Blanchard and John Simon, “The Long and Large Decline in U.S. Output Volatility,” *Brookings Papers on Economic Activity*, no. 1, 2001: 135–164.
- 5 Calculated from Congressional Budget Office (CBO), *Historical Effective Federal Tax Rates: 1979–2006* (Washington, D.C.: CBO, April 2009); data at www.cbo.gov/publications/collections/tax/2009/average_after-tax_income.xls.
- 6 Robert Wood Johnson Foundation (RWJF), *At the Brink: Trends in America’s Uninsured* (Princeton, N.J.: RWJF, March 2009), rwjf.org/files/research/20090324ctu.w.pdf.
- 7 Karen E. Dynan and Donald L. Kohn, “The Rise in U.S. Household Indebtedness: Causes and Consequences,” FEDS Working Paper No. 2007-37, August 8, 2007, www.federalreserve.gov/pubs/feds/2007/200737/200737abs.html.
- 8 For comprehensive reviews of recent research, see Jacob S. Hacker and Elisabeth Jacobs, “The Rising Instability of American Family Incomes, 1969–2004: Evidence from the Panel Study of Income Dynamics.” EPI Briefing Paper #213 (Washington, D.C.: Economic Policy Institute, 2008); Peter Gottschalk and Robert Moffitt, “The Rising Instability of U.S. Earnings,” *Journal of Economic Perspectives* 23(4) (Fall 2009): 3–24; and Austin Nichols and Melissa Favreault, *The Impact of Changing Earnings Volatility on Retirement Wealth* (Washington, D.C.: Urban Institute, March 2009), www.urban.org/UploadedPDF/411873_impactofchanging-earnings.pdf.
- 9 Because the SIPP consists of a series of panels stretching two to four years, it is impossible to estimate ESI for some years between 1985 and 2007—specifically, 1989, 1990, 2000, 2001, and 2004. In the figures, these years are simply filled in through linear interpolation (that is, by assuming linear change between adjacent years for which ESI estimates are available).
- 10 The ESI predictions for 2008–2009 are based on a simple regression model that relates the observed values of the ESI (1985–2007) to the annual unemployment rate (level and change) and the change in the annual value of real GDP. A time trend was also included in the model to account for the increase in the ESI over time. The change in the unemployment rate is the most important explanatory factor for movements in the ESI; the model also produces a statistically significant upward time trend. Actual values of the unemployment and GDP variables were used to predict the ESI values in 2008–2009.
- 11 For example, a third of the working public reported in the spring of 2009 that they were “somewhat worried” or “very worried” about losing their job, though the official unemployment rate at the time was around 10 percent, roughly a third as high as the level of reported fear. In the survey, 32 percent of those expressing such fears had experienced unemployment in their household in the previous year. March 2009 wave of the 2008–2009 American National Election Studies (ANES) Longitudinal Survey.
- 12 Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, “Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias.” *Journal of Economic Perspectives* 5, no. 1 (1991): 193–206; Liliana Winkelman and Ranier Winkelman, “Why Are the Unemployed So Unhappy? Evidence from Panel Data,” *Economica* 65 (1998): 1–15.
- 13 Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, D.C.: National Academy Press, 1995).
- 14 According to the aforementioned ANES survey designed in conjunction with the ESI, as of March 2009, 40 percent of working Americans were concerned about the possibility of a serious illness causing them to miss several months of work, 30 percent were concerned about losing their job due to economic conditions, and over a quarter were concerned about the financial impact of a long-term disability.
- 15 Forty percent of Americans reported themselves to be worried about a major medical expense, and 40 percent of those with employer-based health insurance worried about the costs of coverage rising substantially.
- 16 More precisely, according to the aforementioned ANES survey, in March 2009, 47.8 percent of a representative sample of Americans reported that they could go two months or less without experiencing hardship. When this same sample was asked the question again in September 2009, 47.4 percent indicated that their household could go two months or less before experiencing hardship. These opinion survey results are consistent with a recent study of asset sufficiency using data from the 2004 SIPP and 2004 CEX. The study concludes that in 2004, 42 percent of households would be unable to cover 75 percent of their basic spending needs for three months, even if they received unemployment benefits (Thomas Shapiro, Melvin Oliver and Tatjana Meschede, *The Asset Security and Opportunity Index* (Institute for Assets and Social Policy, Brandeis University: November, 2009)). Such measures of asset sufficiency are closely related to the ESI’s definition of an “adequate financial safety net.” However, by assessing the probability of large drops in available income due to income losses or medical spending shocks, the ESI also captures the likelihood that individuals will need to draw down their assets. In its use of panel economic data to construct a single integrated measure of economic risk, the ESI is also distinct from indices that aggregate multiple measures of economic security, such as the “Middle Class Security Index” (Jennifer Wheary, Thomas M. Shapiro, and Tamara Draut, *By a Thread: The New Experience of America’s Middle Class* (New York: Demos, 2007)) and the “Index of Economic Well-Being” (Lars Osberg, “Measuring Economic Security in Insecure Times: New Perspectives, New Events, and the Index of Economic Well-Being,” CSLRS Research Report 2009-12 December 2009).
- 17 That is, we create an annuity for all families where the head is 60 years or older and draw down retirement savings to zero at the end of their life expectancy after assuming a 3 percent real rate of return on those investments. We exclude retirement wealth for two reasons. First, with the shift over time from defined-benefit to defined-contribution plans, individuals appear to have growing levels of financial wealth, when in fact that wealth is simply now observable to us as analysts because it is held individually. Including such wealth would therefore tend to drastically understate retirement wealth in earlier periods. Second, access to retirement wealth prior to retirement is costly because it carries direct penalties and also undermines the retirement planning process, and thereby long-term economic security. Thus, we treat retirement wealth in defined-contribution accounts like defined-benefit plans, which generate regular income flows in retirement, by annuitizing the value of retirement wealth beginning at age 60.
- 18 Here we assume that debts must be repaid over five years at an annual real interest rate of 9 percent, although the assumed interest rate makes little difference for the results.
- 19 Because of the limits of the SIPP data, available income is before taxes. This reduces the level of insecurity that we find, because people’s pre-tax incomes are almost always higher than their post-tax incomes, making a drop of a given absolute magnitude smaller in percentage terms. However, it also means that we are not taking into account the effect of the Earned Income Tax Credit on the incomes of less affluent taxpayers. The Congressional Budget Office has calculated that the average effective federal tax rate, accounting for the EITC, has remained virtually constant since the mid-1980s, when the ESI begins. CBO, *Historical Effective Federal Tax Rates: 1976–2006* (Washington, DC: Congressional Budget Office, 2009). Additionally, over the same period, state and local taxes, which are less progressive than federal taxes, have risen slightly as a share of income. State & Local Government Finance Data Query System, The Urban Institute-Brookings Institution Tax Policy Center, data at www.taxpolicycenter.org/slf-dqs/pages.cfm.
- 20 In large household surveys such as the SIPP, questions about income amounts often are left unanswered by survey respondents. The U.S. Census Bureau applies standardized procedures for filling in missing values, known as “imputation” procedures. The incidence of income imputation in the SIPP rose substantially over our sample frame. Given potential inaccuracies in imputation procedures, the rising incidence of imputation could falsely indicate

rising income volatility, when in fact true income volatility was largely unchanged. To minimize the influence of imputation on our findings, we eliminated all observations for which primary income components were imputed based on values for other respondents in the same survey period but retained observations for which income was imputed primarily based on information from the respondent in prior survey periods. We describe these procedures in more detail in the technical report.

21 Liquid financial wealth is the difference between liquid financial assets (stocks, mutual funds, second homes) and liquid financial liabilities (credit card debts and other non-housing loans). Liquid financial wealth does not include owner-occupied housing. Housing wealth (and debt) is excluded from the ESI's definition of an adequate financial safety because it is not as easily or quickly accessed as financial wealth. Moreover, owner-occupied homes, unlike financial wealth, have substantial use value—that is, liquidating them would deprive owners of their present place of residence. Nonetheless, to assess the effect of incorporating housing wealth into the index, we performed sensitivity analyses with owner-occupied home equity treated as a source of additional income (much like a retirement annuity) over the course of a house's mortgage. The idea is that rising home values provide families with a means of consuming at a higher level than their income alone would allow. This sensitivity analysis showed that the ESI is only modestly reduced by the inclusion of housing wealth. Of course, if housing wealth were incorporated into the ESI in this way, economic insecurity would be even higher in the current period, given the large drop in home prices and the rising prevalence of negative homeowner equity that has occurred in the last three years. For further discussion, see the technical report.

As noted, liquid financial wealth also does not include earmarked retirement savings, such as 401(k) and IRA accounts. Instead, these retirement savings are converted into an annuity—a regular stream of equal payments over the remainder of expected life—and added to the family income of all households whose heads are aged 60 or over. Thus available family income includes the income value of 401(k) and IRA accounts (traditional defined-benefit plans are counted as income when paid out), while liquid financial wealth excludes holdings within these accounts.

22 Again, income is measured in pre-tax or “gross” terms, because only limited and incomplete information on tax payments is available in the survey.

23 Due to data constraints, we do not adjust medical out-of-pocket spending and the resulting measure of available income for the value of employer contributions to health insurance plans for their employees. As a result, individuals who gain or lose employer-sponsored insurance due to job shifts may experience a change in well-being that is not reflected in our measure of available income. In separate analyses described in the technical report, we found that this omission is likely to produce at most a small downward bias (less than 0.5 percentage points) in the level of the ESI, with a small depressing effect on the ESI's upward trend over time. In other words, the ESI would likely be both slightly higher and rise slightly more over time if we had access to data on employer premium payments. These downward biases arise because individuals who experience a large loss in household income are more likely to see a loss of employer-sponsored health insurance than a gain, and the incidence of such losses of employer-sponsored health insurance has grown over time.

24 Steven J. Rose and Scott Winship. *Ups and Downs: Does the American Economy Still Promote Upward Mobility?* Economic Mobility Project at The Pew Charitable Trusts (Washington, D.C.: Economic Mobility Project, 2009).

25 As part of the ANES Longitudinal Election Study, we surveyed a representative cross section of Americans in September 2009, asking them about any significant drops in income that they had experienced since January 2008. Counting only on those drops that equaled or exceeded 25 percent of their previous year's income, the annualized rate for income declines of this size was 19.4 percent over this time period. Note that this does not include the impact on economic security associated with large medical expenses or debt service. If one focuses on the projection of the component of the ESI that involves only income drops, the projected prevalence for 2009 was 18.5 percent, which is in fact slightly lower than our survey estimates of income declines of this magnitude.

26 The PSID includes a special sample of low-income respondents, which we incorporated into the analyses using appropriate survey weights. For details, see the technical report.

27 A series of tests were conducted to assess whether differences across demographic groups and over time were statistically significant on their own and controlling for other factors. With the exception of Hispanics, all groups saw a statistically significant rise in economic insecurity between 1985-1995 and 1997-2007. With only a few trivial exceptions, all groups are also statistically distinct from each other. Finally, almost all demographic groups are statistically distinct even when controlling for income, with the main exception being educational groups, because educational attainment is highly correlated with income.

28 Studies that have tracked different aspects of health care access over time reveal several patterns that might account for reduced or stable spending among the lowest income strata. Beginning in the mid-1990s, uninsured Americans (who are disproportionately from low-income households) began avoiding more expensive venues for medical care, such as hospital emergency departments. See K. Tom Xu, Brian K. Nelson, and Steven Berk, “The Changing Profile of Patients Who Used Emergency Department Services in the United States: 1996 to 2005,” *Annals of Emergency Medicine* 54, no. 6 (2009): 805-810. And in the past five years, there is emerging evidence that substantial out-of-pocket medical spending is deterring use of health services by members of lower-income households, including children. See Peter Cunningham and Laurie Felland, “Falling Behind: Americans' Access to Medical Care Deteriorates, 2003-2007,” Center for Health System Change Tracking Report No. 19 (June 2008).

29 To be sure, individuals could choose to reduce available family income by, for example, exiting the labor force. Such income changes, if truly voluntary, would usually not create insecurity. The ESI is designed, however, to focus on involuntary changes in available income. It emphasizes large reductions in income that are likely to affect family or individual well-being substantially. Moreover, it does not count as insecure people with adequate liquid wealth holdings to replace lost income—which would include those who have saved up so they could voluntarily withdraw from the labor force. It also allows income to drop at the moment of retirement without individuals being counted as insecure. Regarding the upward trend in large income declines, the voluntary or involuntary nature of income declines only matters to the extent that there has been a shift over time in the mix of voluntary and involuntary causes. Existing research and the ESI findings do not suggest that any significant shift of this sort has occurred. See, for example, Karen Dynan, “The Income Roller Coaster: Rising Income Volatility and Its Implications,” *Pathways* (Spring 2010): 3-6, in which the author reports “voluntary choices are not the dominant force behind increasing household income volatility.” For further discussion of this point, see the technical report.

30 See Hacker and Jacobs, “Rising Instability of American Family Incomes.” This issue brief contains a comprehensive review of prior work on income instability.

31 Using the PSID, Karen Dynan, Douglas Elmendorf, and Daniel Sichel suggest that the volatility of transfer income of heads and spouses rose significantly between the 1970s and the early 2000s, with a particularly dramatic jump in the 1990s. Karen Dynan, Douglas W. Elmendorf, and Daniel E. Sichel, “The Evolution of Household Income Volatility” (Washington, D.C.: Brookings, 2008), www.brookings.edu/~media/Files/rc/papers/2008/02_useconomics_elmendorf/02_useconomics_elmendorf.pdf.

32 Two-earner couples should have less income volatility than single-earner families, because they can share income risk across two earners. For instance, if the sole worker in a single-earner family loses his job, the household might incur a 100 percent income loss. But if the male earner in a dual-earner family loses his job, his wife's earnings cushion the blow, so the loss might be just 50 percent. Yet while two-earner couples have become more common, family income volatility has risen—even among two-earner couples. See Hacker and Jacobs, “Rising Instability of American Family Incomes.”

33 Workers in middle-class families are devoting much more time to paid work, mainly due to the increased work hours of women. Indeed, most of the income gains of the middle class are because of these increased work hours, rather than rising earnings. Jared Bernstein and Karen Kornbluh, “Running Faster to Stay in Place: The Growth of Family Work Hours and Incomes,” New America Foundation Work and Family Program Research Paper (June 2005). On the rising cost of key goods and services, including health care, see U.S. Department of Commerce, Economics and Statistics Administration, *Middle Class in America* (Washington, D.C.: Department of Commerce, January 2010).

34 At two to four years in duration, SIPP panels are too short to do an analysis of this sort. Because the PSID has been biennial since 1996, the analysis examined income drops over a two-year interval (for example, 1996-1998). As in the ESI, drops of 25 percent or greater that accompanied entry into retirement were not counted.

35 Alicia H. Munnell, Anthony Webb, and Francesa Golub-Sass, "The National Retirement Risk Index: After the Crash," Center for Retirement Research at Boston College Brief No. 9-22 (October 2009).

36 Analyses using the Medical Expenditure Panel Survey and its precursors that were done in conjunction with preparation of the ESI indicate that the relationship between insurance and medical spending has changed since the late 1970s. At that time, the uninsured spent more out of pocket on medical care; in the last two decades, they have spent less than the insured, suggesting that they are more likely to forgo care or fail to pay for care than in the past. Our own analyses of out-of-pocket medical spending in the SIPP indicate that family spending drops when families lose income, though not enough to prevent the share of income spent on medical care from rising. It may be that postponing care is a private means of dealing with income fluctuations. If so, it is a private means that can threaten economic insecurity, not to mention health, down the line. A forthcoming ESI brief on medical spending will examine this important issue in depth.

37 A new SIPP panel was initiated in late 2008, with a sample of about 45,000 households (similar to the initial 2004 panel prior to spending cuts in 2006) and plans for a complete range of data collection, including medical spending and wealth. As of June 2010, the first three waves (first 12 months) of data from this panel are publicly available. Calculation of the ESI requires two full years (six waves) of data, and the data are released with a 1-year lag at this point. As such, the data necessary to conduct the next update of ESI values (which will correspond to calendar years 2009-2010) are expected to become available in May 2011. Further information can be found at <http://www.census.gov/sipp/DEWS/2004Schedule.pdf>.

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