ESI ECONOMIC SECURITY INDEX

Economic Security Across the American States

ESI Update: Economic Security Improves in 2011

November 2012

Summary

- The Economic Security Index (ESI) is a comprehensive indicator of household economic instability that measures the share of the population that experiences at least a 25 percent decline in household resources.
- Nationwide, the ESI fell by 1.3 percentage points from 2010 (20.2 percent) to 2011 (18.9 percent), the largest year-over-year decline in the last quarter century.
- More than half (26) of the American states experienced statistically significant decreases in insecurity in 2011; four experienced statistically significant increases; the rest did not register statistically significant changes.
- While a reduction in income losses is the main driver of change in the ESI, part of the decline in insecurity from 2010 to 2011 resulted from a fall in household debt levels—another component of the index.

Figure 1a: ESI by State, 2011

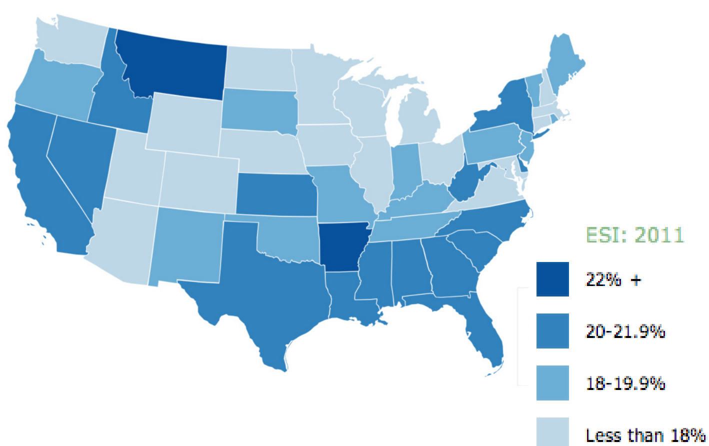
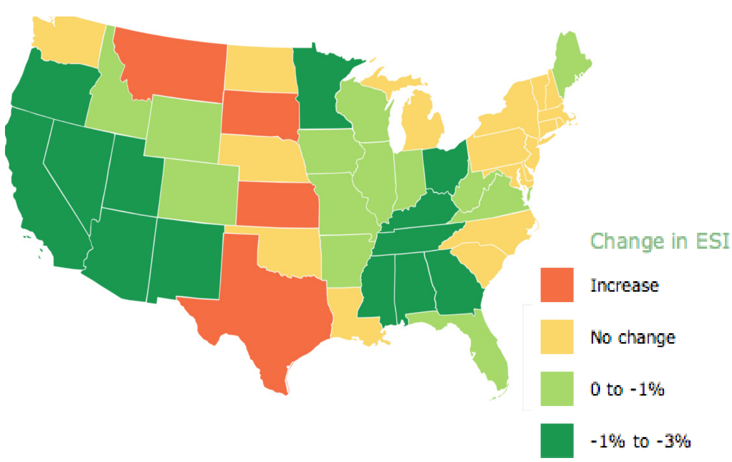


Figure 1b: Change in the ESI by State, 2010-2011



Introduction

Almost five years after the start of the Great Recession, Americans' household resources are beginning to stabilize. The Great Recession officially ended in June 2009. Yet for many Americans, this did not mean a reduction in insecurity. In fact, in 2009 a record 20.5 percent of individuals lost at least a quarter of their household resources. Insecurity remained high in 2010 with more than 1 in 5 individuals experiencing large losses. In 2011, however, insecurity fell to 18.9 percent, the biggest year-over-year decline during the period tracked by the ESI (1986-2011), indicating increasing stability of households' economic circumstances.

The ESI in brief

The Economic Security Index is a comprehensive measure of economic security that 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 sufficient financial wealth (such as savings) to replace this lost income.

Figure 2: The ESI: The Contribution of Income, Medical Costs, Debt, and Wealth, 1986–2011

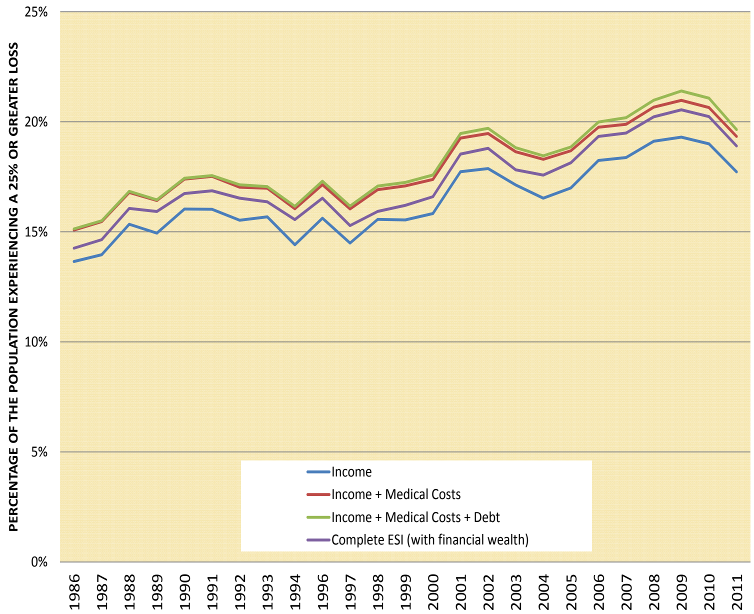
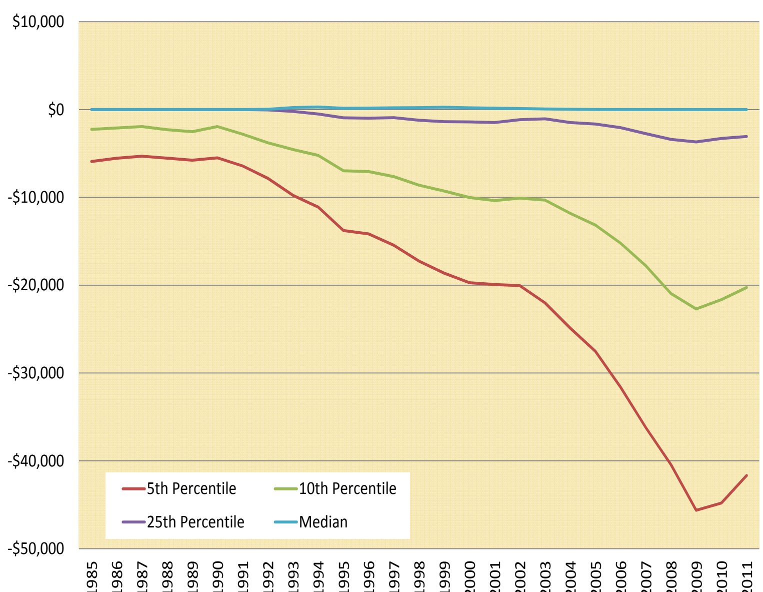


Figure 3: Financial Wealth Holdings at the Median, 25th Percentile, 10th Percentile and 5th Percentile of Wealth-Holders (in 2010$), 1985–2011



Declining insecurity across the nation

More than half of American states[1] experienced statistically significant decreases in insecurity in 2011; four—Kansas, Montana, South Dakota, and Texas—experienced significant increases. The other 19 experienced no statistically significant change. Figure 1 shows the new levels and changes in the ESI from 2010 to 2011.

While the fall in the ESI tracks other indicators, such as declining unemployment, it is important to recognize that the ESI may also fall when individuals have sustained large losses and have remained at a stably low income—for example, due to long-term unemployment. States that experienced declines in insecurity between 2010 and 2011 tended to have higher median unemployment durations and to have experienced higher levels of insecurity in the recent downturn, suggesting that some of the decline in the ESI in 2011 may be due to long-term joblessness.

The primary driver of the ESI is fluctuations in household income. Yet the other components of the index—health costs and debt—do contribute to changes in insecurity. In particular, 2011 saw a reduction in household debt levels, which, as Figure 2 shows, narrowed the contribution of debt service to the ESI. Figure 3 shows that debt levels have fallen since the start of the recession.

2011 in historical perspective

The 1.3 percentage point decline from 2010 to 2011 is the largest drop in insecurity over the last quarter century. Additionally, 18.9 percent is the lowest level of insecurity since 2005. Nonetheless, this level still represents nearly 1 in 5 individuals with large losses, and exceeds even the peak level experienced during the recession of the early 2000s. Furthermore, while there is a cyclical component to the ESI, insecurity has risen substantially over the last quarter century—each business cycle has produced a higher average level of insecurity.

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1. These numbers include DC, but exclude Alaska and Hawaii as a result of the statistical procedure used to generate geographic estimates. For additional details, see Jacob S. Hacker, Gregory Huber, Austin Nichols, Philipp Rehm, and Stuart Craig, *Economic Security Across the American States: New State Estimates from the Economic Security Index*. June 2012. http://economicsecurityindex.org/assets/state_reports/ESI_cross_state.pdf.