PAGE ONE Economics®

Focus on FINANCE

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

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"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 elements of financial literacy education. Sometimes, however, circumstances change so rapidly that even the most prepared people experience hardship. In fact, there is plenty of evidence[1] showing people aren't well prepared financially during normal times, and there are some interesting stories about people's financial matters.[2] The present times are anything but *normal*. In this article, we'll discuss how the COVID-19 pandemic has affected young people and their families, focusing on the facts that young people have been more likely to lose a job or take a pay cut than have older workers and that 52 percent of young adults 18 to 29 years of age now live at home.[3] We'll discuss some sources of financial stress, costs and benefits of living with family, and ways financial help is available in the economy, and we'll close with remarks on preparing for the future.

Financial Stress

While the U.S. economy has had two recessions since the year 2000, resulting in increases in the **unemployment rate**, it's been over 100 years since the United States experienced a global pandemic comparable to the COVID-19 pandemic.[4] In addition to the illness and death associated with COVID-19, there have been significant economic effects, including **unemployment**. The FRED® graph in the figure shows the increases in unemployment during **recessions**. (These are indicated by the gray bars; although, because the most recent recession hasn't officially ended, that area is beige.) As you see in the graph, when the COVID-19 pandemic started in the United States, the unemployment rate spiked quickly as large segments of the economy shut down to slow the virus spread.

Financial Help

Some programs are always in place for workers who lose their jobs. These include **unemployment compensation** and various career and workforce

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.

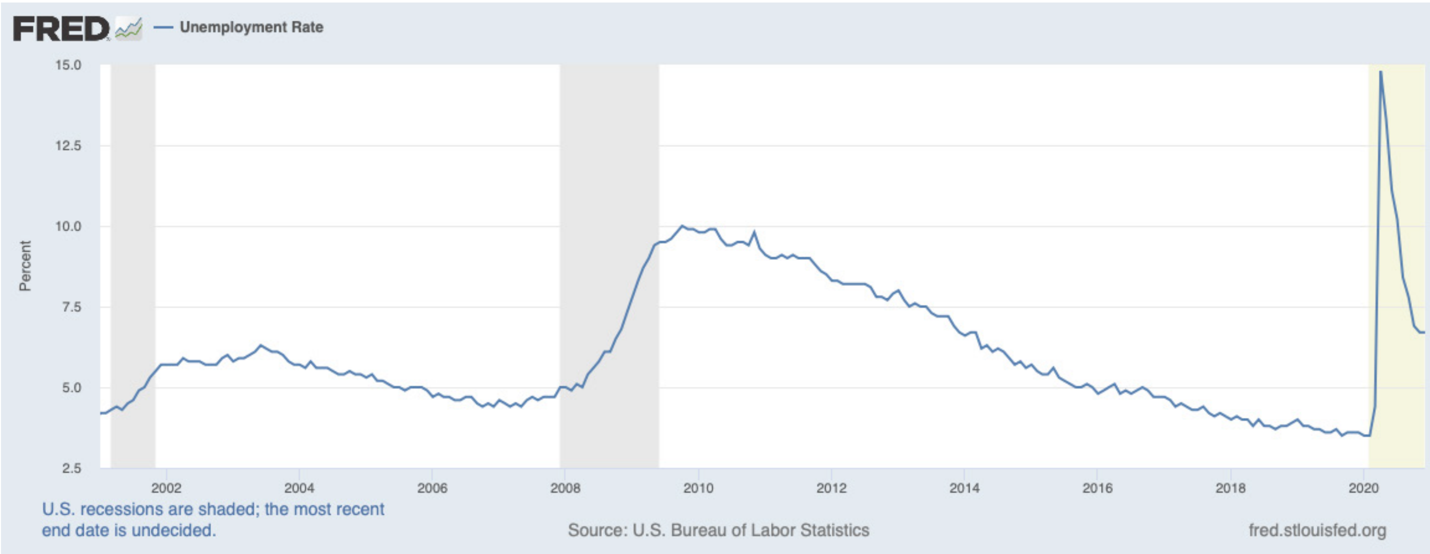
Savings goal: A good or service that you want to buy in the future.

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.

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.

counseling services. The COVID-19 pandemic struck global and U.S. economies quickly. Most people didn't foresee the economic problems or expect to lose their jobs. The harsh reality happened fast for many workers, so the federal government took action to pass legislation called the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which President Trump signed into law on March 27, 2020, implementing programs to help people and businesses. The bill included, among others, a program to pay stimulus checks of up to $3,400 per family of four, subject to family income, as well as funding for small businesses to pay expenses such as payroll and utilities.[5] In addition, the CARES Act suspended payments and interest on federal student loans through September 30, 2020. An executive order extended it through December 31, 2020, to help student loan borrowers weather COVID-19's financial storm.[6] Along with student loan payment deferments, some lenders offered ways to help people affected by COVID-19. These efforts included mortgage payment assistance, temporary suspension of mortgage payments, rent deferment, and, in some cases, rent forgiveness; but these measures were temporary, and many people were forced to find longer-term solutions as the pandemic continued.

Forced to Make Choices

When people lose their jobs, they're usually forced to make significant changes to their budgets. This may include reducing their spending on travel, entertainment, transportation, food, housing, and other items. Reducing housing costs has become a major issue for many young people. In normal times, most young people typically graduate from high school and either get a job, get a postsecondary education, join the military, or do some combination of these. But young adults have been especially affected by COVID-19, largely because many work in service sector jobs.[7] For them, moving is more probable than for people of other ages.[8] One might assume that when these individuals move out from their family home they're on their own financially and they don't return. 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 financially.[9] As for returning to live at home, it happened during the Great Depression in the 1930s, and the phenomenon of grown children returning to live at home is also a recent economic effect of the COVID-19 pandemic.[10] Many colleges began sending students home for remote schooling. In fact, approximately one-third of colleges have held classes mainly or completely online.[11] Facing cutbacks at work and limited job options, many young people have been forced to make drastic changes, including moving back home with family. The United States now has its highest share of young adults living at home—52 percent—eclipsing the previous high for which data are available—48 percent in 1940.[12] There may be benefits to living at home, but 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 up for some major purchase—such as a house—or maybe pay off some debt. You'll likely be able to lower other costs. Obviously, maintaining one household is probably less expensive than maintaining two, but it's not *free* for children or their families. The financial burden on families might include higher household bills, such as food, utilities, and insurance, but there might be **implicit costs,** too. For example, parents helping their children financially may not be able to purchase other goods or services they desire or may not be able to save as much for retirement. The **opportunity cost** of helping children financially is whatever their parents have given up to support their children. That could mean delaying retirement, consuming less today, and/or decreasing their future standard of living by saving less today. Children who move back in with parents might work and help pay some of the family expenses. These **explicit costs**, like groceries, gas, and other household expenses are one thing, but there may be non-financial benefits and costs of moving in with family members, too.

For example, the possible loss of freedom and autonomy may be important to grown children. Even though young adults are, in fact, adults, they are also still the children. The expectations of living in their parents' home, and even a perceived power differential, can make it awkward to re-adjust. Parents and families who are accustomed to having their house to themselves, for example, must get used to their children being back with them. While these logistical considerations 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 and children who are happy to be back home. For those adult children forced to move because of their financial situation, though, many young adults would rather be on their own. Is there any way to prevent this financial predicament?

Budgeting and Preparation

Planning for the future is important, but financial setbacks can happen, as the COVID-19 pandemic has demonstrated. 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 about three to six months' worth of household expense money saved for emergencies. There are resources online, including emergency fund calculators, that might be helpful when planning and saving for the future.[14]

Luckily, devastating economic events such as pandemics are relatively rare, but that doesn't mean emergencies don't happen. There are steps you can take to help alleviate some financial stress. One step is to use a **budget** to manage your expenses, know where you stand financially, and set and achieve **savings goals**. You can only accomplish savings goals by spending less. Decide on an amount you can afford to set aside out of each paycheck, say 10 to 15 percent, for example. Another step to help you save is to *pay yourself first*. When you pay yourself first, you resolve to set money aside from each paycheck. Many people do this before paying any other expenses. Making a habit of saving this way helps people avoid the temptation to spend more of their income. Paying yourself first helps you to live below your means, too, because you will have already set aside some of your **disposable income**—money that you could have spent.

Conclusion

The COVID-19 pandemic's onset and effects show that people can't possibly prepare for everything. Many people of all ages have been affected, and in different ways. Lots of people have gotten sick and many older people have died. Young people have been affected, too. While federal and state agencies responded to the crisis with varying programs and assistance, the pandemic has been far-reaching, forcing many businesses to close temporarily or, in other cases, permanently. Faced with harsh financial realities, many young people who lost their jobs moved back in with their families. Moving in with family has benefits and costs to all parties, including explicit, implicit, and opportunity costs, as well as the possible loss of freedom and autonomy. While budgeting, living below your means, and saving some of your income by paying yourself first aren't guarantees that you'll have enough to maintain your lifestyle through any crisis or emergency, money saved today will be there to help offset some of the financial effects of any emergencies in the future. ■

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.