Financial Resilience Index Methodology

The ACLI Financial Resilience Index measures the middle-class' ability to manage life's challenges and plan for a stable future. The Headline Index measures the direction and degree of middle-class financial resilience, and is composed of two underlying indices:

- 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.
- The Resource Resilience Index measures the ability to handle unexpected expenses and sustain a quality of life, and the ability to save and live well in retirement.

Interpreting the index. It is a Z-score index, meaning that the index score represents the direction and degree to which underlying variables diverge from historical averages. Positive scores indicate above average middle-class financial resilience and negative scores indicate below average middle-class financial resilience.

Composition. The index measures the direction and degree of middle-class financial resilience by tracking 26 different variables that represent important middle-class cost pressures or financial resources.

The Headline Index combines the underlying Cost Resilience and Resource Resilience indexes — each of which has three subcomponents — to capture the interaction of cost pressures and financial resources for middle-class households. This structure tracks changes in middle-class financial resilience and provides insight into the underlying factors that are driving those changes.

- Cost Resilience subcomponents include: (1) The Essentials; (2) Care & Education; and (3) Modest Luxuries. The variables that comprise these subcomponents reflect the types of expenditures that define a typical middle-class American lifestyle.
- Resource Resilience subcomponents include: (1) Income; (2) Access to Capital; and (3) Retirement Readiness. The variables that comprise these subcomponents represent the financial resources at the disposal of middle-class households and have been scoped to households that fall in a middle-income designation.

Methodology. All variables are harmonized to a quarterly frequency, and price and wealth variables are transformed to year/year percentage change. Variable values are then standardized by calculating their Z-scores—the number of standard deviations above or below a variable's average value for the sample period (Q1 2000 to Q4 2023). Some standardized variables are inverted, such as those for costs, so that a positive index score always indicates improvement (e.g., easing cost pressures) and a negative index score always indicates deterioration (e.g., worsening cost pressures).

Each standardized variable is weighted to reflect its relative importance to middle-class financial resilience (*see below table for list of variables in each subcomponent*). These weighted values are

aggregated to compose the indices and are multiplied by a constant of '100' so that the index values will almost always fall between +/- 100.

Table: Index Subcomponents, Weights*, Variables and Data Sources
* Listed subcomponent weights represent the weight of subcomponents in the underlying Cost Resilience or Resource Resilience Index (e.g., 'The Essentials' accounts for 55% of the Cost Resilience Index score and 22% of the Headline Index score).

Index	Subcomponent	Variable	Data Source
Cost Resilience (40%)	The 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	
		College tuition and fees	
		Day care and preschool	
		Dining out	

	Modest Luxuries (30%)	Recreation	
		Household appliances, furnishings, and services	
		New vehicles	
		Used vehicles	
		Hotel stays	
		Airline fares	
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*, Board of Governors of the Federal Reserve System
		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
		Probability of comfortable retirement (middle income tercile)	*Survey of Consumers*, University of Michigan