PAGE ONE Economics®
Middle School Version

Focus on **FINANCE**

Coping With COVID: Crises, Young People's Housing Choices, and Preparing in Uncertainty

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GLOSSARY

Budget: An itemized summary of probable income and expenses for a given period. A budget is a plan for managing income, spending, and saving during a given period of time.

Disposable income: The amount of a person's paycheck that is available to spend or save.

Explicit cost: A cost that involves an outlay of money. A direct expense that a business incurs, such as rent, salaries, wages, or utility bills.

Implicit cost: An indirect cost that does not require an outlay of money; it is measured by the value, in dollar terms, of forgone benefits.

Opportunity cost: The value of the next-best alternative when a decision is made; it's what is given up.

Recession: A period of declining real income and rising unemployment; significant decline in general economic activity extending over a period of time.

Savings goal: A good or service that you want to buy in the future.

Unemployment: A condition where people are without jobs and actively seeking work.

Unemployment insurance (compensation): A program providing cash benefits for a specified period of time to workers who lose a job through no fault of their own.

Unemployment rate: The percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment.

"In all matters, before beginning, a diligent preparation should be made."
—Marcus Tullius Cicero, ***On Duties***

Introduction

Cicero's wisdom applies to people today as much as ever. Preparation and planning are key parts of financial literacy teaching. Sometimes, things change fast. Then, even the most prepared people face trouble. There is evidence[1] showing people aren't financially ready during normal times. There are also some surprising stories about people's money matters.[2] The present times are not *normal*. In this article, we'll discuss how the COVID-19 pandemic has affected young people and their families. But we'll focus on some facts about young people in this time. They have been more likely to lose a job or take a pay cut than have older workers. Today, 52 percent of young adults 18 to 29 years of age live at home.[3] We'll discuss some sources of stress about money. We'll look at some costs and benefits of living with family. We'll also show some help offered in the economy. The article will close with notes on being ready for the future.

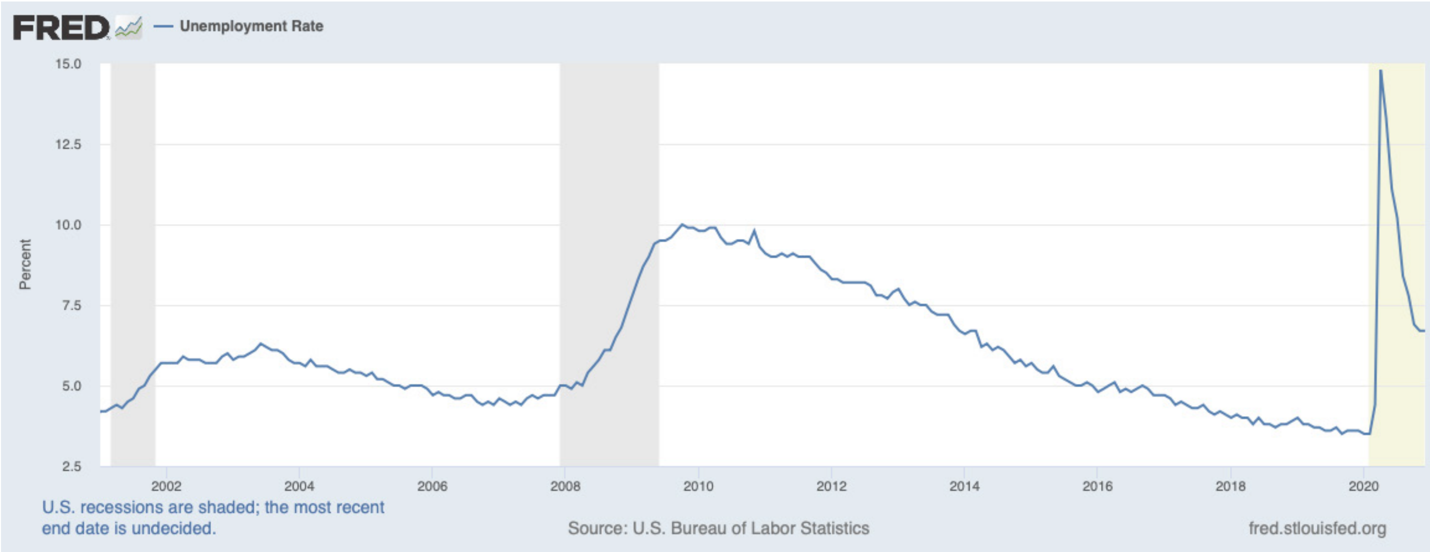
Financial Stress

The U.S. economy has had two recessions since the year 2000. Recessions lead to a higher **unemployment rate**. But it's been over 100 years since the United States has been through a global pandemic like COVID-19.[4] COVID-19 has caused a lot of sickness and death. There are big economic effects, too, like **unemployment**. The FRED® graph in the figure shows the rises in unemployment during **recessions**. (The gray bars show recessions. Because the most recent recession hasn't officially ended, that area is beige.) The graph shows that when the COVID-19 pandemic started in the United States, the unemployment rate spiked quickly. Large parts of the economy shut down to slow the virus spread.

Financial Help

Some programs are always there for workers who lose their jobs. **Unemployment compensation** is an example. There are many career and workforce counseling services, too. The COVID-19 pandemic struck the global and U.S. economies quickly. Most people didn't expect the economic

Unemployment Rate



NOTE: In February 2020 the unemployment rate was 3.5 percent; in April 2020 it was 14.7 percent.

SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, accessed November 23, 2020.

problems. They didn't expect to lose their jobs. The harsh reality happened fast for many workers. The federal government took action to pass a law to help. It's called the Coronavirus Aid, Relief, and Economic Security (CARES) Act. President Trump signed it into law on March 27, 2020. The law made programs to help people and businesses. It included a program to pay up to $3,400 per family of four. The payments were subject to family income. The bill also had money for small businesses to pay costs such as payroll and utilities.[5] The CARES Act also put off payments and interest due on federal student loans through September 30, 2020. President Trump stretched it through December 31, 2020, with an executive order. This was to help student loan borrowers weather COVID-19's financial storm.[6] Some lenders offered other ways to help people hurt by COVID-19. These efforts included mortgage payment aid. Some lenders let people take a short break from making payments. Some property owners let tenants skip rent payments. In some cases, they forgave the payments. Most of these actions were temporary. Many people were forced to find longer-term answers as the pandemic went on.

Forced to Make Choices

When people lose their jobs, they're usually forced to make big budget changes. This may include less spending. Budgets include travel, entertainment, transportation, food, housing, and other costs. Lowering housing costs has become a major issue for many young people. In normal times, most young people graduate from high school and go on to do something else. They may get a job or go for more education. Others join the military, or they do some combination of these choices. Young adults have been especially affected by COVID-19. This is largely because many work in service jobs.[7] They are also more likely to move than people of other ages.[8] It's natural to think that when young people move out from their family home they don't return. One might think they're completely on their own financially. That is not always the case. For example, even before the COVID-19 pandemic, about 59 percent of parents said they had helped their 18- to 29-year-old children with money.[9] Returning to live at home is not new, either. It happened during the Great Depression in the 1930s. Grown children moving home is also a recent effect of the COVID-19 pandemic.[10] Colleges began sending students home for remote schooling, too. About one-third of colleges have held classes mainly or completely online.[11] Many young people have faced cutbacks at work. They have had limited job options. They have been forced to make drastic changes. Many have chosen to move back home with family. The United States now has its highest share of young adults living at home—52 percent. This is more than the prior high of 48 percent in 1940. That is when the first data became available.[12] There may be benefits to living at home. There are also costs.

No Free Lunch—Living at Home Has Benefits and Costs

Think of all the money you can save by living with your family. You might be able to save for some major purchase—such as a house. Maybe you could pay off some debt. You'd likely be able to lower other costs. Obviously, paying for one household probably costs less than paying for two, but it's not *free*. There are costs for grown children and their families. The financial strain on families might include higher household bills. Bills might include food, utilities, and insurance. There may be **implicit costs**, too. For example, parents who help their children with money may not be able to buy other goods or services they want. They may not be able to save as much for retirement, either. The **opportunity cost** of helping children with money is whatever their parents have given up to support their children. That could mean delaying retirement. It could mean lowering their standard of living in the future because of less saving today. Children who move back in with parents might work and help pay some of the family costs: These are **explicit costs**. Groceries, gas, and other household expenses are examples. There may be non-financial benefits and costs of moving in with family members, too.

For example, the possible loss of freedom may matter to grown children. Even though they are young adults they are also still the children. Parents may have expectations or rules about their children living in their home. Even with grown children, there may be a difference in power. This can make it awkward to re-adjust. Parents and families who are used to having their house to themselves, for example, must get used to their children being back with them. While these day-to-day-living topics might not be that important in the grand scheme of life, they do impact everyone involved. Benefits of living with family might include sharing household tasks such as cooking and cleaning, as well as spending more time together. Certainly, there are families happy to have their adult children back living with them. There are children who are happy to be home. However, a lot of adult children were forced to move because of their financial situation. Many young adults would rather be on their own. Is there any way to prevent this financial difficulty?

Budgeting and Preparation

Planning for the future is important, but financial setbacks can happen. The COVID-19 pandemic has demonstrated this. COVID-19 has affected some people profoundly. In fact, one survey found that nearly 14 percent of Americans had completely used all their emergency savings.[13] Of course, that 14 percent doesn't account for people who had no emergency savings at all. Most financial experts suggest having between three to six months' worth of expense money saved for emergencies. There are resources online that can help you plan and save. You can find emergency fund calculators that might be helpful.[14]

Luckily, harsh economic events such as pandemics don't happen often. That doesn't mean emergencies don't happen. There are steps you can take to help lessen some stress about money. One step is to use a **budget** to manage your expenses. With a budget, you'll know where you stand with money. It will help you set and reach **savings goals**. You can only reach savings goals by spending less. Choose an amount you can afford to save from each paycheck. This could be 10 to 15 percent, for example. Another step to help you save is to *pay yourself first*. When you pay yourself first, you promise to set money aside from each paycheck. Many people do this before paying any other bills. Saving this way helps people avoid the lure to spend more of their income. Paying yourself first helps you live below your means. It works because you set aside some **disposable income** first. You saved money you could have spent.

Conclusion

The COVID-19 pandemic's start and effects show that people can't possibly prepare for everything. It has affected many people of all ages in different ways. Lots of people have gotten sick. Many older people have died. Young people have been affected, too. Federal and state agencies responded to the crisis. They helped by adding programs, but the pandemic has been broad. Many businesses were forced to close briefly. Others closed forever. People faced harsh truths about money. Many young people lost their jobs. A lot of them moved back in with their family. Living with family has benefits and costs to all. Costs include explicit, implicit, and opportunity costs. You could also lose the freedom to make independent decisions. To help with this, you can use a budget. This helps you live below your means. You can save some of your pay by paying yourself first. Those are all good habits. They aren't promises that you'll have enough to keep up your lifestyle through any crisis or emergency, but they help. The money you save today will be there when needed. It can offset some of the effects of any future emergencies. ■

Notes

[1] Board of Governors of the Federal Reserve System. "Report on the Economic Well-Being of U.S. Households in 2015." May 2016; https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.

[2] Gabler, Neal. "The Secret Shame of Middle-Class Americans: Nearly Half of Americans Would Have Trouble Finding $400 To Pay for an Emergency. I'm One of Them." *Atlantic*, May 2016; https://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/.

[3] Fry, Richard; Passel, Jeffrey S. and Cohn, D'Vera. "A Majority of Young Adults in the U.S. Live with Their Parents for the First Time Since the Great Depression." Pew Research Center *Fact Tank*, September 4, 2020; https://www.pewresearch.org/fact-tank/2020/09/04/a-majority-of-young-adults-in-the-u-s-live-with-their-parents-for-the-first-time-since-the-great-depression/.

[4] Centers for Disease Control and Prevention. "1918 Pandemic (H1N1 virus)." Last reviewed March 20, 2019; https://www.cdc.gov/flu/pandemic-resources/1918-pandemic-h1n1.html, accessed November 23, 2020.

[5] U.S. Department of the Treasury. "The CARES Act Works for All Americans"; https://home.treasury.gov/policy-issues/cares, accessed November 23, 2020.

[6] Consumer Financial Protection Bureau. "Information for Student Loan Borrowers"; https://www.consumerfinance.gov/coronavirus/student-loans/, accessed November 23, 2020.

[7] Kochhar, Rakesh and Barroso, Amanda. "Young Workers Likely To Be Hard Hit as COVID-19 Strikes a Blow to Restaurants and Other Service Sector Jobs." Pew Research Center *Fact Tank*, March 27, 2020; https://www.pewresearch.org/fact-tank/2020/03/27/young-workers-likely-to-be-hard-hit-as-covid-19-strikes-a-blow-to-restaurants-and-other-service-sector-jobs/.

[8] Fry, Passel, and Cohn, 2020. See footnote 3.

[9] Barroso, Amanda; Parker, Kim and Fry, Richard. "Majority of Americans Say Parents Are Doing Too Much for Their Young Adult Children: Young Men Are Taking Longer To Reach Financial Independence, As Young Women Have Gained Ground." Pew Research Center *Social & Demographic Trends*, October 23, 2019; https://www.pewsocialtrends.org/2019/10/23/majority-of-americans-say-parents-are-doing-too-much-for-their-young-adult-children/.

[10] Fry, Passel, and Cohn, 2020. See footnote 3.

[11] Hoevelmann, Kaitlyn. "How COVID-19 Is Affecting Students' College Decisions." Federal Reserve of St. Louis *Open Vault Blog*, September 2, 2020; https://www.stlouisfed.org/open-vault/2020/september/covid19-affecting-students-college-decisions.

[12] Fry, Passel, and Cohn, 2020. See footnote 3.

[13] Dickler, Jessica. "Nearly 14% of Americans Have Wiped Out Their Emergency Savings During the Pandemic: CNBC + Acorns Survey." *CNBC*, September 1, 2020; https://www.cnbc.com/2020/09/01/nearly-14percent-of-americans-have-wiped-out-emergency-savings-during-pandemic.html.

[14] Mercadante, Kevin. "Emergency Fund Calculator." *Money Under 30*, modified November 25, 2020; https://www.moneyunder30.com/emergency-fund-calculator.

Name____ **Period**________

Federal Reserve Bank of St. Louis *Page One Economics®*:

"Coping With COVID: Crises, Young People's Housing Choices, and Preparing in Uncertainty"

After reading the article, answer the following questions:

1. Which of the following is the value of the next-best alternative when a decision is made?
   a. Budget
   b. Opportunity cost
   c. Unemployment
   d. Recession

2. Which statement about paying yourself first is true?
   a. Paying yourself first means setting aside some of your income before paying other expenses.
   b. Paying yourself first requires you to set aside at least 25 percent of your earned income.
   c. Paying yourself first doesn't help avoid the temptation to spend more of your income.
   d. Paying yourself first can only be done through direct deposit through your employer.

3. How many months' worth of household expense money do financial experts recommend people save for emergencies?
   a. One to two months
   b. Two to four months
   c. Three to six months
   d. Eight to ten months

4. What percentage of young adults 18 to 29 years of age live at home since the COVID-19 pandemic?
   a. 46 percent
   b. 48 percent
   c. 50 percent
   d. 52 percent

5. Which of the following is the best example of an opportunity cost?
   a. Paying expenses for living in a college dorm
   b. The additional living expenses families pay when their children move back home
   c. The costs associated with moving home, such as gasoline, food, etc.
   d. Parents delaying retirement to help their adult children financially

6. The CARES Act provided which of the following?
   a. Government forgiveness of all student loan debt
   b. Stimulus checks of up to $3,400 per family of four
   c. Suspension of mortgage and interest payments
   d. Permanent reductions in taxes for businesses

7. According to the article, which of the following is a main reason the COVID-19 pandemic affected younger workers more than it did older workers?
   a. Younger workers have less education than older workers.
   b. Younger workers do not qualify for unemployment compensation.
   c. Younger workers earn higher wages, so it makes sense to cut their hours.
   d. Younger workers are frequently employed in the service sector of the economy.

8. Which of the following is a program providing cash benefits for a specified period of time to workers who lose a job through no fault of their own?
   a. Unemployment
   b. Unemployment insurance (compensation)
   c. Unemployment rate
   d. Unemployment (CARES) Act

9. The majority of young adults 18 to 29 years of age have always lived with parents and families.
   a. True
   b. False

10. Which of the following statements is true?
    a. Using a budget to manage your expenses can help you set and achieve savings goals.
    b. There aren't costs outside of financial ones to moving back in with parents and families.
    c. Global pandemics result in increases in the unemployment rate; recessions do not.
    d. The increase in household costs when adult children move back in with parents and families is zero.