

**BRIEF** DECEMBER 2023

# US TREASURY REPORT IDENTIFIES CLIMATE IMPACT ON HOUSEHOLD FINANCES




## KEY REPORT FINDINGS

The Treasury's report on the impact of climate change on American household finances documents how household finances are affected by climate change, highlights how low-income and communities of color are particularly affected by climate change, then discusses three financial mechanisms and their limitations to address household financial burdens, before concluding with a map analysis of social vulnerability across the US overlaid by future climate projections.

Treasury's use of vulnerability as an indicator of inequities, as a response to Executive Order 13985, identifies how climate financial risks affect low-income, communities of color, and female-headed households, however they stop short of identifying equitable solutions or make policy recommendations to address inequitable climate burdens on household finances.


Shining a light on the just path forward.

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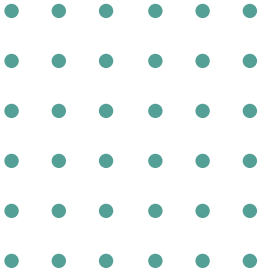
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# About Just Solutions

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Just Solutions is a BIPOC-led organization working to broaden and deepen the understanding of equitable and effective policies and programs to support the priorities of environmental justice organizations to define, innovate, replicate, and scale their solutions to the climate crisis. We do this work by: identifying and coalescing leading community-created policy solutions; conducting requested, relevant, comprehensive, and accessible policy analysis and research; organizing peer learning, foundational educational programming, space for states to share and strategize; and providing financial support for expertise, ideation and participation.

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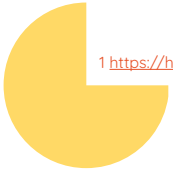
# Introduction

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Black and Latine adults are less able to pay their bills and are more impacted by climate disasters. Living paycheck to paycheck makes any disruptions caused by climate change far more devastating. Under President Biden’s Executive Orders, the US Treasury Department was required to “analyze and understand the impact of climate change on the financial wellbeing of vulnerable populations.”<sup>1</sup> While they identified climate-induced burdens on households with lower incomes, they stopped short of identifying how financial systems contribute to these inequities and recommending solutions.

In September 2023, the US Treasury released a report titled [The Impact of Climate Change on American Household Finances](#) which documents how household finances are affected by climate change. The report highlights how low-income and communities of color are particularly affected by climate change and discusses the limitations of three financial mechanisms to address household financial burdens. The report also includes a map analysis of social vulnerability across the US overlaid by future climate projections.

**The Treasury’s effort to consider vulnerability as one approach to identifying inequities and responding to Executive Order 13985 identifies how climate financial risks affect low-income, communities of color, and female-headed households, but stops short of identifying equitable solutions or make policy recommendations to address inequitable climate burdens on household finances.**



<sup>1</sup> [https://home.treasury.gov/system/files/136/Climate\\_Change\\_Household\\_Finances.pdf](https://home.treasury.gov/system/files/136/Climate_Change_Household_Finances.pdf)



# Climate Change Impacts on Household Finances

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The Treasury report identified 8 ways climate disasters impact household finances, which could be categorized by wealth and income, critical services, and household costs and care. In this section, we summarize and add insights into how climate change has impacted households in these areas.

## Wealth and Income

- Property damage and destruction
- Loss of earnings and benefits

## Critical Services

- Health care access and expenses
- Increased spending on energy
- Transportation access and cost


## Household costs and care

- Higher prices for consumer products
- Limit access to public benefits programs
- Disruptions to dependent care

## Wealth and Income

The impact of climate hazards on housing result from both direct property damage as well as indirect financial effects due to loss of property value, higher reconstruction costs, and the loss of both housing availability and affordability. Housing impacts particularly affect low-income owners who can not afford repairs due to reconstruction price spikes; renters who are often displaced from their rental property and face tremendous challenges with rehousing within the community due to loss of affordable housing; and mobile-home owners who often face the complete destruction of their homes with no access to insurance coverage

Households also experience both direct and indirect impacts on their earnings and benefits due to climate change. Direct impacts include the closing down of businesses and work sites due to direct damage. Indirect impacts include road access disruptions and loss of services (such as internet and phone lines) that limit access to the location of work or work-related activities, as well as health impacts (such as extreme heat) that reduce the capacity of the worker. Particularly vulnerable to loss of earnings are households who work outdoors in agriculture, construction, manufacturing, and tourism.



Many labor-intensive outdoor jobs are mainly held by lower-to-middle-income households and households of color. Treasury cited [one study by the Union of Concerned Scientists](#) that suggested that \$1,700 of annual earnings per worker were at risk due to reduced working hours from climate change impacts.

## Critical Services

Critical services such as health care, energy, and transportation are often directly affected by disasters, resulting in reduced access and increased expenses to health care, increased spending on energy, and reduced coverage and increased cost of transportation. These service disruptions and related increased expenses especially affect low-income and elderly populations. Low-income households are less likely to have health insurance, are often energy cost-burdened, and more commonly rely on public transit, which is why disruptions of any of these services can lead to further financial burdens. The elderly are also susceptible to these service disruptions because they are more likely to have large health-related costs and expenses, are more susceptible to health impacts from extreme weather, and therefore are more likely to use and depend on energy to maintain a good indoor climate and keep medical devices running, and also rely on public transportation.

## Household Costs and Care

Other financial impacts from disasters include higher prices for consumer products, reduced access to public benefits programs, and disruptions in care. For example, gas prices, water, food and all basic necessities increase in prices after disaster often destroy local supplies increasing demand. Access to public benefit programs, such as SNAP and other services are also reduced when the operations of nonprofits and social service organizations are disrupted post disaster. These disaster impacts particularly affect low-income and female-headed households, especially households with children, who are in greater need of benefit programs and dependent care and most susceptible to price spikes on foods and other essentials.

# Climate Hazards and Financial Vulnerabilities

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While the Treasury report was able to identify 8 ways that climate change impacts household finances as well as who is most impacted within each of those categories, the report only summarizes three financial mechanisms and their general limitations in terms of helping households address climate financial impacts. The report does not go into any depth about why these financial mechanisms are limited nor makes any recommendations towards addressing those limitations. Below we highlight report topics and identify key missing points to address equity.



## Challenges Accessing Funds

The Treasury report highlights two barriers to accessing funds; accessing physical cash due to the growing use of mobile and online banking, which could become inaccessible due to electrical power and internet disruptions; and accessing funds through in-person services because of road disruptions or bank facilities being damaged. They conclude that low-income, elderly, non-metropolitan residents and low-education-attaining households are all more likely to bank in person and are vulnerable to financial strain from interrupted access to bank branches.

### *What is missing...*

According to a [Federal Reserve Board survey](#), only 3% of white adults do not have a checking, savings, or money market account compared to 10% of Hispanics, 13% of Black adults, and 17% of low-income adults with family income less than \$25k.<sup>2</sup> Unbanked populations are even more vulnerable to disaster impacts because they likely have all their cash in their home, which may be lost along with their residence and belongings in the event of a climate disaster. Treasury should investigate why low-income and people of color are being underserved by the current banking system and identify the barriers to their financial well-being. One potential barrier is high overdraft fees: the same survey indicated that 16% of Latine and 17% of Black adults paid an overdraft fee compared to 9% of white adults. Other barriers may include not having access to a social security number, driver's license, or other forms of identification that financial institutions will accept. This barrier applies particularly to immigrants, refugees, and undocumented individuals who are also highly susceptible to climate impacts. Not having access to banking services is also a direct barrier to obtaining a line of credit.

## Reduced Availability and Increased Cost of Credit

The Treasury report highlights that households under financial strain are likely to turn to credit to manage expenses but also skip payments or pay less towards bills, including credit. In the long term, skipping payments impacts credit scores, increases the cost of future loans, and reduces the households' future ability to obtain credit. The report states that “historically, racial and ethnic minorities have been inadequately served by traditional credit models... [their] credit scores are less accurate and often lower... due to these consumers having no credit history or thin credit files, which can result from several disadvantages that have compounded in the credit system” (pg.12). The report also states that minority households with lower incomes would have a considerable challenge, more than other households, building and accessing credit post-disaster.

<sup>2</sup> Board of Governors of the Federal Reserve System (2023). Research & Analysis: Economic Well-Being of U.S. Households in 2022. <https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf>





### *What is missing...*

First, the report only vaguely alludes to the “several disadvantages that have compounded in the credit system” which have marginalized low-income communities and communities of color from building credit. Yet it is processes that have also created barriers for communities of color to build generational wealth and avenues for financial independence.<sup>3</sup> Some of these systemic barriers are demonstrated by higher credit and loan denial rates for low-income (35%), and Black (30%) and Latine (25%) households than White (20%) households.<sup>4</sup> Although Black and Latine households were less likely to have a credit card compared to White households, they were more likely to have revolving debt.

## Growing Insurance Gaps

The Treasury report finds that households commonly use property insurance to protect against financial losses and that insured households recover better. The report states that due to climate change, insurance providers are seeing a growing number of claims, which challenges their ability to predict losses, set premiums, and underwrite policies. As a result, insurers are increasing premiums, reducing coverage, or blacklisting entire areas from coverage. Finally, the report states that lower-income households may struggle to afford insurance premiums, which can impede their ability to use insurance to protect against financial strain.

### *What is missing...*

The Treasury report recognizes that “households commonly use home and property insurance to mitigate financial losses.” (pg 11). In fact, households do not commonly use home and property insurance to mitigate financial losses. For example, in California, only 10% of homes have earthquake insurance.<sup>5</sup> Where not mandated by mortgage lenders or the Federal Emergency Management Agency (FEMA) for disaster assistance, less than 30% of homeowners and less than 15% of renters in 100-year floodplains have flood insurance.<sup>6</sup> The current insurance system is not only unaffordable and inaccessible to low-income communities and communities of color, but they do not necessarily pay out on claims. Lower-income or minority populations are less likely to have insurance (if they do, they are more likely to be underinsured) and therefore they have worse financial recovery outcomes than higher-income populations who are insured.<sup>7</sup>

3 Hasan, T., Lucas McKay, K., and Smith-Ramani, J. (2022) Disparities in Debt: Why Debt is a Driver in the Racial Wealth Gap. Aspen Institute. [https://www.aspeninstitute.org/wp-content/uploads/2022/02/FINAL-ASP-FSW\\_Disparities-in-Debt\\_020722-3.pdf](https://www.aspeninstitute.org/wp-content/uploads/2022/02/FINAL-ASP-FSW_Disparities-in-Debt_020722-3.pdf)


4 Board of Governors of the Federal Reserve System (2023). Research & Analysis: Economic Well-Being of U.S. Households in 2022. <https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf>. Pg 33

5 Marshall D. (2018). An overview of the California Earthquake Authority. Risk Manag. Insur. Rev. 21:73-116

6 FEMA (Fed. Emerg. Manag. Agency). (2018). An affordability framework for the national flood insurance program. Rep., FEMA, Washington, DC

7 Kousky, C. (2019). The Role of Natural Disaster Insurance in Recovery and Risk Reduction. Annual Review of Resource Economics. 11:1: 399-418.






Additionally, states heavily regulate climate-related insurance, and preliminary research has shown that insurers have responded by increasing premiums to households in less restrictive states compared to more restrictive states such that insurance rates no longer reflect the true household risk.<sup>8</sup> Due to the disconnect between premium rates and risk, research suggests that in the short-term, the current homeowners insurance system does not facilitate adaptation or mitigation of future climate risk, and in the long-term threatens economic stability as climate change increases the threat to insurers responding to large losses by exiting markets which would cause a wave of property losses and strain the economy. Thus, currently, homeowners and climate-related insurance is not a sustainable solution

## Other Important Financial Vulnerabilities Missing

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The Treasury report did not include other important government programs that households use to address financial costs and impacts of climate change: federal disaster assistance and local and state property buyouts.


### Federal Disaster Assistance Programs

There are many federal programs that provide grant assistance to address many aspects of climate hazards, from mitigation to response and recovery. These include agencies in the United States Department of Agriculture (USDA), National Oceanic and Atmospheric Administration (NOAA), (HUD) and the (EPA). However, the primary and leading agency in climate hazard and disaster funding is the Federal Emergency Management Agency (FEMA), which has statutory power to respond to presidentially declared disasters and lead the nation's federal disaster response and recovery framework.

FEMA has several federal programs in its recovery and mitigation divisions. Two very important programs for low-income communities and communities of color include FEMA's Individual & Household Program (IHP) and the Building Resilient Infrastructure and Communities (BRIC) program. The IHP provides housing assistance and other needs assistance to individuals and households. This includes home repair for homeowners, rental assistance for both homeowners and renters and temporary housing units. The BRIC program provides grants to states, local communities, Tribes, and territories to undertake hazard mitigation projects to reduce risks from disasters and natural hazards. This can include mitigation projects such as green infrastructure, flood walls, and other disaster loss-reducing efforts. Both of these programs are important for low-income and communities of color because they face the greatest housing cost burden, are most




<sup>8</sup> Oh, Sangmin S., Ishita Sen, and Ana-Maria Tenekedjeva (2022). "Pricing of Climate Risk Insurance: Regulation and Cross-Subsidies," Finance and Economics Discussion Series 2022-064. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2022.064>.



likely to be displaced, and have a harder time finding affordable housing post-disasters. While IHP funds often are not enough to make anyone whole post-disaster, it is still an important source of funding. Low-income communities and communities of color face a greater risk of disaster losses and have a harder time recovering because of historical and continued disinvestment in their public infrastructure. BRIC grants are critical for investing in infrastructure that can also support disaster mitigation outcomes.

Yet both of these programs as well as many other federal disaster recovery programs underserved low-income and BIPOC communities. For years, individuals were denied IHP grants based on not being able to prove ownership of the home due to specific title requirements. This single criterion has denied disproportionately Black, low-income, and Latine households who do not have multiple ways of maintaining this type of documentation safe from the disaster itself, or never held one physically because of inherited property that has been passed down for generations, or in the case of Puerto Rico, where home-ownership processes are less formal and often do not produce titles recognized by FEMA. A recent policy has provided more options to meet these criteria, but it remains a significant barrier. That is just one example of many that may explain why communities with high proportions of low-income and people of color receive lower proportions of IHP funds.<sup>9</sup> Unfortunately, inequities have been documented across several of FEMA's programs.<sup>10</sup>

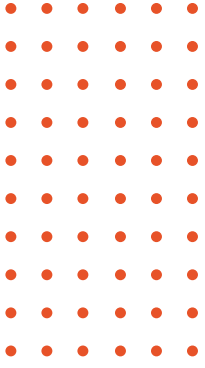


BRIC recently became part of a Justice40 covered program. A new policy called the Community Disaster Resilience Zone Act specifically calls for identifying underserved communities and their prioritization for further technical assistance and federal funds from BRIC. Yet this program still continues to primarily be accessible to wealthier communities.<sup>11</sup> Although the program plan requirements suggest that states “should” consider underserved communities and socially vulnerable populations when prioritizing grant funding as one criterion, there is no prescriptive approach to do so or obligation. Although recent policies such as the [Inflation Reduction Act](#) and the [Infrastructure Investment and Jobs Act](#) have made historical amounts of funds available for infrastructure across the USA, the updated guidelines from programs such as BRIC show there continue to be many obstacles for low-income communities and communities of color from obtaining these financial resources.

<sup>9</sup> Drakes, O., Tate, E., Rainey, J., & Brody, S. (2021). Social vulnerability and short-term disaster assistance in the United States. *International Journal of Disaster Risk Reduction*, 53. doi:10.1016/j.ijdrr.2020.102010 Malmin, N. P. (2023). Navigating Federal Disaster Assistance Eligibility and Special Accommodations: The Case of Hurricane Harvey. *Natural hazards review*, 24(2), 9. doi:10.1061/nhrefo.Nheng-1567

<sup>10</sup> [Why Does Disaster Recovery Take So Long? Five Facts about Federal Housing Aid after Disasters | Urban Institute](#).

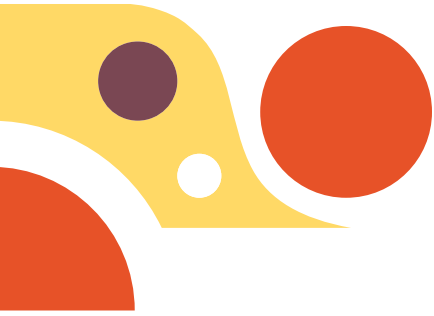
<sup>11</sup> <https://www.eenews.net/articles/superuser-states-devour-climate-grants-as-others-get-nothing/>



# Conclusion

Overall, the US Treasury report does well in merging into one document the several ways that low-income and communities of color are disproportionately impacted financially by climate impacts. However, it completely underdelivers in developing a meaningful synthesis on **why** and **how** financial institutions contribute to the inequities of climate impact on household finances. Given that the US Treasury Department collaborated with Members of the Financial Literacy and Education Commission— which includes members from the Consumer Financial Protection Bureau, the Board of Governors of the Federal Reserve System, the Federal Housing Finance Agency, and FEMA to name a few— it is reasonable to have expected this report to include a more in-depth understanding of why these inequities exist, how financial systems have contributed to these inequities, and identification of financial equitable solutions and recommendations. This is a missed opportunity to implement towards equitable financial solutions under Biden-Harris [executive orders to push for environmental justice](#) in frontline communities while there is congressional support.





## About the Author

Dr. Cristina Muñoz De La Torre (she/her) develops research and policy analysis and program evaluation around climate and environmental justice with a specialization in disaster resilience and equity. She connects BIPOC frontline organizations and communities to federal resilience resources and supports capacity building for community-led resilience programming and equitable solutions.

Cristina brings 15 years of research and leadership experience in the area of climate, environmental justice, and natural hazards and disasters. She obtained her PhD from the University of Iowa in the field of geography where she completed her dissertation entitled: "Identifying barriers and access to equitable allocations of federal disaster assistance— The influential roles of social vulnerability and social capital and their interaction." She has published in peer review journals such as Natural Hazards Review and the International Journal of Environmental Research and Public Health and has presented her research at the Natural Hazards Workshop. She has served on the boards of the League of United Latin American Citizens (LULAC) of Iowa and the Bill Anderson Fund (BAF). She worked as a community resilience planner where she developed flood resilience and climate action plans and wrote a guidebook for planners on implementing equitable resilience planning.

Cristina was born and raised in South Central Los Angeles, CA and is a first-generation Latina from Salvadorian and Mexican descent. Her passion for environmental justice began at a young age growing up in a neighborhood surrounded by toxic facilities and having limited access to greenspaces. Her experiences in Los Angeles and in environmental justice communities inspired her to organize and advocate, and ultimately pursue a PhD to inform change and use her expertise to support the environmental justice movement.

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