FACT SHEET: The Impact of Climate Change on American Household Finances

September 29, 2023

Today, the U.S Department of the Treasury (Treasury) released a report prepared in consultation with members of the Financial Literacy and Education Commission (FLEC), entitled *The Impact of Climate Change on American Household Finances*. The report complements Treasury's work on broader issues around climate change and economic growth and stability.

Today's report evaluates the various impacts of climate change on American household finances, with particular attention to those households and individuals that may be most adversely affected. It responds to the objectives set forth by President Biden in Executive Orders 14030 and 13985 *Climate-Related Financial Risk* and *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*,and to a recommendation in the October 2021 Financial Stability Oversight Council climate report.

The report synthesizes governmental and academic sources to provide a focused exploration of the ways climate change impacts household finances. Specifically, the report explores the impacts of climate hazards, i.e., climate-related events and conditions that cause harm or damage to people, property, resources, and the environment. The report identifies certain populations and places that may face heightened financial strain due to their vulnerability and exposure to climate hazards. Though many households are impacted by climate hazards, certain households are particularly susceptible to experiencing financial strain, for example outdoor workers facing income loss due to adverse climate conditions, single-parent households, particularly those headed by women, facing reduced child care availability, and lower-income households facing reduced access to credit.

Finally, this report, released within the broader context of the Biden-Harris Administration's government-wide agenda to address the challenges presented by climate change to household finances, offers both consumers and policymakers strategies to mitigate the adverse impacts of climate hazards faced by communities. The report also highlights current initiatives and actions led by FLEC member agencies to support household financial security in the face of climate change. A resource table detailing potential actions and available resources for households, which can be used as a standalone product to inform consumers on how to prepare for climate hazards and locate available federal resources, is included at the end of the report.

WHAT COULD HAPPEN AND *WHO* MAY FACE THE MOST SIGNIFICANT IMPACTS?

- **Households can experience significant financial strain through pressures to their income and expenses**. Climate hazards can cause widespread physical damage and force interruptions and closures of normal operations of businesses, governments, and other critical services. As a result, households can face financial strain from lost income and higher costs or reduced access across a range of consumer goods and services.
    - **Reduced earning and access to employee benefits**. Climate hazards like wildfires can lead to unsafe working conditions necessitating business closures. Households in impacted areas could face reduced income due to job loss or reduced working hours. Further, prolonged time away from work could cause workers to lose access to employer-provided benefits such as health insurance.
    - **Damage and destruction to property**. Climate events like floods can cause significant damage to household property. While damage remediation is urgent, households may lack the financial resources needed for repairs or replacement.
    - **Increased spending on transportation**. Households' spending on transportation varies depending on the mode and frequency of transportation, access to public transportation, and proximity to frequently visited places. Climate events can add to households' expenditures on transportation, including by increasing gasoline prices by causing shortages or increased demand.
    - **Added healthcare costs.** Climate events and conditions can result in physical injuries, including those requiring medical care. For impacted households, climate-related hospitalization or medical services can lead to an overall increase in healthcare expenditures.
    - **Higher expenditures on utilities**. As climate events and conditions continue to grow in frequency and intensity, households may face additional expenditures on utilities. For example, households exposed to heat waves and higher average temperatures are

more likely to use air-conditioning, which could increase their energy consumption and associated expenses.

- **Climate hazards can impact households' ability to manage losses, expenses, and transactions using financial products and services such as credit, insurance, and payments**. Many households are unprepared for unexpected expenses and disruptions to income due to climate events and conditions. To cope with these challenges, households turn to savings accounts, credit, and insurance. However, many households may be unable to access or use these financial services.
  - **Challenges accessing funds.** Climate hazards can result in physical damage that could cause bank branches to close. For households in impacted areas, this can interrupt households' access to funds and ability to make transactions.
  - **Insurance gaps.** Insurance providers are increasingly facing greater uncertainty surrounding climate hazards and growing numbers of claims, making it more difficult for insurers to predict losses, set premiums, and underwrite policies. As a result of these pressures, insurers could increase households' premiums, reduce coverage, or choose not to renew coverage for households in certain areas.
  - **Reduced availability and increased cost of credit.** Households may turn to credit to manage expenses related to climate hazards, particularly if they have limited savings or if there are delays in receiving insurance claim payments or disaster relief. However, if climate-related expenses can cause households to skip payments, resulting delinquencies and forbearances could cause households to face higher borrowing costs.

WHERE IMPACTS MAY BE FELT

Across the U.S., many areas projected to have high future exposure to climate hazards also overlap significantly with areas in which the underlying populations may be particularly vulnerable to financial hardship. An analysis in the report finds that half of U.S. counties – populated by millions of Americans – face heightened future exposure to at least one of the three significant climate hazards described in the report: flooding, wildfire, or extreme heat. In addition, approximately one-fifth of all U.S. counties face both elevated vulnerability and elevated future exposure to these climate hazards.

The report profiles three regions in the country to illustrate the potential impact of major climate hazards:

- **Flood exposure in Appalachia**: Flooding imposes severe financial hardships on Appalachian households by damaging critical infrastructure like roads and bridges, which could potentially reduce access to key community resources like healthcare centers.
- **Wildfire exposure in border regions between the U.S. and Mexico:** Households in U.S.-Mexico border areas with outdoor workers face financial strain due to future wildfire exposure, which could result in lost income from foregone working hours.
- **Heat exposure in the Mississippi Delta:** Households in the Mississippi Delta face financial challenges due to future extreme heat conditions, as resulting heat-related illnesses can necessitate added spending on healthcare.

HOW TO PREPARE AND RESPOND

While there are many challenges, policymakers, including government at all levels, communities, and households have opportunities to mitigate financial burdens from climate hazards.

The report recommends that policymakers and communities focus on three key priorities:

1. **Promoting awareness of climate hazards and their financial consequences.** Policymakers should disseminate information about climate hazards and their potential impacts. Treasury, in coordination with the FLEC, is committed to ensuring that households have access to educational materials that explain how they may experience financial harm, how to build financial resilience ahead of climate hazards and natural disasters, and how to best manage financial challenges in the face of these hazards and disasters.
2. **Building physical resilience at the community and household level.** Adaptation measures,

including investments in physical infrastructure such as stormwater management systems, sea walls, protected energy infrastructure, or shade creation, may reduce the severity of climate hazards' physical impacts. Proactive hazard mitigation planning offers one approach for state, local, and Tribal governments to plan for climate adaptation.

3. **Building financial resilience at the community and household level.** Governments should support household financial well-being by bolstering households' financial resiliency. The federal government currently operates a range of household-level programs, including aid to households affected by events like hurricanes, floods, and

wildfires from the Federal Emergency Management Agency (FEMA) and U.S. Small Business Administration (SBA), among others.

With guidance and support from policymakers, community groups, and other stakeholders, households should similarly prioritize:

1. **Building their understanding of specific climate hazards likely to impact them.** Households can use publicly available data, research, and resources from reliable sources such as Climate Mapping for Resilience and Adaptation (CMRA), the U.S. Climate Resilience Toolkit, or FEMA's National Risk Index. These resources offer information on a broad range of potential climate hazards and may be useful for households in evaluating their potential exposure.
2. **Building physical resilience to protect physical and financial assets and manage current and future expenditures.** Households should consider utilizing government incentives to make climate-resilient property modifications, such as tax credits and rebates for energy-efficient home improvements, and other steps that may protect them from harm. These improvements could help ease the financial burden of climate events and conditions such as rising temperatures.
3. **Building financial resilience to further insulate their finances from climate hazard-related impact.** Among other strategies, shifting to electronic payment of income and expenses can help to ensure that households' access to funds is not subject to interruption by a climate event or resulting relocation. Households should consider utilizing direct deposit to receive paychecks and switching to electronic payment of government benefits like Social Security and other programs through direct deposit or Direct Express prepaid debit cards.

The full report can be viewed here.

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