Financial Fragility Among Middle-Income Households: Evidence Beyond Asset Building

Several years after the financial crisis, financial fragility is not only pervasive in the U.S economy but also prevalent among middle-income households. This highlights the need to consider more than asset levels in order to understand household financial resilience. In this paper, we explore the determinants of financial fragility for American households in the middle-income bracket (earning $50–$75K annually) using data from the 2015 National Financial Capability Study. We analyze the socioeconomic characteristics and balance sheets of these households with focus on their debt management and expenses. According to our empirical analysis, three main factors impact financial fragility of middle-income households: family size, debt burden, and financial literacy. First, because a portion of household financial resources are committed to children, family size plays an important role in financial fragility. Second, middle-income households have a lot of debt, and the data shows that debt increases with income. While middle-income households do own assets, they are highly leveraged. In addition, they are using high-cost borrowing methods to cope with emergency expenses. Third, financial literacy is very low among financially fragile middle-income households, which is potentially problematic when there are assets and debt to manage. Moreover, we find that financial fragility has long-term consequences, as financially fragile households are much less likely to plan for retirement.

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