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.*

October 2024

- Middle-class financial resilience improved in Q2 but by less than previous quarters, as slower resource growth partially offset improving costs.

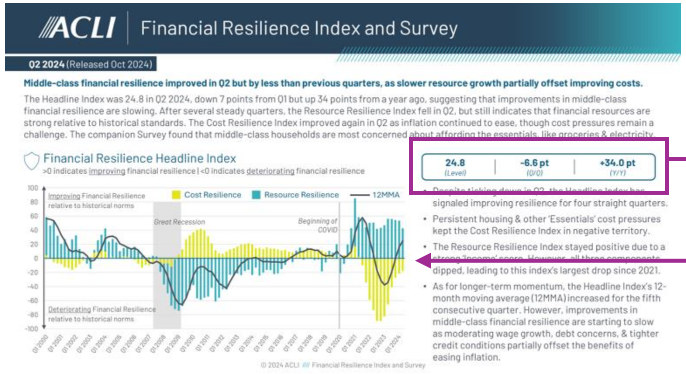
- The companion survey found that middle-class households are most concerned about affording the essentials, like groceries and electricity.

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.

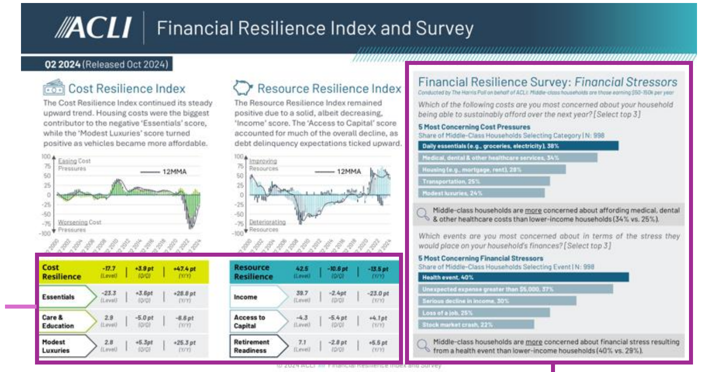
Page 1 of the report features the Headline Index — which measures financial resilience by comparing changes in middle-class households' costs (e.g., housing and gas, childcare and healthcare, replacing an appliance or going on vacation) to changes in their resources (e.g., income, access to loans, and 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.



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

Headline Index chart. Teal represents Resources, Yellow represents Costs

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 Cost and Resource 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 Cost and Resource Resilience Indices.



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

ACLI's Financial Resilience Survey findings

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. You can also see full survey results on page 4.

Financial Resilience Index and Survey

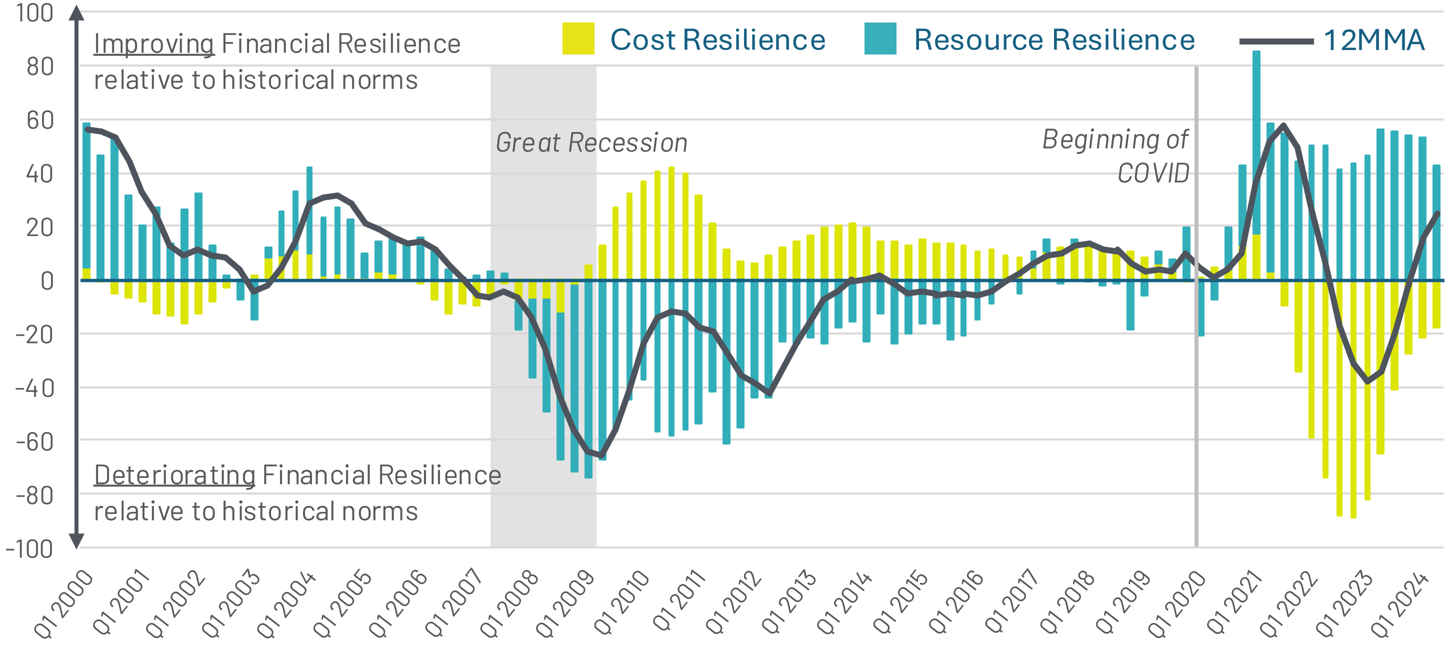
Q2 2024 (Released Oct 2024)

Middle-class financial resilience improved in Q2 but by less than previous quarters, as slower resource growth partially offset improving costs.

The Headline Index was 24.8 in Q2 2024, down 7 points from Q1 but up 34 points from a year ago, suggesting that improvements in middle-class financial resilience are slowing. After several steady quarters, the Resource Resilience Index fell in Q2, but still indicates that financial resources are strong relative to historical standards. The Cost Resilience Index improved again in Q2 as inflation continued to ease, though cost pressures remain a challenge. The companion survey found that middle-class households are most concerned about affording the essentials, like groceries & electricity.

Financial Resilience Headline Index

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



24.8 (Level)	**-6.6 pt** (Q/Q)	**+34.0 pt** (Y/Y)

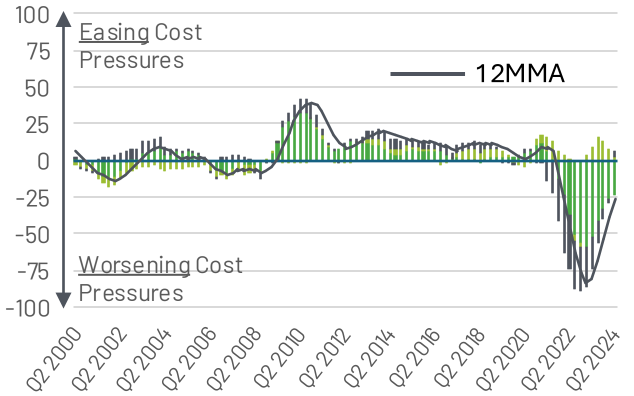
- Despite ticking down in Q2, the Headline Index has signaled improving resilience for four straight quarters.
- Persistent housing & other 'Essentials' cost pressures kept the Cost Resilience Index in negative territory.
- The Resource Resilience Index stayed positive due to a strong 'Income' score. However, all three components dipped, leading to this index's largest drop since 2021.
- As for longer-term momentum, the Headline Index's 12-month moving average (12MMA) increased for the fifth consecutive quarter. However, improvements in middle-class financial resilience are starting to slow as moderating wage growth, debt concerns, & tighter credit conditions partially offset the benefits of easing inflation.

Financial Resilience Index and Survey

Q2 2024 (Released Oct 2024)

Cost Resilience Index

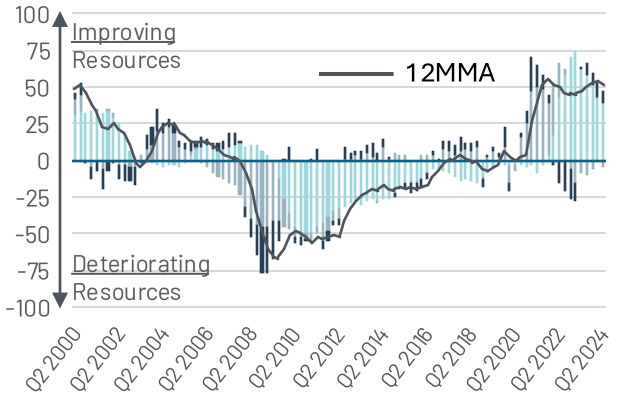
The Cost Resilience Index continued its steady upward trend. Housing costs were the biggest contributor to the negative 'Essentials' score, while the 'Modest Luxuries' score turned positive as vehicles became more affordable.



Cost Resilience	-17.7 (Level)	+3.9 pt (Q/Q)	+47.4 pt (Y/Y)
Essentials	-23.3 (Level)	+3.6pt (Q/Q)	+28.8 pt (Y/Y)
Care & Education	2.9 (Level)	-5.0 pt (Q/Q)	-6.6 pt (Y/Y)
Modest Luxuries	2.8 (Level)	+5.3pt (Q/Q)	+25.3 pt (Y/Y)

Resource Resilience Index

The Resource Resilience Index remained positive due to a solid, albeit decreasing, 'Income' score. The 'Access to Capital' score accounted for much of the overall decline, as debt delinquency expectations ticked upward.



Resource Resilience	42.5 (Level)	-10.6 pt (Q/Q)	-13.5 pt (Y/Y)
Income	39.7 (Level)	-2.4pt (Q/Q)	-23.0 pt (Y/Y)
Access to Capital	-4.3 (Level)	-5.4 pt (Q/Q)	+4.1 pt (Y/Y)
Retirement Readiness	7.1 (Level)	-2.8 pt (Q/Q)	+5.5 pt (Y/Y)

Financial Resilience Survey: *Financial Stressors*

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

Which of the following costs are you most concerned about your household being able to sustainably afford over the next year? [Select top 3]

5 Most Concerning Cost Pressures

Share of Middle-Class Households Selecting Category | N: 998

- Daily essentials (e.g., groceries, electricity), 38%
- Medical, dental & other healthcare services, 34%
- Housing (e.g., mortgage, rent), 28%
- Transportation, 25%
- Modest luxuries, 24%

Middle-class households are more concerned about affording medical, dental & other healthcare costs than lower-income households (34% vs. 25%).

Which events are you most concerned about in terms of the stress they would place on your household's finances? [Select top 3]

5 Most Concerning Financial Stressors

Share of Middle-Class Households Selecting Event | N: 998

- Health event, 40%
- Unexpected expense greater than $5,000, 37%
- Serious decline in income, 30%
- Loss of a job, 25%
- Stock market crash, 22%

Middle-class households are more concerned about financial stress resulting from a health event than lower-income households (40% vs. 29%).

ABOUT THE INDEX & SURVEY

The **Headline Index** measures the middle-class' ability to manage life's challenges and plan for a stable future. 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 to save and live well in retirement.

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 Cost Resilience Index and a Resource Resilience Index, each of which has three subcomponents. This composition frames financial resilience as the interaction of cost pressures and financial resources and provides insight into the specific underlying factors that drive changes in middle-class financial resilience.

- 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)*
- The Resource Resilience Index subcomponents include: (1) Income; (2) Access to Capital; and (3) Retirement Readiness. *(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 June 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 Cost Resilience Index accounts for 40% of the Headline Index value and the Resource Resilience Index accounts for 60%. Within the Cost Resilience Index, 'The Essentials' subcomponent is 55%, 'Care & Education' is 15%, and 'Modest Luxuries' is 30%. Within the Resource Resilience Index, the 'Income' subcomponent is 45%, 'Access to Capital' is 35%, and 'Retirement Readiness' is 20%. 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 September 3 – September 5, 2024, among 2,092 adults ages 18 and older. This report primarily presents the survey results for the 998 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. Please see the "Full Survey Results" page for the full list of options for each question. For complete survey methodology, including weighting variables and subgroup sample sizes, please contact ACLI.

DATA SOURCES

Index	Subcomponent *(Index Weight)*	Variable	Data Source
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	
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

FULL SURVEY RESULTS

Question	Response Options	Share of Middle-Class Households Selecting Option as Top Three Concern
Which of the following costs are you most concerned about your household being able to sustainably afford over the next year? (Select top three)	*Daily essentials (e.g., groceries, electricity)*	*38%*
	Medical, dental & other healthcare services	*34%*
	Housing (e.g., mortgage, rent)	*28%*
	Transportation (e.g., gasoline, vehicle repair, public transit)	*25%*
	Modest luxuries (e.g., dining out, vacation, home improvements)	*24%*
	Health insurance premiums	*21%*
	None	*16%*
	Internet and mobile data	*14%*
	Education	*8%*
	Childcare	*5%*
	Eldercare	*5%*
	Other	*3%*
Which events are you most concerned about in terms of the stress they would place on your household's finances? (Select top three)	*Health event*	*40%*
	Unexpected expense greater than $5,000	*37%*
	Serious decline in income	*30%*
	Loss of a job	*25%*
	Stock market crash	*22%*
	Death of a primary income earner in the family	*21%*
	Family member needs financial support	*18%*
	None	*13%*
	Birth of a child	*5%*
	Premature retirement	*5%*
	Divorce	*4%*
	Other	*2%*