How did stimulus checks affect household finances?

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MarketWatch Blog by Alicia H. Munnell

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First check improved assessment of ability to cover $400 expense, and later payments may be building balance sheets

Before the COVID-19 pandemic, despite a booming economy, about 40 percent of households said they would have trouble paying a $400 unexpected expense. About half of these households really didn't have $400, and the other half had $400 but were burdened by credit card debt. When households are operating under such tight budgets, saving for long-term goals such as retirement can be challenging.

The question is how did COVID, with its extensive job losses, roaring stock market, and multiple stimulus checks, affect household balance sheets. While full information about the longer-term impact of the stimulus payments will not be available for a few years, **recent research** using early data provide some indication of the current state of play.

Clearly those with substantial assets benefited from a roaring stock market, but, without help, the pandemic would certainly have increased the share unable to cover a $400 emergency expense. Fortunately, Congress provided most households – regardless of employment status –

with three rounds of Economic Impact Payments (EIPs), and the amounts were substantial (see Table 1).

Table 1. *Economic Impact Payments for Single (< $75,000) and Married Households (< $150,000)*

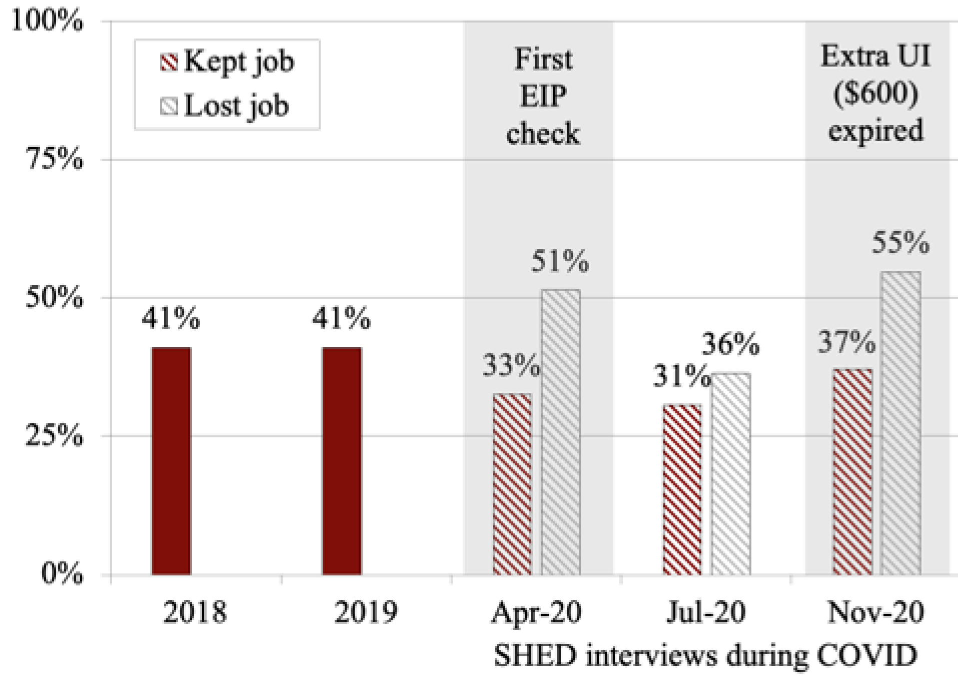
Payments	Date	Amount per adult		Amount per dependent child
		Single	Married	
1st	4/20/20	$1,200	$2,400	$500 (up to three, age 16 or under)
2nd	12/29/20	600	1,200	600 (age 16 or under)
3rd	3/11/21	1,400	2,800	1,400 (no age limit)
Total		$3,200	$6,400	

Note: Payments were phased out for workers making above the income limits.
Source: Internal Revenue Service (2021). Available at: https://www.irs.gov/coronavirus/economic-impact-payments.

The Federal Reserve's **2020** ***Survey of Household Economics and Decisionmaking***, which was conducted in November 2020 (with prior supplements in April and July), shows how the first payment affected households' assessment of their ability to cover a $400 emergency expense. Not surprisingly, the responses differ by their employment experience.

For those workers (about a quarter) who either lost their jobs, were asked to take unpaid leave, or had their pay cut, the first EIP provided some temporary relief. Among this group, the percentage unable to cover a $400 expense dropped from 51 percent to 36 percent between April and July 2020. However, this beneficial effect evaporated before the end of 2020, potentially because the initial UI supplement of $600 per week expired. By comparison, among workers who kept their jobs, the share reporting difficulty covering a $400 expense dropped to a third early in the pandemic from the pre-pandemic level of about 40 percent – and stayed roughly in this range through the rest of the year.

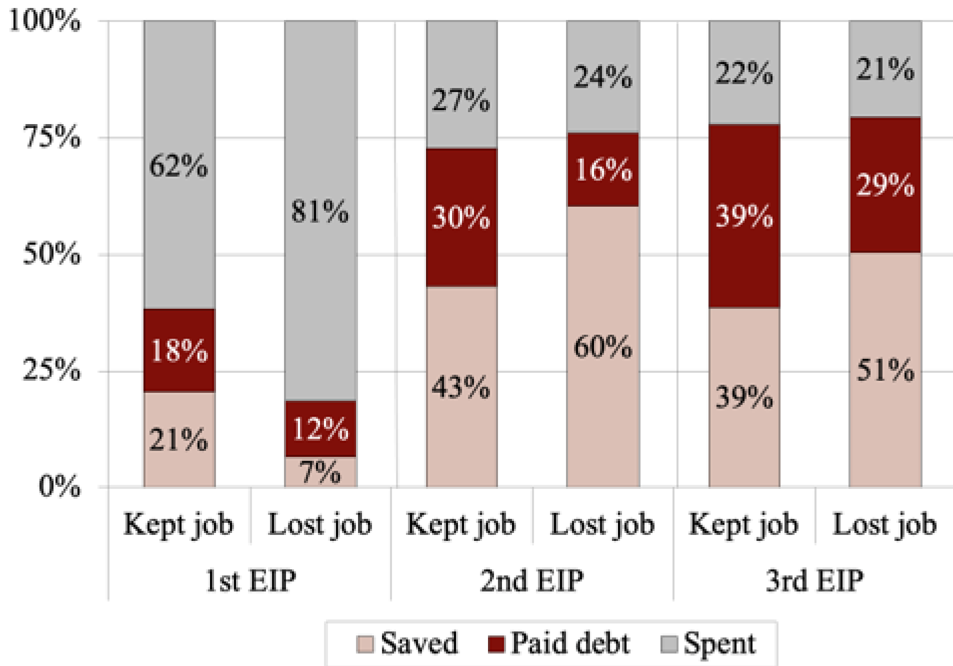
Figure 1. *Percentage of Households Ages 25-64 that Have Trouble Covering a $400 Emergency Expense Before and After First EIP Check, by Job Status, 2019-2020*



Notes: Solid bars represent all households. Job loss includes those who took unpaid leave or had their pay or hours reduced. It does not include workers who voluntarily quit.
Source: Anqi Chen. 2021. "Did the Stimulus Checks Help People with Unexpected Expenses?" *Issue in Brief* 21-13. Center for Retirement Research at Boston College.

While the first EIP mostly allowed those households that lost their jobs to make ends meet, early indicators from the Census Bureau's *Household Pulse Survey* (which has been conducted almost weekly since April 2020) suggest that the second and third EIPs helped many improve their balance sheets. About three-quarters of households saved their second and third EIP checks or used them to pay down debt, regardless of job loss status (see Figure 2). Extended regular and new supplemental unemployment benefits also likely contributed to this outcome.

Figure 2. *How Households Used the Majority of Their Economic Impact Payments, by Job Status*



Source: U.S. Census Bureau, *Household Pulse Survey* (2020-2021).

In short, early indicators suggest that the first payment served as a much-needed lifeline for workers who lost their jobs and helped those who kept their jobs build precautionary savings and pay off some debt. Moreover, many workers, even those who lost their jobs, were able to save or pay off debt using their second and third payments. The question is how long these favorable balance sheet developments will last.