ESI ECONOMIC SECURITY INDEX

Economic Security Across the American States

ESI Update: Economic Security Continues to Improve in 2012; Big Strains Remain

November 2013

Summary

- The Economic Security Index (ESI)—a comprehensive indicator of household economic instability—shows the household economic circumstances of Americans continuing to improve.
- Nationwide, the ESI fell by 1.1 percentage points from 2011 (18.9 percent) to 2012 (17.8 percent). Eleven states experienced statistically significant decreases in insecurity in 2012. The rest did not change in a statistically significant way.
- A fall in the share of the population experiencing large household income losses is the main driver of the decline in the ESI. Part of the decrease, however, is a result of falling household debt levels. As households pay down debt, the share of their incomes eaten up by interest payments falls while their net worth rises, improving their security.

Figure 1: ESI by State, 2012

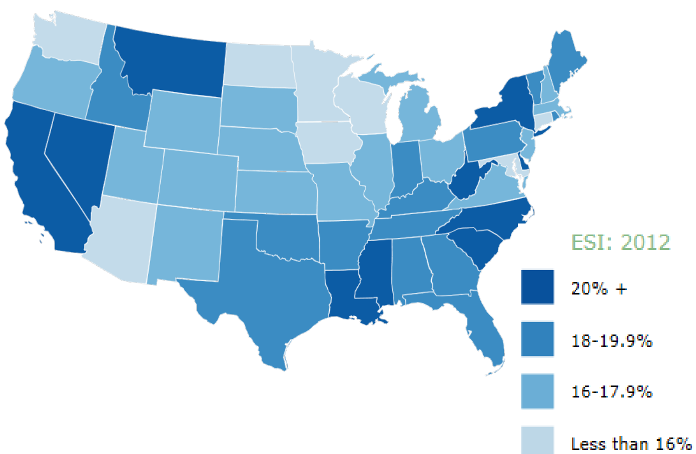


Table 1: ESI by State, 2012

State	2011	2012	Δ
Arkansas	21.0	18.8	-2.2
Connecticut	17.0	15.6	-1.4
Washington DC	19.7	17.4	-2.3
Idaho	20.1	18.4	-1.7
Iowa	17.1	15.5	-1.6
Kansas	18.9	16.9	-2.0
Maryland	16.9	15.5	-1.4
Minnesota	15.1	13.7	-1.4
New Jersey	18.0	16.2	-1.8
South Dakota	18.5	17.1	-1.4
Virginia	17.1	16.0	-1.1

Introduction

Americans' household security continued to stabilize in 2012, following the deepest recession since the 1930s. While the recession officially ended in 2009, for American families this did not translate into an immediate reduction in insecurity. In 2009, a record 20.5 percent of individuals lost at least a quarter of their household resources, and levels remained high in 2010. The first large decline in insecurity of 1.3 percentage points occurred in 2011. The economic circumstances of American households continued to stabilize in 2012, with an additional 1.1 percent reduction (18.9 percent to 17.8 percent).

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.

November 19, 2013

Figure 2: The ESI: The Contribution of Income, Medical Costs, Debt, and Wealth, 1986–2012

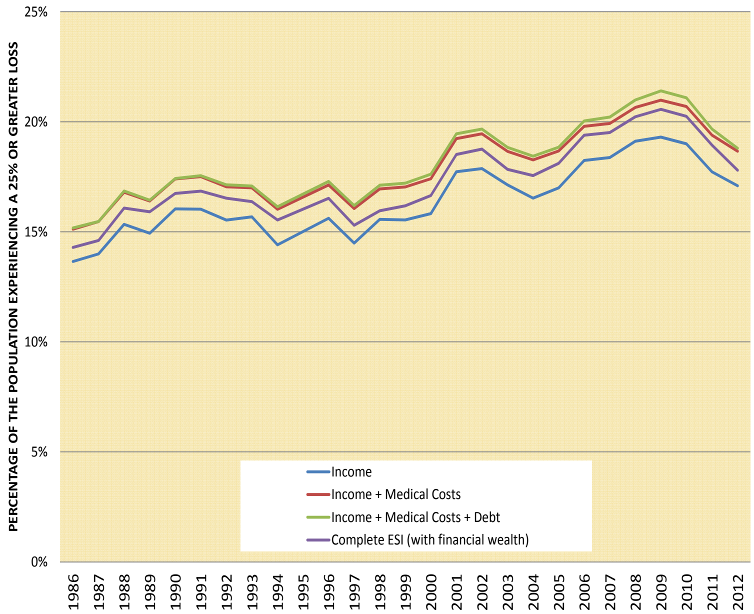
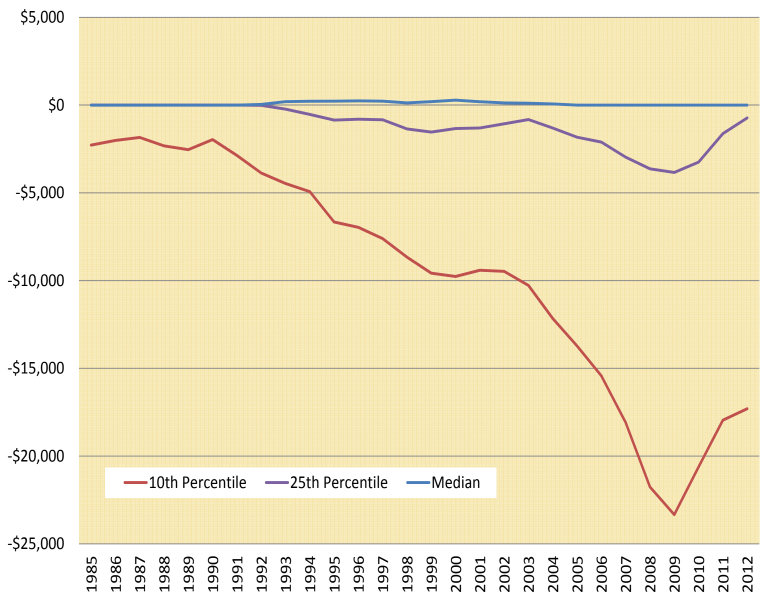


Figure 3: Financial Wealth Holdings at the Median, 25th Percentile, and 10th Percentile of Wealth-Holders (in 2010$), 1985–2012



Declining insecurity, continuing strains

In 2012, 11 states registered statistically significant decreases in insecurity (see table 1). While declining insecurity was broadly shared across the country, geographic disparities persist. Out of the 20 states with the highest levels of insecurity, more than half (11) are located in the South.

The fall in the ESI tracks other indicators, such as declining unemployment. However, 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. Long-term unemployment and poverty remained high in 2012, despite the decline in instability.

In addition, some groups continue to experience very high levels of instability. For example, while the ESI for racial minorities has declined since 2009, it continued to exceed the national average in 2012. More than 1 in 5 Blacks and Hispanics experienced a large loss last year. Those with lower levels of education, as well as those living in Southern and Western states, tend to experience the highest levels of insecurity (see figure 1).

2012 in historical perspective

The 1.1 percentage point decline from 2011 to 2012 is the third consecutive decrease in insecurity since 2009. While there is a cyclical component to the index, insecurity has risen over time. In fact, in each year since 2000, 1 in 6 individuals have lost at least a quarter of their household resources.

It remains to be seen whether insecurity will continue to fall. Given the long-term rise in insecurity, the “new normal” is likely to be a higher level of insecurity even as the economy continues to recover. Moreover, a significant share of Americans may never reenter the workforce; in this context, lower instability would reflect greater exclusion. America’s leaders will have to monitor these trends closely and should use multiple measures—including the Economic Security Index—to determine the health of American’s economic standing.