Economic Insecurity and the Great Recession
FINDINGS FROM THE ECONOMIC SECURITY INDEX
November 2011

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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)
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Executive Summary

This report updates and extends the Economic Security Index (ESI), an integrated measure of the share of Americans who experience large declines in their “available household income”—their household income after paying for medical care and servicing their financial debts.

Nearly four years after the onset of the deepest downturn since World War II, Americans are still coming to grips with the effects of the “Great Recession” on their economic security. Despite a number of valuable examinations of the downturn’s effects, the picture of families’ economic security provided by existing indicators remains incomplete. In particular, surprisingly little is known about the dynamic experiences of Americans as their economic standing has changed from year to year amid a turbulent economy.

This report fills this gap. It provides new estimates of the Economic Security Index (ESI), a novel measure of economic security first presented last year. The ESI is a measure of the share of Americans who experience large income losses. More specifically, it tracks the proportion of Americans who see their “available household income”—their household income after paying for medical care and servicing their financial debts—decline by 25 percent or more from one year to the next and who lack an adequate financial safety net to replace this lost income.

This report provides new estimates of the ESI from 1986 through 2010. Its focus, however, is the economic upheavals of the last several years. The report also provides the first regional estimates of economic security.

The results from the ESI show that

- Economic insecurity has increased substantially over the last generation, and especially in recent years. In 1986, 14.3 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 18.8 percent, and during the most recent downturn, it has reached a record 20.5 percent. In the three years spanning 2008 through 2010, more than one in five Americans saw their available household income decline by a quarter or more, yet lacked enough financial resources to cope with this decline.

- While the Great Recession led to a stark increase in economic insecurity, the share of Americans experiencing large economic losses was rising before the downturn. Looking past the up-and-down pattern of the business cycle, the ESI has gradually but steadily increased over the course of the last quarter century. For example, the average ESI from 1986 through 1996 was 16 percent.
From 1997 through 2007, by contrast, it was 17.6 percent. Rising economic insecurity predated the economic downturn that has so exacerbated it.

- Since the ESI is simply the share of Americans who experience a 25 percent drop as just defined, it can easily be translated into estimates of the number of Americans who are insecure. In 2010, roughly 62 million Americans were insecure according to the ESI definition. By comparison, the number was approximately 34 million in 1986, reflecting a much lower ESI as well as a smaller U.S. population.

- The Great Recession, though broad and deep, did not affect all Americans equally. Levels of insecurity—though elevated across the board—are much higher among those with limited education, as well as among racial minorities and younger workers.

- Nor did the Great Recession affect all parts of the country equally. Levels of insecurity over the last few years have been higher in the South and West than in other parts of the nation, and they are lower in the Northeast and North Central region.

- While the initial impact of the downturn was widespread, the ESI suggests that the Great Recession is producing particularly deep losses among the insecure—as revealed, for example, in levels of long-term unemployment not seen since the government started tracking joblessness after World War II. Among those losing a quarter or more of available income and lacking an adequate financial safety net, the typical (median) drop reached a record 46.4 percent in 2009. This means that half of those counted as insecure saw their available income decline by more than this amount between 2008 and 2009. In short, not only are more Americans experiencing large declines in their economic standing; the depth of those drops has also become greater.

Given continuing economic distress, the ESI is likely to remain high in the coming years. Because the ESI is a measure of income changes from one year to the next, however, it could continue to come down from its 2009 peak even if unemployment remains high and growth anemic. This is because those persistently out of work may experience stable reduced incomes or stagnation of their economic standing, rather than the large losses that the ESI measures. Yet whatever the exact direction of the ESI in the next few years, it is clear that the economic security of Americans is under greater threat today than at any point over the last quarter century.
The United States is approaching the fourth anniversary of the deepest economic downturn since World War II. Officially, the recession that began at the end of 2007 concluded in mid-2009. Yet for many Americans, signs of recovery have been scarce. In September 2011, nearly 17 percent of workers were unemployed (9.1 percent), working part-time despite wanting full-time work (6 percent), or had recently given up searching for work despite a stated interest in employment (1.6 percent).\(^1\) A continuing stream of poor economic indicators, including stagnant prices in depressed housing markets and increased volatility in financial markets, has raised fears of another slump, or at least a prolonged period of slow economic and job growth.\(^2\)

Behind these statistics lie the experiences of millions of Americans whose diverse lives have been buffeted by the shared crisis commonly referred to as the “Great Recession.” Emanating from the linked collapse of the financial and housing markets, the 2007 recession simultaneously dragged down employment, household wealth, health insurance coverage, and other key foundations of Americans’ economic security—making it essential to grasp the combined impact of these factors on economic well-being.

Despite a number of valuable investigations, however, our understanding of the effects of the Great Recession on families’ economic security remains incomplete.\(^3\) In particular, surprisingly little is known about the dynamic experiences of Americans as their economic standing has changed from year to year amid a turbulent economy. Nor do available indicators provide us with a picture of families’ economic security that encompasses the combined effects of the downturn on income, medical spending, and financial wealth. We have many “snapshots” of the economy: the unemployment and poverty rates, for example, and the level of median income and household wealth. What we lack are broader “moving pictures” of how Americans’ economic situation has changed from year to year as they have faced losses in income and spikes in health spending while trying to maintain their financial safety nets.

This report fills this gap. It updates and extends a novel measure of economic security we introduced last year, the Economic Security Index (ESI).\(^4\) The ESI is an integrated measure of the share of Americans who experience large declines in their “available household income”—their household income after paying for medical care and servicing financial debt—and who lack an adequate financial safety net to replace this lost household income. Simply put, it captures how
many Americans experience substantial economic losses from one year to the next, taking into account not just their incomes but also their medical spending and the adequacy of their wealth. This report provides new estimates of the ESI, updating our prior explorations of family economic security using a more comprehensive source of evidence: the March Current Population Survey (CPS) of the U.S. Census Bureau, the source for official poverty and unemployment statistics. The ESI is also based on the Survey of Income and Program Participation (SIPP), Panel Study of Income Dynamics (PSID), and Consumer Expenditure Survey (CEX).

These new estimates are available from 1986 to 2010 (and will eventually incorporate earlier years as well). The focus of this report, however, is the economic upheavals of the last several years: how changes in income, medical spending, and financial wealth have affected economic security, and how these effects have differed across the American population. We also provide the first regional estimates of economic security, allowing for comparisons of the levels of and changes in economic security across the nation.

The results from the ESI show that economic insecurity has increased substantially over the last generation, and especially in recent years (Figure 1). In 1986, 14.3 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 18.8 percent, and during the most recent downturn, it reached a record 20.5 percent. In the three years spanning 2008 through 2010, more than one in five Americans saw their available household income decline by a quarter or more, yet lacked enough financial resources to cope with this decline.

**Fig. 1 The ESI: Americans Experiencing Major Economic Losses, 1986–2010**

*Note: Shaded areas indicate recessions, as dated by the National Bureau of Economic Research.*
While the Great Recession led to a stark increase in economic insecurity, the share of Americans experiencing large economic losses was rising before the downturn. Looking past the up-and-down pattern of the business cycle, the ESI has gradually but steadily increased over the course of the last quarter century. For example, the average ESI from 1986 through 1996 was 16 percent. From 1997 through 2007, by contrast, it was 17.6 percent. Rising economic insecurity predated the economic downturn that has so exacerbated it.

Finally, the ESI indicates that the Great Recession, though broad and deep, did not affect all Americans or all parts of America equally. Levels of insecurity—though elevated across the board—are much higher among those with limited education, as well as among racial minorities and younger individuals. They are also higher in the South and West, and lower in the Northeast and North Central region (Figure 2).

**Fig. 2 The ESI across the Nation**

Moreover, while the initial impact of the downturn was widespread, the ESI suggests that the Great Recession is producing particularly deep losses among the insecure—as revealed, for example, in levels of long-term unemployment not seen since the government started tracking joblessness after World War II. Among those losing a quarter or more of available income and lacking an adequate financial safety net, the typical (median) drop reached a record 46.4 percent in 2009. What this means is that nearly half of those counted as insecure saw their available income decline by more than 50 percent between 2008 and 2009.
It is important to emphasize that the ESI focuses on realized insecurity, rather than Americans’ worries about their economic standing. For every American who actually experiences economic insecurity as measured by the ESI, many others are likely to be worried about economic reversals of this sort. Our focus on objective events is not meant to dismiss these psychological aspects of insecurity, much less their impact on Americans’ lives. As a companion to the ESI, we recently released the results of a comprehensive survey of Americans’ economic worries and expectations that was fielded twice during the height of the Great Recession (key findings of that survey, the Survey of Economic Risk Perceptions and Insecurity [SERPI], are presented on page 10 of this report). Nonetheless, the economic dimensions of insecurity are much more readily and consistently measurable than Americans’ subjective perceptions. Focusing on these dimensions allows us to compare the level of economic insecurity in a reliable manner over a substantial span of time.

The first section of the report lays out how the ESI was calculated and how the overall level of the ESI has changed over the past generation. (Further details are contained in the technical appendix to this report, online at economicsecurityindex.org, and in the technical appendix to the 2010 initial release of the ESI.) The second section examines how insecurity was experienced across the American public during the Great Recession, unpacking the ESI into its three constituent elements: income loss, out-of-pocket medical spending, and the adequacy of financial assets. The third section looks at differences in the level of economic security across demographic groups and geographic regions. The final section discusses implications.
I. Updating and Extending the Economic Security Index

The ESI is 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. This section describes the ESI and the data sources on which it is based.

The Index in Brief

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.8 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 returns to its original level.9 “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 and household debt burdens. 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 (median) person with similar demographic and economic characteristics to recover from a loss of comparable magnitude. If an individual has an adequate safety net, he or she is not counted as insecure even in the event of a 25 percent or greater decline in available income.

The measure of income used in the ESI includes all private and government sources of income, including wages and salaries, asset income, private retirement benefits, unemployment insurance, Social Security, and other cash transfers. Income is adjusted for inflation and to reflect the economic advantages of pooling household resources and expenses. For those who are carrying financial debt that exceeds their financial assets, income is also reduced by the amount needed to service these debts.10 Thus “available household income” inherently incorporates several of the actions that people take to protect themselves from economic risk. By basing income on the entire household, for example, it accounts for the ways in which families compensate for the lost earnings of one family member, such as by increasing the hours worked by another household member. Similarly, 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.11

Finally, by allowing individuals to offset declines in available income by drawing down liquid wealth (precautionary savings), the ESI also takes into account
households’ efforts to offset income risk through savings. (Liquid financial wealth is defined as all wealth holdings besides the primary home, personal vehicles, and earmarked retirement savings.) In the ESI, individuals with levels of liquid financial wealth that are sufficient to buffer economic losses are not counted as insecure. “Sufficient levels” of financial reserves are defined relative to the amount by which available household income declines and the expected trajectory for its recovery for individuals at different income levels.12 Sharp declines in income are not rectified overnight. Indeed, the typical (median) individual who experiences a decline of at least 25 percent in household income requires four years for his or her income to return to its previous level.

**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 original ESI, released in 2010, was the Survey of Income and Program Participation, a national sample that when properly weighted is representative of the households and individuals that constitute the civilian non-institutionalized population of the United States. In this report, however, we draw on another, much larger set of surveys conducted by the U.S. Census Bureau, the March supplements to the Current Population Survey (CPS). While we continue to rely on the SIPP for data on liquid financial wealth and medical spending dynamics, this report uses CPS March supplement data linked across pairs of years to examine changes in income from one year to the next.

This shift in our primary data source—which will be carried forward in future reports—has four motives. First, the SIPP is not a continuous source. It consists of a series of short-term panels (dating back to 1984), between which there exist gaps in data that cannot be filled. One of these gaps overlaps with the onset of the Great Recession, which makes it impossible to use the SIPP to examine the
increase in economic insecurity between 2007 and 2010. By contrast, the linked CPS allows for consistent investigation of year-to-year changes and has only one gap, in 1995. Although individuals can be followed for only two years, the linked CPS is well-suited for the ESI’s focus on year-to-year changes in income and other household resources. (Unlike the SIPP, moreover, the CPS goes back before the mid-1980s. Future reports will use the CPS to estimate insecurity in earlier years.)

Second, the SIPP panels feature a relatively high “attrition rate”—that is, people exiting the survey over time. Because the panels last as long as four years, such attrition can have substantial effects on the characteristics of those included in the survey. In particular, attrition may reduce the estimated level of insecurity in the SIPP toward the end of each panel, because those with more volatile incomes are more likely to drop out of the panel. By contrast, the linked CPS data always provide panels of the same length—two years—so the effect of attrition is both less pronounced and more or less constant from year to year.

Third, the CPS is a larger dataset than the SIPP and, unlike the SIPP, is designed to be used for the analysis of individual states (when years are combined) as well as the nation as a whole. Providing a picture of state-by-state differences in economic security is another key benefit of the CPS, which will be showcased in a future ESI report on economic security across the American states.

Fourth, and perhaps most important, the analytic quality of the ESI was maintained while obtaining these important advantages. The main drawback of the CPS for examining changes in income from one year to the next is that the CPS is a survey of geographic residences, rather than households, so people
who change residences cannot be followed. However, our original data source, the SIPP, shows that excluding the relatively small share of individuals who change residences in any given year has little effect on the ESI. People who move have more unstable incomes than those who do not, so our new estimates may understate the true level of insecurity. But, according to our investigations, the bias is small. Furthermore, as the technical appendix discusses, we developed a refined approach for linking individuals across survey years that provides high confidence in our year-to-year comparisons. Though the level of the ESI derived from the CPS is slightly higher than our previous estimates, the trend over time and the differences across groups are very similar. Moreover, they match levels of and trends in income instability in the Panel Study of Income Dynamics (PSID) relatively closely as well.

Although the CPS provides a comprehensive measure of income, it does not include the measures of wealth that are in the SIPP. Thus, we estimate financial wealth for individuals in the CPS based on the actual financial wealth of people similar to them in the SIPP. This procedure is described in the technical appendix. As in our prior estimates, we use medical spending data derived from the Consumer Expenditure Survey and SIPP to estimate medical out-of-pocket spending (MOOP). MOOP includes all spending on health care, including the individual’s share of any health insurance premiums. Finally, to calculate the long-term income loss associated with a large decline in income, 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, and which allows us to follow individuals who experience income loss over the many years sometimes required to recover.

The Survey of Economic Risk Perception and Insecurity

A revealing picture of the recession’s scope and impact is provided by our unique opinion survey, the Survey of Economic Risk Perceptions and Insecurity (SERPI), fielded at the height of the downturn. In the 18 months between March 2008 and September 2009, according to the SERPI,

- More than 9 in 10 households experienced at least one substantial decline in their wealth or earnings or substantial increase in nondiscretionary spending, most often for medical needs or assistance to family members.

- Nearly seven in ten households saw their earnings unexpectedly fall or their nondiscretionary expenses unexpectedly rise.

- Many of those who experienced such losses, including solidly middle-class families, reported being unable to meet basic needs, such as food, shelter, and medical care. More than half of families with incomes between $60,000 and $100,000 that experienced employment or medical disruptions, for example, reported being unable to meet at least one basic economic need.
II. Economic Insecurity and the Great Recession

The Great Recession sent tremors rippling throughout American society. In this section, we look at how these tremors affected Americans’ economic security as measured by the ESI.

The ESI in the Great Recession

As noted in the introduction to this report, the ESI shows that economic insecurity has increased over the last quarter century. In 1986, 14.3 percent of Americans experienced a major economic loss sufficient to classify them as insecure. During the recession of the early 1990s, this rose to 16.9 percent, and during the downturn of the early 2000s, it reached 18.8 percent. In recent years, economic insecurity has increased dramatically. In the three years from 2008 through 2010, the level of economic insecurity experienced by Americans consistently exceeded the level reached at any time during the past quarter century, with more than one in five Americans experiencing a decline in available household income of 25 percent or greater in each of these years.

Since the ESI is simply the share of Americans who experience a 25 percent drop as just defined, it can easily be translated into estimates of the number of Americans who are insecure. In 2010, roughly 62 million Americans were insecure according to the ESI definition. By comparison, the number was approximately 34 million in 1986, reflecting a much lower ESI as well as a smaller U.S. population.

This dramatic increase cannot simply be attributed to the recent economic crisis. Americans’ level of economic security does fluctuate 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 decrease. But this cyclical pattern has been accompanied by a gradual but steady 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.

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 3, we superimpose this annual trend line for the 1986-2010 period over the results presented in Figure 1. This trend line shows that the share of Americans defined as insecure has increased by approximately 5 percentage points over the 1986-2010 period, or proportionally by about 34 percent.

Moreover, those who experience at least a one-quarter drop in their available income are falling farther. In 1986, the typical (or “median”) loss for someone with an available income decline of at least 25 percent was 43 percent. In 2009, it was 46.4 percent. The rising size of typical drops for those experiencing
available income declines of 25 percent or larger addresses a potential concern with the ESI. It might be that the ESI is going up because more people are “just clearing” the 25 percent loss threshold. In fact, however, while a bigger share of Americans are exceeding this threshold, those who do so now typically experience slightly larger drops than did those who exceeded the threshold in the past.

What Drove Changes in the ESI?

The index simultaneously incorporates large income losses, changes in out-of-pocket medical spending, and wealth adequacy. Breaking the ESI down into its component parts shows that by far the largest component of the ESI is year to year income declines of 25 percent or greater. Changes in out-of-pocket medical spending and the servicing of household financial debt both increase the ESI further, with medical spending having a larger effect than debt service (Figure 4). By contrast, the ESI is reduced by taking into account the liquid financial wealth that some households have to cushion large losses.

Looking at these components separately and focusing on the over-time trend, the rising level of household financial debt (excluding home loans) has modestly contributed to the increasing ESI by reducing households’ incomes after debt service and decreasing the share of those with adequate financial safety nets (see Figure 5). The families with the least financial assets have seen their standing fall precipitously, particularly among the bottom 10 percent, but also among the bottom 25 percent. Meanwhile, the typical financial wealth
Fig. 4 The ESI: The Contribution of Income, Medical Costs, Debt, and Wealth, 1986–2010

Note: Shaded areas indicate recessions, as dated by the National Bureau of Economic Research.

Fig. 5 The ESI: Financial Wealth Holdings at the Median, 25th Percentile, and 10th Percentile of Wealth-Holders (in 2010$), 1986–2010
holding has hovered around zero over the 1986-2010 period. In other words, the majority of Americans over this period had no financial safety net. Below the highest wealth levels, financial wealth declined significantly during the Great Recession, with the net financial wealth of households at the 10th percentile declining by roughly $10,000 between 2004 and 2010.

Turning to medical care, out-of-pocket medical costs have clearly come to represent a larger amount and share of the household budget. The median household spent around 36 percent more out of pocket in 2010 than did the typical household in 1986. During the most recent downturn, out-of-pocket spending as a share of income has continued to rise as households have lost workplace insurance coverage and family incomes have stagnated alongside rising medical costs. Figure 6 shows the share of Americans at different income levels spending more than a tenth of their income on out-of-pocket medical costs—a common measure of high spending. Aged Americans spend much more than younger Americans, and the share of older Americans spending 10 percent or more has risen across all income groups. Among younger Americans, by contrast, out-of-pocket costs as a share of income have risen sharply for middle-income groups, but the lowest-income Americans appear more insulated. One possible explanation is the expansion of Medicaid and the Children’s Health Insurance Program, which has offset losses of health insurance coverage among moderate-income families. Another may be that low-income individuals are increasingly either putting off or failing to pay for care.14

Yet, above all, the long-term trend toward increased insecurity stems from the gradual but clear rise in the chance of individuals experiencing large declines in their household income. Since 1986, major drops in household income have become markedly more common. While this trend precedes the recent downturn, the last few years have witnessed a sustained elevation of family income instability that is unprecedented in the last generation—and probably in the last half century as well.15 As we will see in the next section, this increased instability has affected all major demographic groups. Yet even before the Great Recession, stark disparities in the experience of economic insecurity separated Americans of different walks of life, and some of these disparities have become even greater since the downturn began.

III. The Varied Experiences of the Great Recession

During the Great Recession, economic insecurity affected Americans of all backgrounds, reaching across lines of education, age, household type, and race. In nearly all major demographic groups, the ESI was significantly higher in the 1996-2007 period than it was in the 1986-1997 period, and significantly higher still in the aftermath of the downturn (2008-2010).16
Fig. 6 Share Spending More Than 10 Percent of Income on Medical Care, by Income and Age, 1986–2010
Yet this common increase should not obscure the highly divergent experiences of economic insecurity. To begin with, the incidence of a major economic loss varies systematically by education (see Figure 7). The differences are large: On average, 25.8 percent of Americans in households headed by someone lacking a high-school degree suffered a major economic loss each year between 2008 and 2010, compared to 15.8 percent of those in households headed by someone with post-college education.

Levels of economic insecurity also vary across household types (Figure 8). Multiple-adult households without children have the lowest level of insecurity; single-parent households, the highest. Notably, households with children in which at least two adults (almost always parents) are present experience a fairly high prevalence of large available income declines, raising doubts about the common image of such families as insulated from economic insecurity.

Another relevant basis of comparison is age (Figure 9). 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 insurance provided through Medicare. The ESI suggests otherwise. While older Americans are indeed less likely to experience large income losses than are younger Americans, large medical spending burdens substantially offset their advantage with regard to income stability. Nonetheless, young adults (18-34) are by far the most insecure age group during the 2008-2010 period, with nearly one in four experiencing losses in available income of 25 percent or greater without an adequate financial safety net each year.

Fig. 7 The ESI: Prevalence of Large Economic Losses, by Education Group
**Fig. 8** The ESI: Prevalence of Large Economic Losses, by Household Type

**Fig. 9** The ESI: The Medical Component of the ESI, by Age Group
Turning to race and ethnicity, **African Americans** and **Hispanics** stand out as uniquely vulnerable to the economic insecurity captured by the ESI (Figure 10). Historically, African Americans have experienced higher levels of insecurity than Hispanics. During the downturn, however, the ESI for Hispanics rose much more quickly than that for African Americans, so that during 2008-2010, both groups experienced comparably—and strikingly—high levels of economic insecurity. On average during those years, 24.9 percent of African Americans and 24.7 percent of Hispanics had losses in available income of one quarter or more and lacked an adequate financial safety net to cushion those declines.

![Fig. 10 The ESI: Prevalence of Large Economic Losses, by Race/Ethnicity](image)

Finally, as Figure 2 earlier in this report shows, levels of insecurity are higher in the South and West, and notably lower in the Northeast. A future report will examine state and regional differences, and their sources, in greater detail.

**IV. Implications of the ESI**

The Economic Security Index is a novel, integrated measure of the economic security of American workers and their families. It represents the share of the U.S. population that experiences a 25 percent or greater decline in available household income (income left over after financing medical care and paying down debt) and lacks adequate financial wealth to cushion the loss.

According to the ESI, Americans are at greater risk of such reversals than they were a quarter century ago, and this was true even before the recent economic...
downturn. The Great Recession that began in late 2007 has further exacerbated economic insecurity. In each of the past three years (2008-2010), more than one in five Americans has found themselves experiencing insecurity. Among those with limited education, young adults, single-parent households, and African Americans and Hispanics, insecurity is even more common. Approximately one in four African Americans and Hispanics, for example, were insecure in the 2008-2010 period.

Like an unemployment rate, the ESI is constructed from observable events. It counts the number of people who actually experience insecurity. It is not an estimate of the share of Americans who feel insecure. The prevalence of public concern about economic insecurity is clearly 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 (in part because many more households experience a large drop in available income over a span of years than experience such a drop in any given year).

This is 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.
Furthermore, because of the limits of existing panel data on wealth, the ESI does not account for wealth volatility as an independent source of insecurity—a source that has loomed large in the past few years. In addition, the ESI measure of liquid financial wealth deliberately excludes housing wealth, because housing is difficult to use as a financial safety net when families lose substantial income. This exclusion, while sensible for understanding the ability of families to cope with income losses, means that the ESI almost certainly understates the extent of economic insecurity during the recent downturn, driven as it was by a massive decline in housing values and continuing grave problems with foreclosures and “underwater” homes (houses worth less than their outstanding mortgage debt).\(^\text{18}\)

Finally, the ESI subtracts out-of-pocket medical spending (including health insurance premiums) from income to account for the constraint on income posed by medical costs. Yet health care poses other risks to family income (and to health) that are not accounted for in the ESI. For example, families that put off health care spending because they lack insurance or adequate resources to pay for care may have very low out-of-pocket medical spending but are nonetheless clearly insecure. Similarly, the ESI does not change simply because a family loses or gains health insurance, except insofar as that change affects its out-of-pocket medical spending. Nor is the ESI affected when individuals have steady high spending; it is a measure of loss, not persistent hardship.\(^\text{19}\) In all these respects and the others already mentioned (such as the fact that the CPS only allows for year-to-year analysis of people who do not move), the ESI almost certainly understates the extent of insecurity in the United States today.\(^\text{20}\)

Given the continuing elevation of the ESI in 2010, the prospect for a sizable near-term decline seems remote. Indeed, the waning of government measures
to bolster the economy that were enacted after the downturn and the potential expiration of unemployment benefits for those experiencing the longest spells without employment may push the ESI back up until a more robust recovery commences. In light of the increased protection afforded by unemployment insurance and other public benefits in 2009 and 2010, the recent high levels of the ESI are all the more striking.

It is important to recognize, however, that because the ESI is a measure of income changes from one year to the next, it could continue to come down from its 2009 peak even if unemployment remains high and growth anemic, as those who have lost jobs experience stable lower incomes or slow stagnation of their economic standing, rather than the large losses that the ESI measures. Yet whatever the exact direction of the ESI in the next few years, it is clear that the economic security of Americans is more threatened today than it has been for decades.
Technical Appendix


This appendix focuses on changes in the construction of the ESI made since the 2010 report, particularly the adoption of the March supplement to the Current Population Survey (CPS) as the primary source of data regarding year-to-year income changes. The ESI also draws on three additional sources: the Survey of Income and Program Participation (SIPP), which was the primary data source for the prior ESI series released in 2010; the Panel Study of Income Dynamics (PSID); and the Consumer Expenditure Survey (CEX) of the Bureau of Labor Statistics.

Annual Income in the March Supplement to the CPS

The March CPS supplement is the annual supplement to the CPS used to estimate official poverty rates. Comprising a sample of approximately 70,000 households, reporting data on approximately 150,000 individuals per year, the supplement measures income in the prior year for each person as well as the composition of their household at the time of the interview. Properly weighted, the sample is nationally representative.

The ESI’s measure of income is household gross money income. Money income includes earned income (wage and salary income from employment), property and asset income, cash transfer payments (such as AFDC/TANF, SSI, Social Security, unemployment benefits, and veterans payments), and regular salary or other income from a self-owned business. It also includes lump-sum and one-time payments, such as catch-up payments from Disability Insurance, and settlements and distributions from retirement accounts, to the extent that CPS respondents report these as income.

The ESI measure of income available to each individual is based on an equivalence scale adjustment, so that an individual’s measured well-being accounts for the need to spread household income across the multiple persons in a household. The ESI uses the equivalence scale recommended by the National Academy of Sciences for poverty calculations, which accounts for the sharing of expenses that typically occurs within households and families with different compositions.22

Examining Year-to-Year Income Change Using the March CPS

The March CPS is not a traditional panel survey, in which a set of respondents are consistently followed over time. Instead, geographic residences are sampled and interviewed, on a rotating basis, over a period of about a year and a half.
regardless of the current occupant. Because the survey is repeated twice in March, however, it is possible to trace a subset of individuals from one year’s survey to the next if the individuals are living in the same housing unit in March of both years. We match individuals across years within households by characteristics such as age, race, sex, and marital status. A detailed discussion of this matching procedure and assessments of match quality is discussed in a separate technical document on the ESI website.23

The fact that only nonmovers can be matched using the March CPS introduces a downward bias in the estimate of insecurity, because movers tend to have higher probabilities of large income changes. To assess the extent of this bias, we examined the ESI for both movers and nonmovers in the SIPP which, unlike the CPS, attempts to re-interview individuals who move. While movers do tend to have higher probabilities of large income changes, the bias is relatively small, mainly because the majority of individuals are nonmovers in any given year. Moreover, the bias does not change appreciably in the 1996-2008 period.24 Nonetheless, our ability to only follow those who do not change residences means that our estimates of insecurity are almost certainly lower than they would be if we could follow those who moved as well.

To protect anonymity, income sources in the CPS are topcoded—that is, income levels above some determined amount are publicly recorded as a topcoded amount rather than the actual level. Topcoding occurs at the component income level (e.g., wages or interest income), rather than at the level of total personal or household income. In earlier years of the survey, this meant truncating an individual’s component income if it exceeded some maximum value. Starting in 1996, however, the Census Bureau began assigning “cell means” to topcoded values; these cell means represent the average value of the component income source for topcoded individuals within broad demographic categories (age, race, gender, and education). To ensure consistency in the treatment of topcoded components over time, we use the 1976-2007 cell mean series developed and graciously provided by Jeff Larrimore, Richard Burkhauser, Shuaizhang Feng, and Laura Zayatz to replace component income values with cell means for topcoded individuals prior to 1996.25 We also tested whether our results were sensitive to the topcoding of individual’s total household income (that is, the sum of all income components). Consistently topcoding total income at the 98th percentile—the lowest income percentile that could be potentially affected by the component income topcodes in the year in which the largest share of individuals could be affected—had virtually no effect on the level of or trend in the ESI. Thus we rely on our cell-mean approach alone to ensure over-time consistency. Further discussion of topcoding is contained in the online technical appendix.

**Treatment of Imputed Income Values**

In large household surveys such as the SIPP and CPS, direct responses regarding key variables such as income and wealth often go unreported. Under these circumstances, it is common to apply standardized procedures for filling in missing values, known as “imputation.” Census Bureau imputation procedures
often match individuals with missing data ("recipients") to "donors" with similar characteristics. The donor’s response is then used to fill in the missing value for the recipient. An additional “full impute” procedure unique to the CPS imputes all supplement information for individuals if they respond to the monthly March CPS survey but do not complete the supplement. Because it is not possible to guarantee that either of these methods produce matches accurately reflecting the income received by the individual who did not report it, we drop individuals whose records are fully imputed, roughly an eighth of the annual supplement in most years, or whose wage and salary income—by far the largest source of income for most individuals—is imputed. We then reweight the households using propensity scores (akin to nonresponse adjustments done in virtually all surveys) to match the characteristics of the full second-year sample for every pair of match-years.26 This allows us to estimate an ESI that is representative of all non-movers in the March CPS. Additional examinations of the effects of income imputation, which show that more stringent treatment of imputed values has little effect on the ESI, are reported on our website.

**Accounting for Household Financial Wealth**

Even substantial drops in income may not result in material hardship if a household has sufficient precautionary savings to buffer the decline. In measuring whether precautionary savings are sufficient—the “adequate financial safety net” of the ESI definition—the ESI focuses on “liquid financial wealth,” that is, wealth that can be easily liquidated to replace lost income. In practice, this is all wealth holdings besides the primary home, personal vehicles, and earmarked retirement savings, including cash, stocks, mutual funds, bonds, and other financial assets, as well as vacation homes and other real estate besides one’s home.27

The ESI defines an “adequate financial safety net” as liquid financial wealth sufficient to replace lost income for the typical duration and magnitude of loss experienced prior to a return to pre-drop income. Thus, individuals who experience a 25 percent or greater household income loss are not counted as “insecure” if they have liquid financial wealth equal to or greater than the cumulative lost income for a typical individual sharing their socio-demographic characteristics who also experiences such a loss. To calculate this cumulative income loss, we use PSID data from 1981 to 2009. Because the PSID switched to biannual data collection after 1997, we use data from odd years only. We calculate the median time until full recovery from an income drop of 25 percent or greater, for groups defined by the size of the income drop, pre-drop income levels, and age. Finally, we calculate the average sum of the losses (the difference between pre-drop income and actual income) for each group, based on observations with median recovery length by group (4 to 16 years). Individuals whose incomes drop by 25 percent or more who have net financial wealth in excess of the threshold amounts for their characteristics (drop size, pre-drop income level, and age) are treated as secure.
Because the CPS does not contain information on household financial wealth, we use data on wealth from the SIPP to impute net liquid wealth based on total household income, total asset income (interest, dividends, and other property income), household size, and the age and race of the household head.

Related to the issue of precautionary savings, retirement is an economic transition for which declines in income are not only expected, but are to some extent matched by declines in nondiscretionary spending. For this reason, in the ESI, those entering retirement are excluded from calculation of the insecure even if available household income declines by 25 percent or more concurrent with entering retirement. It should be noted that this exclusion affects the level of, and trend in, the index only to a very small degree.

**Accounting for Out-of-Pocket Medical Costs**

The ESI treats medical out-of-pocket spending (MOOP) as a constraint on alternative spending that reduces available family income. The CPS, like the SIPP sample on which the earlier ESI was based, does not include medical expenditure data necessary to calculate the reduction in available family income caused by MOOP. For this reason, we repeat our earlier imputation procedure to estimate the MOOP burden at the household level. This procedure is described in full detail in our earlier technical report and is briefly summarized here.

To impute MOOP expenditures for the CPS sample, we use two donor datasets: The CEX and the SIPP. The CEX provides us with a long-running estimate of the relationship between medical spending and income, age, and family size. We use this dataset to generate static imputed family-level MOOP for the first year in which each family appears in our dataset.

Additionally, the small number of SIPP years for which MOOP data are available for the same families across years allows us to assess the dynamic relationship between MOOP in year t-1 and MOOP in year t. This model of dynamic MOOP spending accounts for the effect of prior MOOP spending as well as changes in both family size and income. Thus, we use the CEX-based imputation procedure to estimate a family’s MOOP in year t-1, and then the SIPP-based dynamic imputation procedure to predict the family’s MOOP in year t after accounting both for the persistence of MOOP and changes in both income and family size.

We have conducted extensive benchmarking of this two-part imputation procedure. Results of those analyses appear in our earlier technical report.
Notes

1 Bureau of Labor Statistics, Employment Situation Summary, released October 7, 2011. In all these calculations, the denominator is the civilian labor force. (www.bls.gov/news.release/empsit.nr0.htm).


5 For example, a third of the working public reported in the spring of 2009 that they were “somewhat” 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. The results are from the March 2009 wave of the Survey of Economic Risk Perceptions and Insecurity, which was embedded in the 2008-2009 American National Election Study (ANES) Longitudinal survey. For further details on the survey, see Jacob S. Hacker, Philipp Rehm and Mark Schlesinger, “Standing on Shaky Ground: Americans’ Experiences with Economic Insecurity,” December 2010, available online at economicsecurityindex.org. 

6 See Hacker, Rehm and Schlesinger, “Standing on Shaky Ground.”


8 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. According to the aforementioned Survey of Economic Risk Perceptions and Insecurity (SERPI), designed in conjunction with the ESI, 40 percent of working Americans were concerned about the possibility of a serious illness causing them to miss several months of work in March 2009, 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. Medical spending, in the form of insurance premiums or out-of-pocket expenses for treatments, was an equally common concern. 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. Additionally, the SERPI data suggest that the forms of economic uncertainty 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.

9 The SERPI 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. 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. (More precisely, 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,” CSLS Research Report 2009-12 December 2009).

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.

Because of the limits of the CPS data, available income is before taxes.

Our calculations of the required buffers are based on PSID data from 1981 to 2009. Because the PSID switched to biennial data collection after 1997, we use data from odd years only. We calculate the median time until full recovery from an income drop of 25 percent or greater, for groups defined by the size of the income drop, pre-drop income levels, and age. Finally, we calculate the average sum of the losses (the difference between pre-drop income and actual income) for each group, based on observations with median recovery length.

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. Therefore, individuals who gain or lose employer-sponsored insurance as a result of job shifts may experience a change in well-being that is not reflected in our measure of available income. In separate analyses, 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 smaller downward bias in its 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 lose employer-sponsored health insurance than a gain, and the incidence of such losses of employer-sponsored health insurance has grown over time. See Hacker, Huber, Rehm, Schlesinger and Valletta, “The Economic Security Index.”

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).

Because the ESI takes 1986 as its point of departure, how we interpret these trends depends in part on whether the mid-1980s were relatively secure or insecure for Americans. While wealth and medical spending data are not reliably available before the mid-1980s, it is possible to trace one dimension of the index—major income loss—back to 1968 using the same March Current Population Survey that forms the basis for the current estimates. This extension will be done in a future report. However, analyses of income instability in the Panel Study of Income Dynamics (which forms the basis for our investigations of how quickly people recover from large income drops) suggests that 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. See Hacker, Huber, Rehm, Schlesinger and Valletta, “Economic Security at Risk.”
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. All groups saw a statistically significant rise in economic insecurity between 1986 and 2010. And all groups are statistically distinct from each other. Finally, almost all demographic groups are statistically distinct even when controlling for income, with the main exception of educational groups, which are highly correlated with income. For further details, see the technical appendix at economicsecurityindex.org.

As pointed out in note 5, the SERPI shows that concerns about adverse economic events are far more widely distributed than are the adverse events themselves. For further details, see Hacker, Rehm and Schlesinger, “Standing on Shaky Ground.”

On the other hand, housing is also a source of economic security, and during the housing boom, rising home values increased household wealth. To assess the effect of incorporating housing wealth into the index, our last report (using the SIPP) 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. For further discussion, see Hacker, Huber, Rehm, Schlesinger and Valletta, “The Economic Security Index.”

However, higher spending does reduce available income and thus make losses of a given absolute size larger as a share of available income.

Other technical choices that ensure greater over-time consistency of the results and/or address potential measurement error—for example, bottom-coding household incomes also reduce the estimated level of the ESI.


The NAS-recommended equivalence scale is 
\[(\text{# of adults}) + 0.7\times(\text{number of children})\]^{0.7}, where adulthood is defined as 18 and up. Constance F. Citro and Robert T. Michael, eds., Measuring Poverty: A New Approach (Washington, DC: The National Academies Press, 1995).

Matches can be made for all years from 1986 through 2010 except for 1995, because household identifiers changed in that year. This year is filled in through linear interpolation (that is, by assuming a linear change in the ESI level between 1994 and 1996).

We reweight our analysis to account for attrition across years (see below). However, because fixed demographic characteristics do not strongly predict differential probabilities of moving for those experiencing large income changes, reweighting only eliminates a small part of the downward bias.


Our imputation process defines the probabilities of negative, zero, and positive net liquid wealth, and the mean and standard deviation of a transformation of wealth selected so that randomly sampling from this distribution produces a match between observed and imputed wealth. In particular, we use the seventh root transformation of wealth, which is approximately normally distributed for both negative and positive values of wealth within each subgroup.
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With support from The Rockefeller Foundation