Financial Resilience Index and Survey

*The **Financial Resilience Index** measures the middle-class' ability to manage life's challenges and plan for a stable future.*
*The **Financial Resilience Survey** explores how middle-class households understand their own financial resilience.*

January 2025

- The middle class became more financially resilient in Q3 due to strong resource growth and easing cost pressures.

- The companion survey found that just over half of middle-class households are confident they could bounce back from a significant unexpected expense.

Financial Resilience Index and Survey

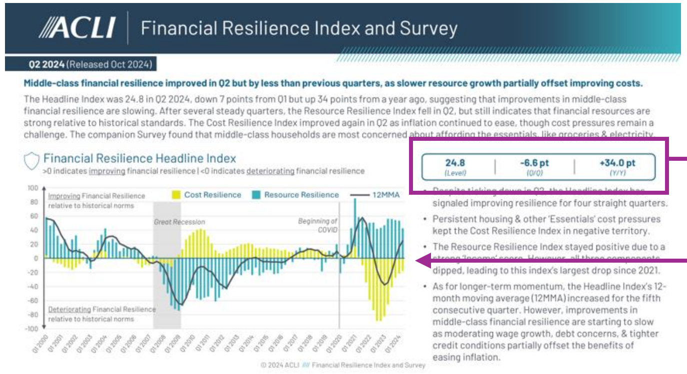
HOW TO READ AND INTERPRET THE INDEX AND SURVEY

The Financial Resilience report includes an index that compiles data from trusted sources, like the U.S. Bureau of Labor Statistics and Federal Reserve Bank of New York, to show how well prepared middle-class families are to handle financial challenges. It also includes a survey that describes how middle-class households feel about how they're doing financially.

Page 1 of the report features the Headline Index — which measures financial resilience by comparing changes in middle-class households' costs (e.g., housing and gas, childcare and healthcare, replacing an appliance or going on vacation) to changes in their resources (e.g., income, access to loans, and readiness for retirement). Changes in Headline Index scores over time are shown in a chart, with brief notes that explain the biggest factors affecting the changes.

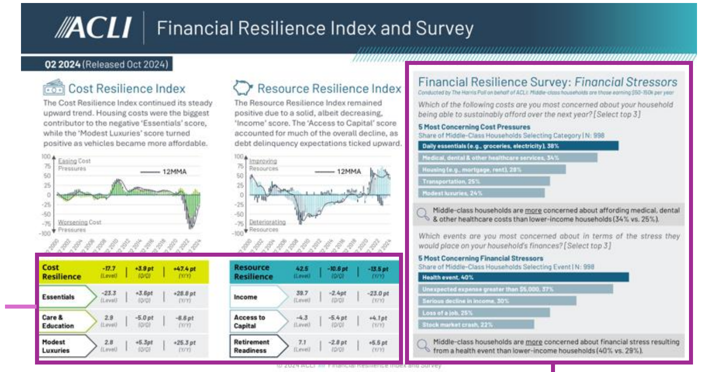
The Headline Index measures if financial resilience is getting better or worse for middle-class households compared to historical averages. Scores above '0' show improvement, while scores below '0' show things are getting worse. The Resource and Cost Resilience Indices work the same way. For example, a very low score on the Cost Resilience Index means costs are increasing a lot for middle-class households, while a high score means costs are easing up. Page 2 of the report shows charts and explains the scores for the Resource and Cost Resilience Indices.

Page 2 also features ACLI's Financial Resilience Survey, which is done every quarter by The Harris Poll, and asks two questions about financial resilience. You can find more details about how the index and the survey were done on page 3.



Headline Index number with q/q and y/y change

Headline Index chart. Teal represents Resources, Yellow represents Costs



Resource and Cost Resilience Indices are comprised of three thematic subcomponents; all variables are listed on Page 4

ACLI's Financial Resilience Survey findings

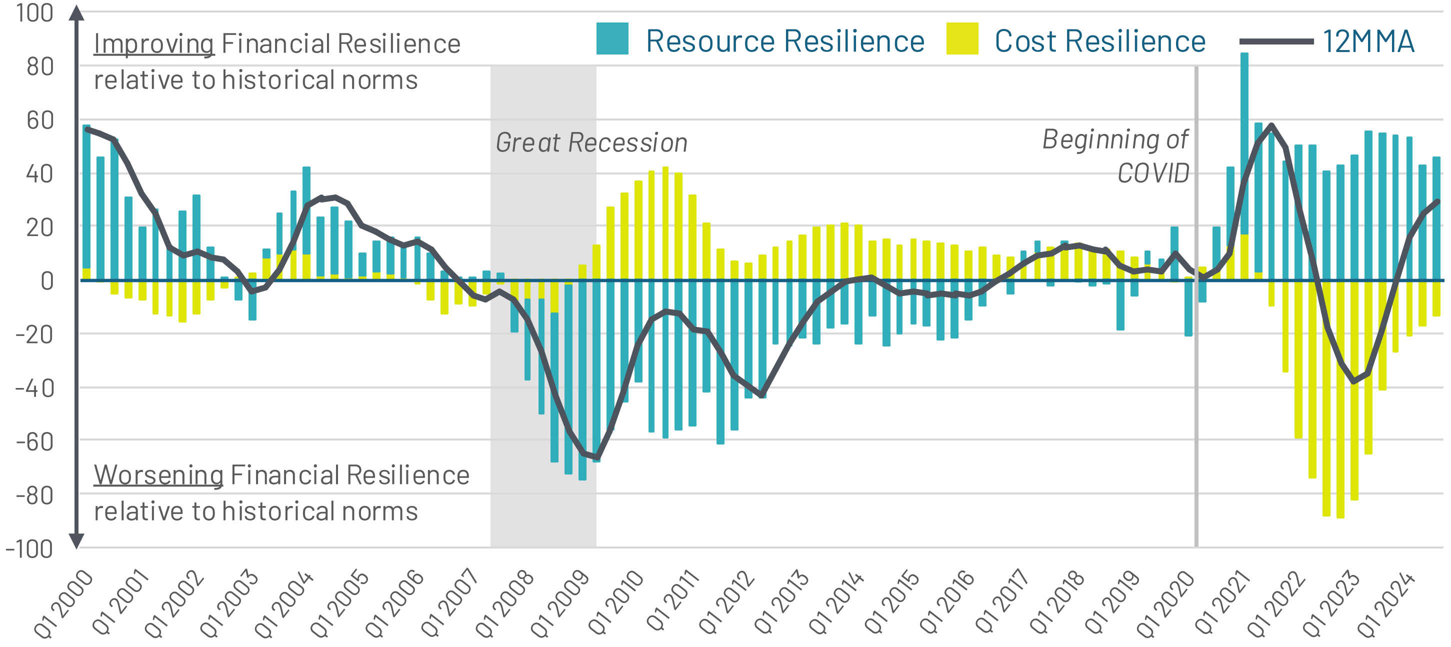
Q3 2024 (Released Jan 2025)

The middle class became more financially resilient in Q3 due to strong resource growth and easing cost pressures.

The Headline Index was 31.8 in Q3 2024, up 7 points from Q2 and up 18 points from a year ago, indicating that overall middle-class financial resilience is improving more quickly. The Resource Resilience Index inched up for the first time in five quarters and continues to show that middle-class resource growth is strong by historical standards. The Cost Resilience Index improved for the seventh consecutive quarter as cost pressures return to historical norms. The companion survey found that just over half of middle-class households are confident they could bounce back from an unexpected expense.

Financial Resilience Headline Index

>0 indicates improving financial resilience | <0 indicates worsening financial resilience



31.8 (Level)	+6.5 pt (Q/Q)	+17.6 pt (Y/Y)

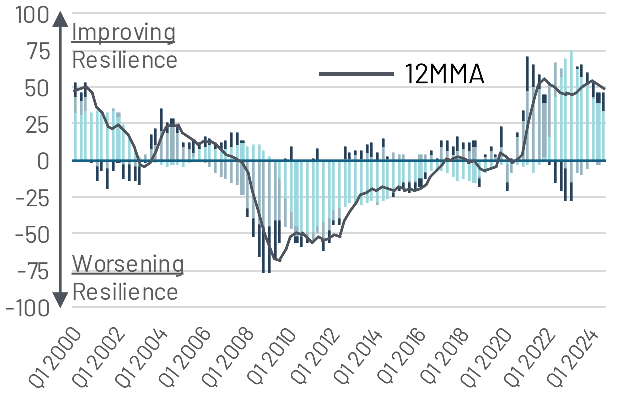
- For the fifth straight quarter, the Headline Index signals improving financial resilience.
- The Resource Resilience Index ticked up thanks to strong stock market performance in Q3, as improving 'Access to Capital' and 'Retirement Readiness' offset easing but still strong 'Income' growth.
- The Cost Resilience Index moved closer to historical norms but was still negative as inflation for housing and other 'Essentials' remained above average.
- The Headline Index's 12-month moving average (12MMA) increased for the sixth straight quarter, driven by lower inflation and a strong stock market, but gains continue to moderate thanks to slower wage growth.

Financial Resilience Index and Survey

Q3 2024 (Released Jan 2025)

Resource Resilience Index

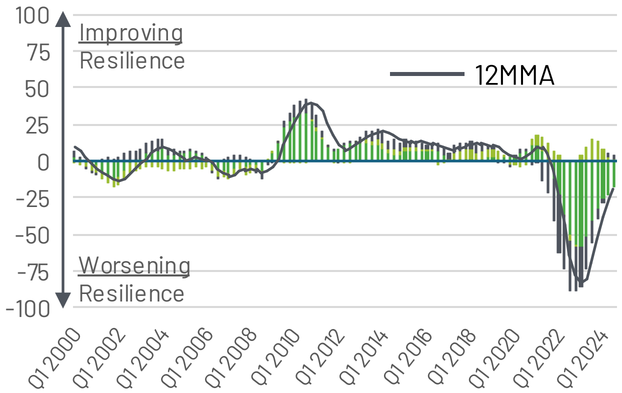
All three Resource subcomponents were in positive territory. Above-average growth in non-retirement wealth and retirement assets spurred the increases in 'Access to Capital' and 'Retirement Readiness', respectively.



Resource Resilience	*45.5* (Level)	*+2.9 pt* (Q/Q)	*-9.4 pt* (Y/Y)
Income	*33.2* (Level)	*-6.0 pt* (Q/Q)	*-24.2 pt* (Y/Y)
Access to Capital	*0.9* (Level)	*+4.5 pt* (Q/Q)	*+11.3 pt* (Y/Y)
Retirement Readiness	*11.4* (Level)	*+4.4 pt* (Q/Q)	*+3.6 pt* (Y/Y)

Cost Resilience Index

Despite easing in recent months, housing costs are dragging on the 'Essentials' category and the entire Cost subindex. 'Care & Education' cost pressures are generally better than average, though childcare is a challenge.

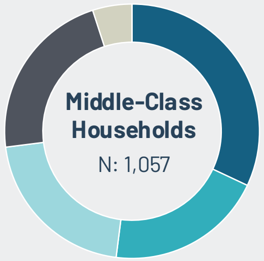


Cost Resilience	*-13.7* (Level)	*+3.6 pt* (Q/Q)	*+27.0 pt* (Y/Y)
Essentials	*-17.7* (Level)	*+5.3 pt* (Q/Q)	*+23.9 pt* (Y/Y)
Care & Education	*1.1* (Level)	*-1.7 pt* (Q/Q)	*-14.2 pt* (Y/Y)
Modest Luxuries	*2.9* (Level)	*+0.1 pt* (Q/Q)	*+17.3 pt* (Y/Y)

Financial Resilience Survey: *Sense of Stability*

Conducted by The Harris Poll on behalf of ACLI; Middle-class households are those earning $50-150k per year

How confident are you that your household could pay for an unexpected expense of $5,000 (e.g., home repair, medical procedure) and bounce back financially?

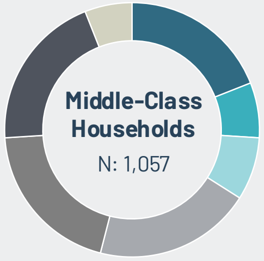


- Very Confident, 32%
- Confident, 20%
- Somewhat Confident, 21%
- Not Confident at All, 22%
- Not Sure / Decline to Answer, 5%

Just over half (52%) are confident or very confident.

More middle-class households with children are not confident at all they could bounce back from an unexpected expense (28%) than ones without children (19%).

How many months of living expenses does your household currently have in easily accessible savings (e.g., cash, checking account, basic savings account)?



- More than 12 Months, 19%
- 10-12 Months, 7%
- 7-9 Months, 8%
- 4-6 Months, 20%
- 1-3 Months, 20%
- Less than 1 Month, 20%
- Not Sure, 6%

54% of middle-class respondents that are 65 or older have more than 6 months of living expenses in accessible savings, a higher share than those ages 18-64 (26%).

ABOUT THE INDEX & SURVEY

The **Headline Index** measures the middle-class' ability to manage life's challenges and plan for a stable future. The **Resource Resilience Index** measures the ability to handle unexpected expenses and sustain a quality of life, and to save and live well in retirement. The **Cost Resilience Index** measures the ability to afford modest luxuries without trading off the essentials, and to afford life-stage appropriate care and education.

Composition. The Financial Resilience Index measures the direction and magnitude of changes in middle-class financial resilience by tracking 26 variables that represent important middle-class cost pressures and financial resources. Input variables have been scoped to the middle class, based on typical components of a middle-class household budget or income and wage brackets, with several exceptions where wage/income brackets were unavailable for certain data series. The Headline Index is composed of a Resource Resilience Index and a Cost Resilience Index, each of which has three subcomponents. This composition frames financial resilience as the interaction of financial resources and cost pressures and provides insight into the specific underlying factors that drive changes in middle-class financial resilience.

- Resource Resilience Index subcomponents include: (1) Income; (2) Access to Capital; and (3) Retirement Readiness. *(See table on the next page for more detail)*
- Cost Resilience Index subcomponents include: (1) The Essentials; (2) Care & Education; and (3) Modest Luxuries. The cost variables that make up these subcomponents are not intended to represent a comprehensive middle-class budget or provide an alternate measure of inflation. Rather, they reflect the types of expenditures that define a typical middle-class American lifestyle. *(See table on the next page for more detail)*

Index Methodology. The Financial Resilience Index is a z-score index. All variables are harmonized to a quarterly frequency. Price and wealth variables are transformed to a year/year percent growth basis. Z-scores are used to standardize the transformed variables, using January 2000 to September 2024 as the historical sample period. Z-scores are multiplied by a constant of '100' so that index values are generally bounded by +/-100. Some variable values (e.g., cost-related variables) are inverted so that a positive index score always indicates improving conditions, and a negative index score always indicates worsening conditions. The result of these transformations is a quarterly index that compares the direction and degree of the most recent quarterly reading to the long-run historical average quarterly reading. For example, a very high positive index score (>40) indicates substantial improvement in overall resilience, cost pressures, or resources relative to the long-run historical average; a very low negative index score (<-40) indicates substantial worsening in overall resilience, cost pressures, or resources relative to the long-run historical average. Each index and subcomponent are weighted to reflect their relative importance and impact on middle-class financial resilience. The Resource Resilience Index accounts for 60% of the Headline Index and the Cost Resilience Index accounts for 40%. Within the Resource Resilience Index, the 'Income' subcomponent is 45%, 'Access to Capital' is 35%, and 'Retirement Readiness' is 20%. Within the Cost Resilience Index, 'The Essentials' subcomponent is 55%, 'Care & Education' is 15%, and 'Modest Luxuries' is 30%. Z-scores are multiplied by their respective weights and aggregated to compose the indices.

Survey Methodology. The Financial Resilience Survey was conducted online within the United States by The Harris Poll on behalf of ACLI from December 5 – 9, 2024, among 2,092 adults ages 18 and older. This report primarily presents the survey results for the 1,057 respondents from middle-class households—those earning $50,000 to $150,000 in annual household income. Upper-income households are those earning more than $150,000 in annual household income and lower-income households are those earning less than $50,000 in annual household income. This report only presents comparisons between subgroups that are statistically significant. For complete survey methodology, including subgroup sample sizes and information about statistical significance, please contact ACLI.

DATA SOURCES

Index	Subcomponent *(Index Weight)*	Variable	Data Source
Resource Resilience *(60%)*	**Income** *(45%)*	Wage growth, 25-75th wage percentile	*Wage Growth Tracker*, Federal Reserve Bank of Atlanta
	Access to Capital *(35%)*	Non-retirement wealth, 40-80th income percentile	*Distributional Financial Accounts*, Board of Governors of the Federal Reserve System
		Access to consumer credit	*Senior Loan Officer Opinion Survey on Bank Lending Practices*, FRS Board of Governors
		Debt delinquency expectations, $50-100K in income	*Survey of Consumer Expectations*, Federal Reserve Bank of New York
	Retirement Readiness *(20%)*	Retirement assets, 40-80th income percentile	*Distributional Financial Accounts*, Board of Governors of the Federal Reserve System
		Change in likelihood of comfortable retirement, middle income tercile	*Survey of Consumers*, University of Michigan
Cost Resilience *(40%)*	**Essentials** *(55%)*	Owners' equivalent rent of primary residence	*Consumer Price Index*, U.S. Bureau of Labor Statistics
		Rent of primary residence	
		Groceries	
		Electricity	
		Gasoline	
		Motor vehicle parts and equipment	
		Motor vehicle maintenance and repair	
		Motor vehicle insurance	
		Internet services	
	Care & Education *(15%)*	Medical care services	
		College tuition and fees	
		Day care and preschool	
		Prescription drugs	
	Modest Luxuries *(30%)*	Dining out	
		Recreation	
		Household appliances, furnishings, and services	
		New vehicles	
		Used vehicles	
		Hotel stays	
		Airline fares	