Low-Income Families and COVID-19: Financial Lives Rife with Volatility Become Even More So

For many reasons when we speak about low-income families in America, we often focus on the word "low" in this phrase – families that earn little income and struggle with poverty. To be sure, being low-income is a profoundly significant issue – in 2019, nearly 44% of Americans earned less than $15 an hour and in 2018, 11.8% of families lived below the federal poverty level.[i]

Yet as a wide and emerging body of research has shown, income volatility is perhaps as much of a challenge for these families as their actual level of annual income. Volatile income means that families are unable to predict income in a given week or month. This makes taking vital financial decisions – which bills to pay, what housing will be affordable, how to manage debt, how to prioritize the needs of adults and children in a family, how to save and build assets – extremely challenging.

With the onset of the COVID-19 pandemic and the ensuing economic crisis, this question of volatility becomes even more paramount. A whole new set of variables are emerging all at once. Low-income workers are facing questions, such as: Will my employer be open and call me into work? If I get laid off, can I collect unemployment benefits and, if so, how much will I get? How will this impact other benefits I receive? What if I get sick and can't work? Will I get some type of rent relief? What am I supposed to do about childcare now that my subsidized childcare center is closed? And on and on.

In the U.S., the International Rescue Committee (IRC) works with an exceptionally diverse, overwhelmingly low-income client population, serving some 50,000 individuals across 25 cities each year. Through this work on the front lines, IRC has been witnessing what was already a volatile financial world for low-income households now be devastated by a range of COVID-19 factors that have disproportionately impacted low-income families.

In what follows, we explore how six specific spheres of financial volatility are changing in the COVID-19 era economy. Next, we offer some suggested strategies that may help reduce financial volatility in the lives of some of America's most economically disadvantaged families in support of health, dignity, and the opportunity to make good financial decisions.

Earned Income: Work Hour Instability and Schedule Unpredictability

Low-income workers are disproportionately impacted by what is known as "work hour instability." This means that the number of hours they work in a given week changes frequently, which contributes directly to instability in earnings. Almost 43% of workers earning less than $15,000 a year reported work hour instability. Workers in some sectors are particularly subject to this work hour instability and its subsequent impact on earnings – for example, the high level of work hour instability in the service sector led to average weekly income fluctuations of nearly 50% of workers' earnings.[ii]

Low-income workers are also disproportionately impacted by what is known as "schedule unpredictability" which means that they receive their work schedule with less than one week's notice and, often, with just a few hours' notice. The use of an "on call" model where workers are told to be ready to come into work on a given day but do not receive final confirmation as to whether they will be required to report to work until 1-4 hours before their shift is another common practice, alongside that of routinely letting workers go home before their shift is over if business is slow. Nearly 60% of workers earning less than $15,000 a year are in jobs with high schedule unpredictability.[iii] While this directly contributes to work hour and earnings instability, importantly, it also further complicates the life of a low-income worker. He or she is put in a position where arranging childcare, transportation, and other life appointments and responsibilities is extremely difficult and taxing. In many cases, this high level of schedule unpredictability has the potential to increase a worker's expenditures. For example, a day-of notification requiring a worker to report to work may mean that he or she has to call a ride-sharing service instead of using a personal vehicle, as, perhaps, a decision had already been made to allow another working member of the household to use the family car.

While robust data analysis on the impact of COVID-19 on work hour stability and schedule unpredictability is not yet available, initial reports from IRC staff and clients suggest a range of factors that have exacerbated these issues during the pandemic, including:

- **Businesses are much less equipped to predict customer demand and their staffing needs** – for example, a restaurant that has switched entirely to take-out may be very uncertain how much business they will generate and what level of staffing will be required in that model.

- **Businesses are uncertain how to predict their staffing needs under new health and safety guidance** – for example, a hotel that has re-opened but now only provides housekeeping at check-in and check-out, not daily, may not be certain what level of housekeeping and laundry attendant staff will be required.
- **Changing local shelter-in-place and allowable business activity guidance has caused some businesses to be uncertain about whether they will be allowed to operate** and in some communities, cycles of allowing certain businesses to open, then re-closing, then preparing to open again, have already occurred (e.g. shuttering, opening, re-shuttering of indoor dining in California).
- **Abrupt directives given to workers based on a co-worker testing positive for COVID-19**, which in turn requires co-workers that worked in close proximity to that person to quarantine at home for up to two weeks, are contributing to schedule and earnings volatility.

The New Unemployment Insurance (UI) Landscape

The economic crisis that has resulted from COVID-19 has been immense – by early July 2020, nearly 50 million Americans had applied for unemployment benefits. This crisis has disproportionately impacted low-income workers: nearly 40% of families earning less than $40,000 a year had been impacted by job loss during the first two months of the crisis.[iv] Immigrant workers have also been disproportionately impacted as compared to non-immigrant workers.[v] Federal action in March 2020 did create a significant temporary expansion of unemployment benefits that both broadened eligibility criteria and enhanced the benefit level, including adding a flat $600 per week supplement to state unemployment.[vi] While there is little doubt that this enhanced support was critical in keeping workers – and especially low-income workers – afloat during this period of economic contraction, it has also led to a situation of financial and cash flow uncertainty for workers, in part because of challenges in implementing these new benefits at a time when state-level unemployment systems faced unprecedented demand. In addition, this enhanced federal benefit of $600 a week expired on July 31, 2020, and as of early September, there is still no legislation on a possible extension, once again making the future for low-income workers uncertain..

Workers earning $35,000 a year will go from receiving an average of 140% of their income from unemployment benefits with the federal enhancement to 51% without.

What Happens When Unemployment Ends? New York Times, July 24, 2020.

Comprehensive, nationwide data on how both the changes to unemployment benefits and the actual process of implementing these benefits is impacting worker financial health is not yet available. Nonetheless, an emerging body of work driven by advocacy organizations, legal aid organizations, and others has shed important light on these challenges. In this context, IRC is able to draw on two data sources that provide some insight into how the new UI landscape is impacting low-income workers. Between March and July 2020, IRC assisted nearly 1,800 low-income workers apply for UI across more than a dozen states. Further, through IRC's subsidiary lending organization, IRC's Center for Opportunity (CEO), IRC has distributed more than $500,000 in emergency grants to families facing financial hardship due to COVID-19, which has allowed IRC to gather detailed information about the specific economic hardships and cash flow challenges these families are facing. Below are some key learnings:

- **State-level delays in interpreting and sharing out revised unemployment insurance eligibility criteria and processes** meant that many low-income workers experienced a period of 2-8 weeks of waiting before they had a reasonable understanding of whether a) they might be eligible for unemployment benefits, and b) how they could apply for them (this was particularly true for those who had some level of self-employment income). By the end of April, only half of U.S. states were accepting applications under the expanded federal program (Pandemic Unemployment Assistance (PUA)).[vii] The impact of these delays meant that for weeks or months, millions of individuals had no employment income, no UI, and no clear sense of whether they might get UI, creating a profound situation of financial uncertainty. Many IRC offices reported being unable to help low-income workers apply for UI until May because of these delays, a time when the individual had already experienced a loss of income for over a month. This was especially true for workers that had some self-employment income or gig-economy income or had recently started working pre-COVID.

- **Delays in processing UI claims** meant that even for workers who were clearly eligible and able to apply had to wait weeks or months to receive benefits. The Century Foundation's newly created Unemployment Dashboard tracks this information in real-time and shows that while states are slowly starting to catch up on the backlog, even two months into the pandemic (May), almost half (43%) of all UI claims were not paid in a timely manner. An overwhelming majority of IRC emergency grants to UI eligible applicants facing economic hardship were needed because the applicant had been waiting over two months for approval of their UI applications. These families were facing cash flow issues that prevented the family from paying rent, buying food, and other basic necessities.

A client is eligible for PUA as he was laid off in April due to pandemic. He is not able to submit a claim through the state portal because he already utilized UI benefits earlier in 2019, exhausting eligibility for state benefits and automatically locking him out of the system. The state UI guidance confirms his eligibility but says at this time the system has no way for him to apply and will share more information when it becomes available. By mid-May, this information was still not available. Further pursuing an answer for the client, IRC staff followed up with local elected representatives who said it would take a minimum of 3 weeks to get authorization to reach out to state labor agency for any resolution or clarity.

Paraphrased from technical assistance request from IRC field staff to IRC's national technical team

- **Applicants had little ability to predict how much they might get from UI**, even once approved. For low-income workers with variable earnings and/or multiple jobs, in particular, this uncertainty has proven challenging and makes planning for short-term financial decisions difficult. Further, the expiration of the extra federal enhancement of $600/week on July 31, 2020 – with no clear plan for extension – has once again exacerbated the income volatility low-income workers face, often including a decrease in benefit levels of more than 80% (e.g. going from $2,800 a month to $400) or losing eligibility all together. Based on calculations made in early August by the Century Foundation's Unemployment Dashboard, more than 25 million workers were impacted by this change and low-income workers were disproportionately affected.

Means-Tested Income Supports: Critical Benefits Sensitive to Changing Income

More than 20% of Americans access some type of means-tested income support (e.g. Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF)) and among low-income families, more than 50% receive some type of means-tested income support.[viii] While the precise eligibility rules for these programs vary tremendously (and are notoriously complex), nearly all are sensitive to changes in income. This means that as low-income families try to make forward-looking financial decisions, they not only have to take into account their projected income from work, but also have to factor in how that might impact the amount they get from programs such as SNAP or whether they will still be eligible for health insurance through Medicaid. Many of these programs also factor in receipt of UI benefits as part of their calculations of both income-based eligibility and level of benefit in ways that are complex and vary by state. In addition, many of these programs made temporary, COVID-era changes to eligibility and benefit criteria which impacted different families differently. For example, states were given the flexibility, but not required, to increase SNAP benefits to the maximum amount among families that currently were only receiving partial benefits. Each one of the changes might further complicate the calculations a family would need to make to understand the level of benefit they would receive.

In sum, considering all of these factors, low-income families have faced significant challenges in trying to determine the overall cash and non-cash income that would be coming into their house in any given month. Some examples of the types of challenges IRC clients have faced include:

- **Lagging or incorrect calculations** leading to overpayments from certain cash assistance or UI benefits resulting in dramatic decreases in subsequent months to make up for earlier overpayments.
- Income from UI benefits making a family who is receiving TANF income ineligible to continue to receive it. While the cash benefit might have been replaced, other supportive services – including **childcare and transportation subsidies** that were attached to the TANF benefit – were not.
- **Loss of SNAP benefits because UI is counted as unearned income** when calculating eligibility, even in cases where the increased income does not fully replace the SNAP benefit.
- **Delays in TANF applications, as some TANF programs require applying for UI first** if there is a potential that a person may be eligible; given UI delays this can significantly delay a family's access to critical cash assistance.

Childcare: An Already Challenging Landscape that Changed Overnight

Low-income workers face disproportionate challenges in accessing safe, affordable and reliable childcare. These families are more likely to rely on unpaid childcare through family or friends, struggle to navigate a patchwork of state and federal subsidy programs, and have little ability to pay market rates for quality childcare, which currently averages more than $10,000 a year for infant care.[ix] In addition, the factors identified above – especially schedule instability – make options for childcare difficult.

With the onset of COVID-19, additional challenges emerged as childcare needs abruptly changed for many low-income families. They have faced a perfect storm of changing employment status and/or work hours of adult caregivers, the shutdown of in-person schooling and before and after school care, and the widespread closure of childcare centers. Further, low-income workers are six times less likely to be able to work from home than middle or high income workers.[x] In reviewing IRC job placement data from 2019, more than 95% of the positions filled are likely not work-from-home eligible. This has caused significant disruption in family choices around working for continued (critical) income and the need for childcare. Based on IRC's work, among the key emerging issues identified are:

- Quite simply, a **lack of open, available, affordable, childcare options**, especially with flexible hours that meet the needs of workers with variable shift work.
- Confusion among workers as to **how refusing to return to work because of a need to provide childcare will be treated by the unemployment system** in terms of eligibility of ongoing benefits.

Savings and Access to Credit

Low-income workers are disproportionately less likely to have savings and face constraints in accessing credit, making it challenging for them to cover fluctuations in income or pay for unexpected expenses. Among all Americans, nearly 40% would not be able to cover an unexpected $400 expense without resorting to putting it on credit (which they could not pay that month), selling something, or borrowing money.[xi] A recent JP Morgan Chase report found that low-

Nearly 70% of IRC's CEO borrowers – 95% of whom are low-income – have bad or no credit.

income families averaged only 28% of the savings they would need to get through a six week gap in pay.[xii] Low-income individuals also know much less about credit and their credit score, with nearly 60% identifying their knowledge of credit and credit scores as fair or poor, compared to a third of upper income consumers and yet they are nearly twice as likely to say they are going to apply for credit within the next year, often to cover basic expenses.[xiii] Data from IRC's CEO shows that nearly 70% of borrowers – 95% of whom are low-income – have bad or no credit at the time of loan origination.

With the economic shut down in response to COVID-19, this lack of savings and more constrained access to credit means that low-income workers struggled to cover disruptions in income (e.g. while awaiting UI or due to reduced hours) and increased costs (e.g. temporary housing or motel costs when trying to quarantine a sick person). A COVID-era Pew Research study showed that 71% of low-income Americans eligible for the stimulus payment were planning to use the funds to cover basic living expenses, compared to just 34% of upper-income Americans.[xiv] As job losses stack up, this lack of savings and constrained access to credit – compounded by a lack of knowledge and understanding of credit – put low-income workers at tremendous risk for both acute financial hardship that can lead to restrictions on food, medical, and other purchases as well as resorting to using high-interest, usury forms of credit to try and make ends meet and pay critical bills. Some of the specific types of challenges IRC is seeing include:

- Families rapidly **burning through limited savings to pay for rent and food** while awaiting unemployment benefits.
- Significant **demand for emergency cash assistance** – IRC deployed over $500,000 in emergency cash grants in less than a month because families simply did not have the cash liquidity to pay rent, utility, and food costs.
- Low-income clients that have **even less access to credit than before** because of job loss and delinquencies on utility, car payment, and other bills.

COVID-19 Health Issues: Intersection with Income and Expenses

It has been widely reported that low-income and communities of color have been disproportionately impacted by COVID-19. In addition to the tragedy this represents in terms of lives and community, it is also a factor in the economic volatility that families face. Here again, there is not a comprehensive, nationwide study on this topic, but some recurring issues identified through IRC's economic empowerment programs and the distribution of funds through IRC's CEO suggest the following:

- Low-income workers in **industries that have been hard hit by workplace-based COVID-19 clusters (e.g. meatpacking plants, nursing homes) have found themselves sent home to self-quarantine on extremely short notice with immediate income impacts**. While federal legislation has created a 14-day sick leave benefit to provide financial support during this time for workers at some types of employers, accessing this benefit has, at times, been plagued by delays and challenges, and families may also lose out on sunk costs (e.g. pre-purchased transit passes, monthly childcare payments) that they end up not utilizing, both of which impact the family budget.

A client (with a wife and children) was waiting on a UI application for over a month and had heard nothing. Needing to pay rent and buy food, he took another job working in a crowded warehouse facility and, within two weeks, caught COVID and was back at home and unemployed. His family also caught COVID, still without any word on his UI or clear access to paid time off.

Paraphrased from an application for emergency grant funds from IRC

- Delays in UI benefits, inability to understand what financial benefit(s) might be available, uncertainty on whether there are enough funds for all who apply, and other factors contributing to financial hardship have **pushed some individuals to return to work even when they are not certain that their employer is consistently taking appropriate health and safety precautions.**

- When a low-income worker gets sick with COVID-19, **new responsibilities may be pushed on other adults in the household**, impacting their ability to earn income.
- **Unexpected medical and funerary costs** put pressure on family budgets that are already stretched thin and savings that are being stressed by other demands.

Volatility in the Lives of Low-Income Families: What Can Practitioners and Policymakers Do?

Addressing the way in which economic volatility impacts low-income families is complex. Doing so in a pandemic that has led to profound economic disruption is even more complex. However, the following 12 suggestions offer a set of ideas that can contribute to practices and policies that help mitigate the economic uncertainty that so many poor families in America face.

Practitioners

1) COVID response funds – especially those that support sick workers in quarantine – should be provided immediately upon giving a worker the order to self-quarantine. Navigators to ensure this happens can be embedded in employer HR departments, contact tracing teams, and other first responder/first notifier positions.
2) Use existing flexibility – especially in federal block grant-funded programs such as TANF, special COVID-related flexibility provisions, and the state-funded portion of UI – to identify and address benefit cliff issues with a goal of smoothing the way changes in income impact benefits received, especially as pertains to childcare and housing which have an outsized impact on low-income families when the family is pushed into market rate options.
3) Emphasize financial coaching, incentivized savings, and credit-building as a part of job training, social service, and similar programs to ensure that low-income families have the opportunity to develop the knowledge and skills they need to manage their often complex household budgets as well as the opportunity to develop tangible assets (savings, a good credit score) to lean on in difficult times.
4) Integrate emergency cash assistance into programming for low-income workers, especially to use as a bridge or stop-gap while awaiting traditional public benefits or other safety nets.
5) Train relevant county benefit worker, social service, and other staff on how to use existing benefit calculators to assess the potential impact of changes in income or benefits and encourage the clear, simple sharing of this information as a part of all benefit applications and renewals.
6) Whenever possible, adopt policies and practices of “presumption of eligibility” for benefits if initial documents substantiate that finding. Follow-up and additional supporting documents can be collected as needed and adjustments made in cases where it is warranted.

Policymakers

7) Pursue and support legislation that requires employers to give clear documentation about current work status, enabling workers that are in limbo because they simply have not been scheduled any hours for a few weeks the documentation they need to pursue UI or other financial assistance.
8) Pursue and support legislation that encourages employers – in partnership with workforce systems and existing rapid response programs - to be more hands on in supporting UI applications, especially in times of rapid, mass layoffs.

9) Strengthen legal requirements regarding the accessibility of information about benefit programs. In addition to current federal requirements around language access and ADA compliance, stronger requirements for information that is accessible even to those with limited digital access or literacy skills – including appropriately staffed phone access - is critical to ensuring equitable access to benefits.

10) Pursue and support legislation that requires greater accountability among business to decrease schedule instability. This can include requirements to provide work schedules with a reasonable amount of notice, requiring pay when workers are made to be "on call" for work, and requiring a minimum period of pay when a worker shows up for work, even if he/she is sent home early.

11) Revise asset limit rules for means-tested income support programs to ensure that low-income workers are able to build a reasonable emergency savings cushion.

12) Strengthen requirements for providing consumers with clear, prominent information about the cost of credit including requiring the use of non-technical language that is accessible at a reasonable (e.g. 8th grade) basic skills level.

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