



Risks Rise for Middle Class

Economic Security Continues to Fall

*CAP Updates the Data Measuring Financial
Risks Facing America's Middle Class*

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In collaboration with the
Service Employees International Union

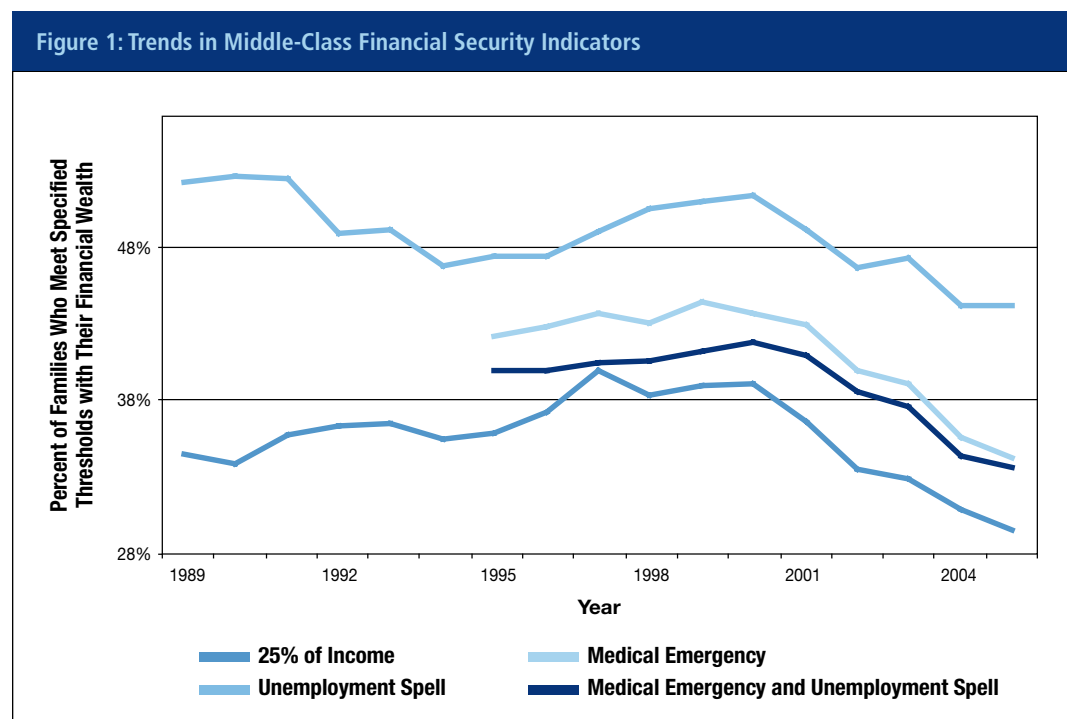
ECONOMIC SECURITY DECLINES FURTHER FOR AMERICA'S MIDDLE CLASS

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Calculations based on newly released data sadly confirm that the financial security of middle class families further deteriorated in 2005. The trend towards a lot less financial security after 2001 was first highlighted by the Center for American Progress and the Service Employees International Union in a joint report released in September last year. Estimates based on new data on household wealth from the Federal Reserve and on health care trends from the Agency for Healthcare Research and Quality show that higher health care costs and rising indebtedness continue to weigh more and more heavily on middle class families.

Our earlier report, entitled *Middle Class In Turmoil*, found that all the gains made in financial security among middle class families in the 1990s had disappeared by early this century.¹ (see chart, below). The new data, which now encompasses all of 2005, confirms that four key measures of financial security continued to deteriorate for middle class families after 2004 (see table, page 2).



¹ See Christian Weller and Eli Staub, 2006, *Middle Class in Turmoil: Economic Risks Up Sharply for Most Families Since 2001*, CAP Economic Policy Report, Washington, D.C.: Center for American Progress and Washington, D.C.: Service Employees International Union.

The new figures show that the sharpest increase in economic risks facing middle class families between 2004—the point at which we concluded our last report—and 2005 was associated with rising medical costs (see table, below). The share of families with enough financial wealth to withstand one medical emergency dropped by 1.3 percentage points, to 34.7 percent in 2005.

The share of families with three months of their income in financial wealth—the measure that most accurately captures the effect of consumer debt on financial security because it connects wealth to income—also fell by 1.2 percentage points, to 30.3 percent in 2005 from 31.5 percent in 2004.

The share of families with sufficient financial wealth to withstand a bout of unemployment remained steady at 44.1 percent between 2004 and 2005, though this is hardly cause for celebration since this is the lowest percentage on record. Moreover, the share of families that could sustain a spell of unemployment held steady at a time when the length of a typical unemployment spell declined.

TABLE 1: CHANGES IN MIDDLE-CLASS SECURITY INDICATORS FOR ALL FAMILIES, 1989 TO 2005

YEAR	HAVE THREE MONTHS OF INCOME WORTH IN FINANCIAL WEALTH	CAN COVER MEDICAL EMERGENCY	CAN COVER UNEMPLOYMENT SPELL	CAN COVER MEDICAL EMERGENCY AND UNEMPLOYMENT SPELL
1989	35.0%	n.a.	51.8%	n.a.
1990	34.4%	n.a.	52.2%	n.a.
1991	36.1%	n.a.	52.0%	n.a.
1992	36.7%	n.a.	48.6%	n.a.
1993	36.8%	n.a.	48.9%	n.a.
1994	35.9%	n.a.	46.6%	n.a.
1995	36.2%	42.3%	47.2%	40.1%
1996	37.5%	42.8%	47.2%	40.2%
1997	40.1%	43.6%	48.7%	40.6%
1998	38.5%	43.0%	50.1%	40.8%
1999	39.1%	44.4%	50.5%	41.3%
2000	39.3%	43.6%	51.0%	41.9%
2001	36.9%	43.0%	48.9%	41.0%
2002	34.0%	40.2%	46.4%	38.8%
2003	33.5%	39.3%	47.1%	37.8%
2004	31.5%	35.9%	44.1%	34.8%
2005	30.3%	34.7%	44.1%	34.2%
1989 to 2005	-4.7%	n.a.	-7.7%	n.a.
1989 to 2000	4.3%	n.a.	-0.9%	n.a.
1995 to 2000	3.1%	1.4%	3.8%	1.6%
2000 to 2005	-9.0%	-8.9%	-6.9%	-7.7%
2004 to 2005	-1.2%	-1.3%	0.0%	-0.6%

Notes: All figures are percent of households. Calculations are based on Pareto interpolation of data from the Board of Governors, Federal Reserve System, 2006, Flow of Funds Accounts of the United States, Washington, D.C.: BOG. Full details of data, definitions, and methodology are available in Weller and Staub, 2006, Middle Class in Turmoil: Description of Methodology and, CAP Economic Policy Report, Washington, D.C.: Center for American Progress and Washington, D.C.: Service Employees International Union. "n.a." indicates that data are not available. Please note that the data in this table are not directly comparable with the figures from the tables presented in the prior report since those were based on the Survey of Consumer Finances, whereas the calculations here are based on the Flow of Funds.

And the percentage of families able to weather a spell of unemployment and a medical emergency (our last measure of financial security) fell to 34.2 percent in 2005, from 34.8 percent the previous year.

All four measures of financial security have been on the decline since the end of the last economic expansion in 2000. The share of families with three months of their income in financial wealth, for example, disappeared between 2000 and 2002, wiping out all the gains made by families during the 1990s, and has deteriorated steadily ever since.

Similarly, the growing ability of families to withstand a period of unemployment between 1995 and 2000 reversed course between 2000 and 2002. Since 2002, the share of families capable of coping financially with a period of joblessness has declined by 6.9 percentage points. This key measure of economic security remained fairly stable in the 1990s, but has eroded sharply ever since.

Indeed, since the end of the last economic expansion in 2001, America's middle class has been in an unenviable situation. Jobs grew at the slowest rate since the Great Depression, leading to fewer job opportunities for everyone. In addition, between 2000 and 2005 wages were mostly flat and a smaller share of workers enjoyed employer-provided benefits, especially pensions and health insurance. At the same time, middle class families were confronted with rapidly rising prices for important items, such as housing, health care, and energy.

Trapped in this pressure cooker of slow income growth and fast price gains, many families turned to debt to make ends meet, propelling debt levels and debt payments to ever new record highs. As a result, families had fewer resources available in 2005, the last year for which data are available, to stave off an emergency than at any point since 1989.

The detailed description of these four sets of figures through 2004 is available in our [previous report](#).² Now we find that in 2005, more than two-thirds of American middle class families *did not* have three months' worth of financial wealth available to cope with an emergency. Almost two-thirds of the middle class *could not* handle the financial strains of a medical emergency in their family or the combination of a medical emergency and a spell of unemployment. And well under half of American middle class families *could not* cope with losing their job due to no fault of their own.

This continuing erosion of the economic security of America's middle class reflects higher medical costs. The numbers above paint a dire picture for America's middle class, but they also point the way towards solutions.

In particular, the economic security of our country's middle class depends on more and better paying jobs. It also depends on policies that could help to reduce runaway health care inflation so that a medical emergency does not threaten a family's financial well being. And finally, policies that could reduce the costs of borrowing and improve efforts of families to build a larger nest egg would directly improve the financial security of American middle class families.

² For details on data, definitions and methodology see Weller and Staub, 2006, Middle Class in Turmoil: Description of Methodology and, CAP Economic Policy Report, Washington, D.C.: Center for American Progress and Washington, D.C.: Service Employees International Union.

For more details on the Center's analysis of what ails America's embattled middle class and what policy makers can do about it, visit our [Economic Policy](#) web page and our [Economic Mobility](#) project page.

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About the Service Employees International Union

The 1.8 million-member Service Employees International Union is the fastest-growing union in North America, and its membership is among the most diverse in the labor movement. Since SEIU President Andy Stern took office in 1996, nearly 900,000 workers have united in SEIU. Focused on uniting workers in three sectors, SEIU is the largest health care union, including hospitals, nursing homes, and home care; the largest property services union, including building cleaning and security; and the second largest public employee union.

About the Center For American Progress

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."