

## Consumer Morsel

# Is COLA behind the pop in older generation spending?

02 March 2023

### Key takeaways

- Bank of America card data is showing faster spending growth in older generations than other age groups since November. What is driving this?
- Social security payments form a large part of the typical retiree's income, so the recent 8.7% cost-of-living-adjustment (COLA) increase in these payments is likely helping to support their spending. Using Bank of America internal data we find evidence of faster spending growth in households that receive a social security payment relative to those that don't.
- For the older generation this may have raised the spending growth of social security recipients by up to 3.0 pp. But older generations also reduced spending more than other cohorts over the pandemic, so some of the acceleration is likely a delayed unwind to this. The waning impact of past stimulus payments on younger generations' spending may also be playing a role.

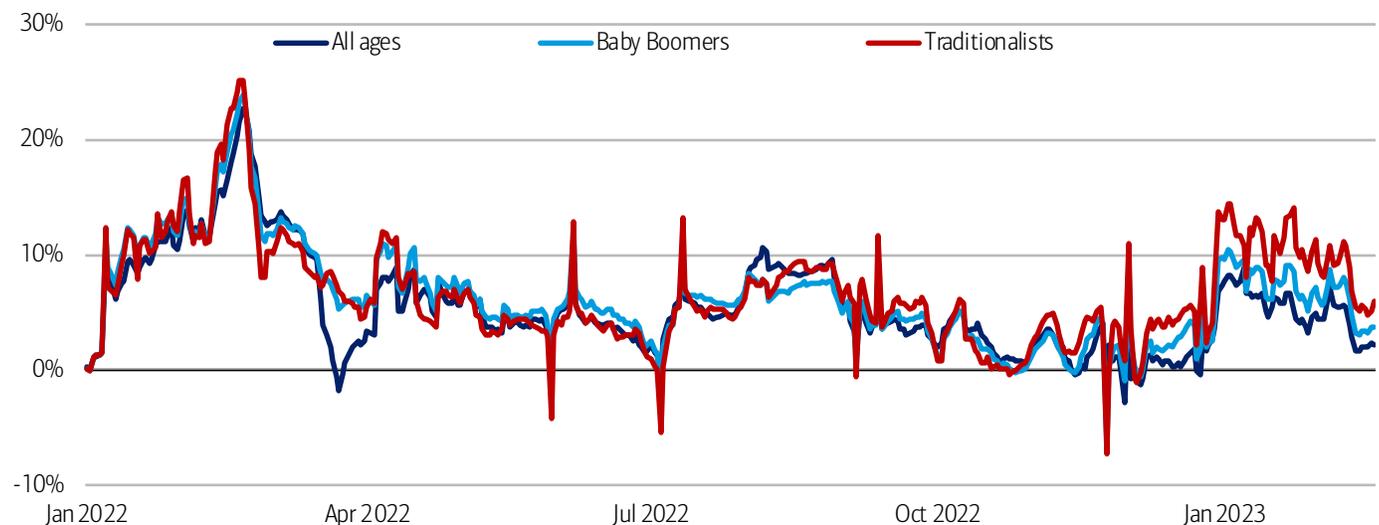
### Silver streak

Bank of America aggregated credit and debit card data indicates that older generations are currently increasing their spending at a faster pace than younger groups. Exhibit 1 shows that over the course of 2022, older households increased card spending at a similar pace to all age groups. But since the end of November 2022, spending growth in the older generations appears to be exceeding the average across all ages.

As of the week ending February 18<sup>th</sup>, baby boomers and the preceding generation, traditionalists, grew total card spending per household by 4% and 6% year over year (YoY), respectively, compared with only 2% YoY for all ages.

#### Exhibit 1: Bank of America total card spending per household by selected age groups

Older generations recently appear to be increasing their card spending at a faster pace than younger cohorts



Source: Bank of America internal data

What might be behind this relative acceleration in spending across older generations?

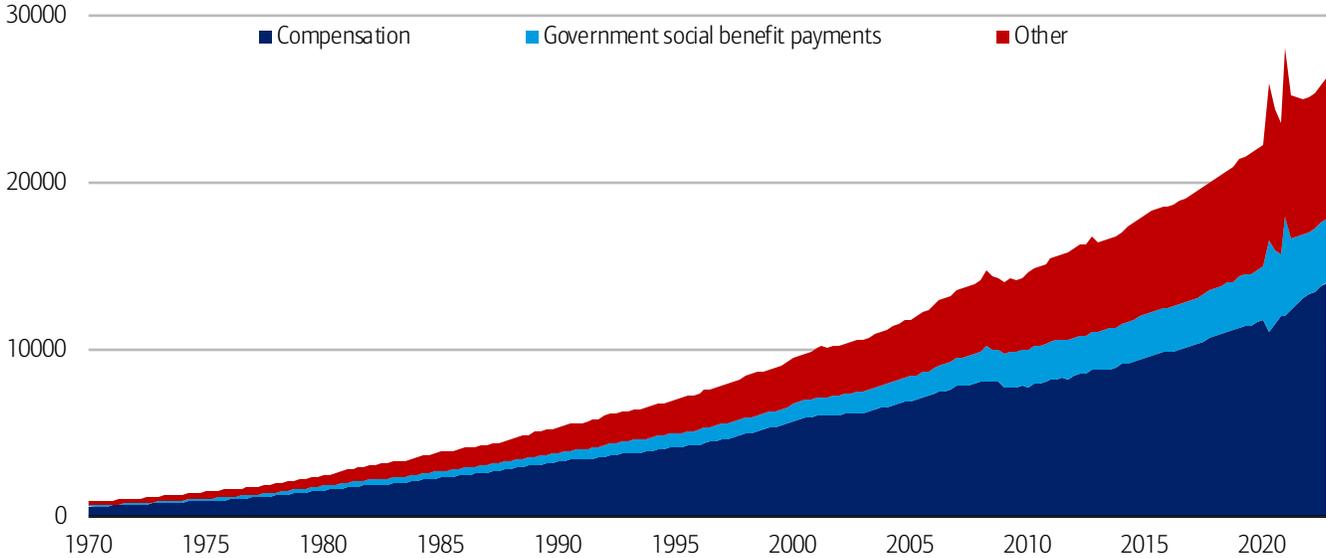
One possible explanation could be the 8.7% rise in social security payments that was implemented in January 2023. This rise, which reflects a cost-of-living adjustment (COLA), benefitted older age groups in particular, through retirement benefits. Below we ask, is this a plausible explanation?

## Social security developments matter for total income

When thinking about US consumers and how their income developments may translate into spending, it is natural to focus on worker compensation. But we shouldn't lose sight of the fact that there are other forms of income and thus sources of spending. And as Exhibit 2 shows, government social benefit payments, which includes social security payments, are a noteworthy source of income, making up around 17.6% of total US personal income – by no means a trivial amount.

### Exhibit 2: US personal income (quarterly, seasonally adjusted annual rate (SAAR), \$bn)

While compensation of workers is by far the most important part of personal income, government social benefit payments are a significant source of income



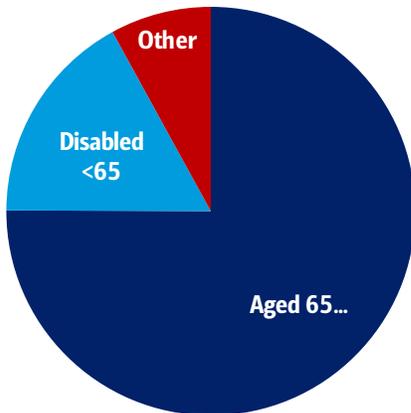
Source: Haver Analytics

It isn't just the older generations that benefit from social security, but these groups do represent the largest cohort of recipients. As Exhibit 3 shows, around three-quarters of total social security and supplemental income benefits go to those aged over 65, with around 17% going to disabled people younger than 65. A residual group includes people receiving benefits who retired early and those who have been bereaved.

These benefits help support many US individual and household incomes. Around 63 million beneficiaries receive social security, while around 7 million receive supplemental security income (SSI), which is a non-contributory support that is income-dependent. With an adult US population of around 258 million, this means just over a fifth of adults are receiving social security and SSI payments.

### Exhibit 3: Share of total recipients receiving social security and supplemental security income (%)

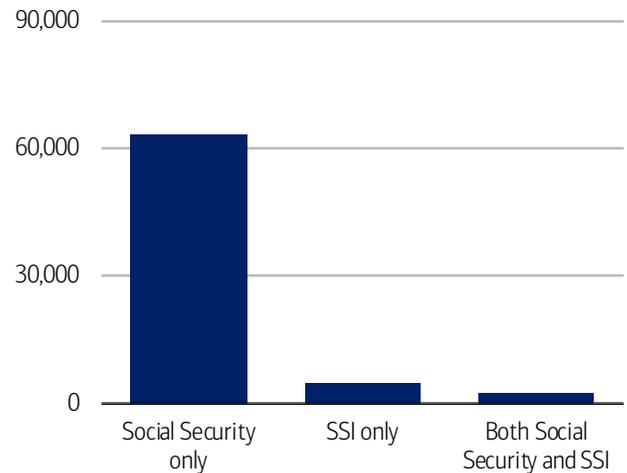
Those aged over 65 make up around three-quarters of social security and supplemental security income recipients



Source: Social Security Administration (SSA)

### Exhibit 4: Numbers receiving social security and supplemental security income ('000s)

The bulk – over 60 million people – receive social security alone

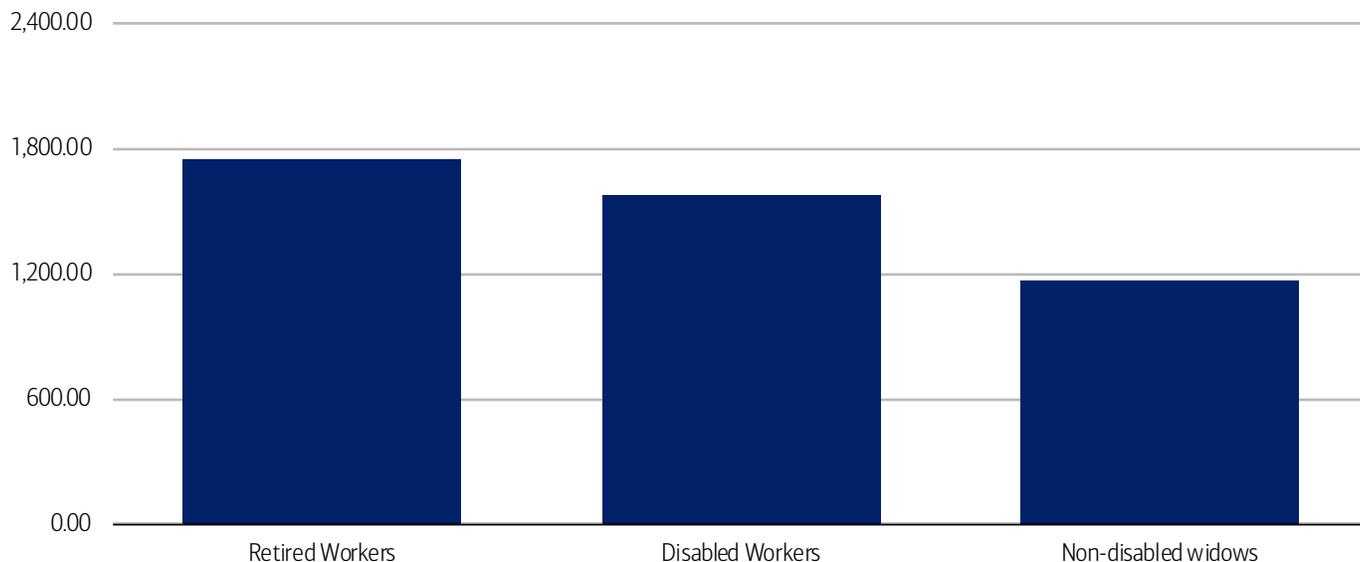


Source: Social Security Administration (SSA)

Exhibit 5 shows the average retirement benefit for a retired worker is around \$1,750 a month. It is a little less for other categories of recipients, as well as being more for men than for women (not shown in the chart). But with average US personal income in 2021 of \$57,143 according to the Census Bureau, this means that for many people and households social security makes up the bulk of their income, especially for the 'typical' retiree, given median incomes for those over 65 are below \$50,000.

**Exhibit 5: Average retirement and disability benefit per month (\$)**

Retirement benefits are worth on average \$1,744 a month



Source: Social Security Administration (SSA)

**A particularly fizzy COLA?**

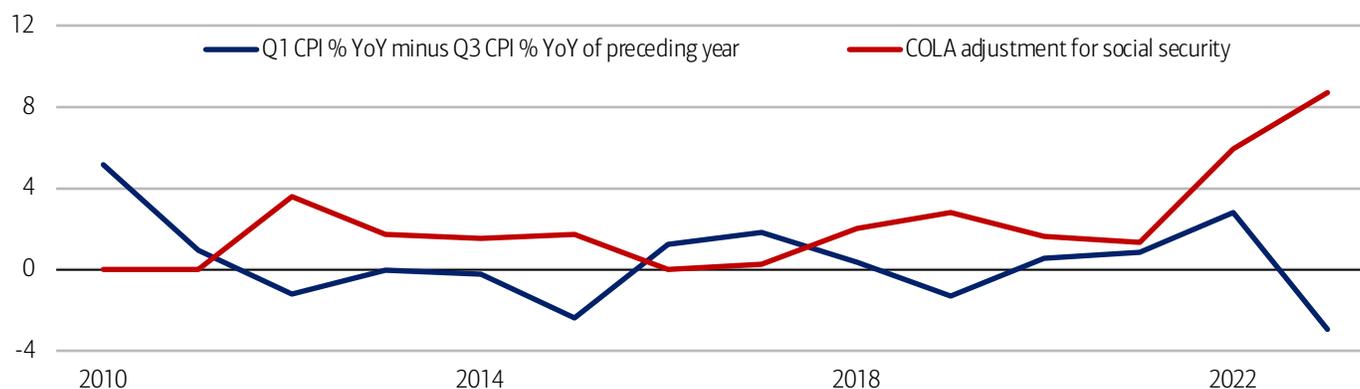
The 8.7% COLA rise in social security benefits effective this January was based on the annual rate of inflation in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), in the third quarter of 2022. COLA increases have followed this pattern since a law passed in 1975. CPI-W inflation moves very closely with the usual headline Consumer Price Index (CPI) measure.

What makes the current rise interesting is that it is high by recent history – it’s the largest in over 40 years – but also that inflation has come down quite a lot since 2022 Q3. The January rate of CPI-W inflation was 6.3% and forecasts from BofA Global Research for overall CPI inflation (% YoY) suggest it could be around 6% for 2023 Q1.

Exhibit 6 shows that there is a big difference between the rate of inflation so far in 2023 and the rate in the third quarter of 2022 (using a forecast of 5.8% for CPI inflation from BofA Global Research) relative to past moves. This means that, in effect, the rise in social security benefits will have a little more spending power than if the inflation rate had not declined.

**Exhibit 6: The change in CPI-W inflation between the first quarter\* and the third quarter of the preceding year (PP) and the cost-of-living adjustment applied to social security (%)**

The 2023 cost-of-living adjustment is large by recent historical standards



Source: Haver Analytics, Bank of America

\*For 2023 Q1 a forecast for overall CPI inflation is used taken BofA Global Research

## Digging deeper

To dig deeper into the impact of this social security COLA increase we have looked at the aggregated credit and debit card spending of households where a social security deposit came into their Bank of America account (via Automated Clearing House) compared to those that did not receive a deposit. Given people retire at different ages and it's not just retirees that receive social security, this helps us study the spending impact from COLA better than just looking at complete generations.

We look at the growth in total card spending per household since November 2022 for three groups: all households, those households in the Boomer and Traditionalist generations, and finally those Boomer and Traditionalist generation households with income below \$50K. We consider two measures of 'current' spending – one looking at average card spending over 2023 so far, and the other looking at average card spending from February 1<sup>st</sup> to February 18<sup>th</sup>.

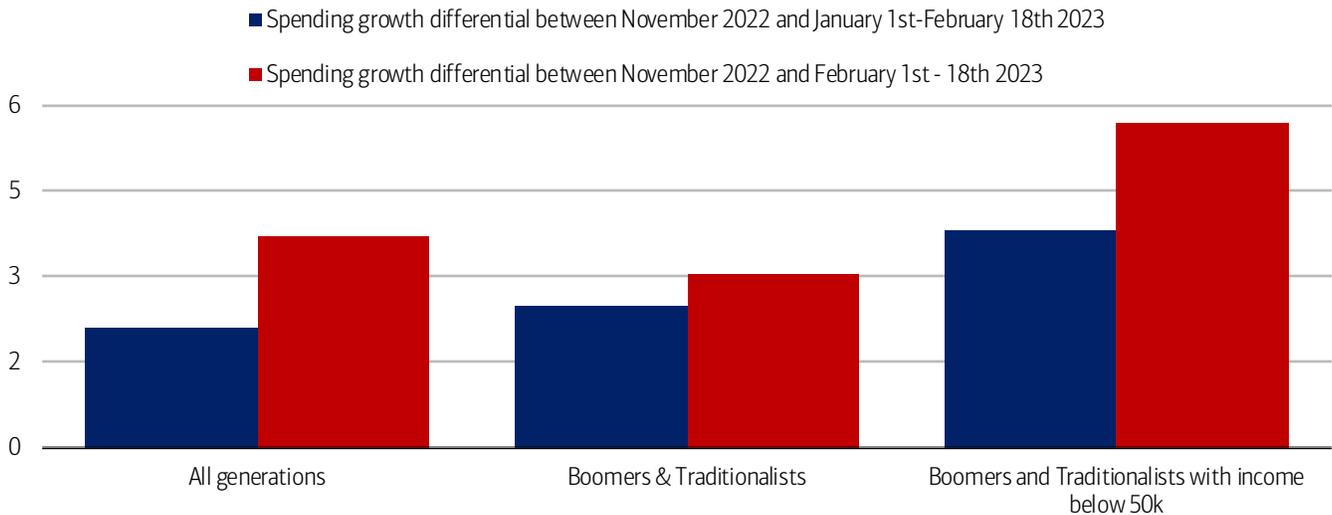
Exhibit 7 shows what we find. For all households we find that the growth of spending amongst those receiving a social security payment is 2.1 percentage points higher since November 2022 than those not receiving a social security payment. Looking just at the Boomer and Traditionalist generations the impact is worth more: 2.5%. And unsurprisingly, for lower income (below \$50k) older generations the impact of COLA is estimated at 3.8%.

Because people receive social security payments through the month it could be that the full impact of the COLA rise is still feeding through as people got the extra cash at different times over January. Indeed, when we look at the growth in spending between November 2022 and February 1<sup>st</sup> to 18<sup>th</sup> (rather than the whole of 2023) we find larger impacts, suggesting this is the case. For lower income Boomer and Traditionalist generations the impact is as high as 5.7 percentage points.

One caveat to our work is that we cannot identify households receiving a social security into a non-Bank of America account or those who receive a physical social security check. This might mean that our estimates of the impact of COLA are somewhat higher than they would be if we could identify all recipients of social security.

### Exhibit 7: The growth differential in total card spending per household from November 2022 for households where social security payments were observed relative to those where they were not

There is a clear and significant impact from the COLA rise on social security when we compare spending growth in groups that received it to those that did not



Source: Bank of America internal data

## Other explanations

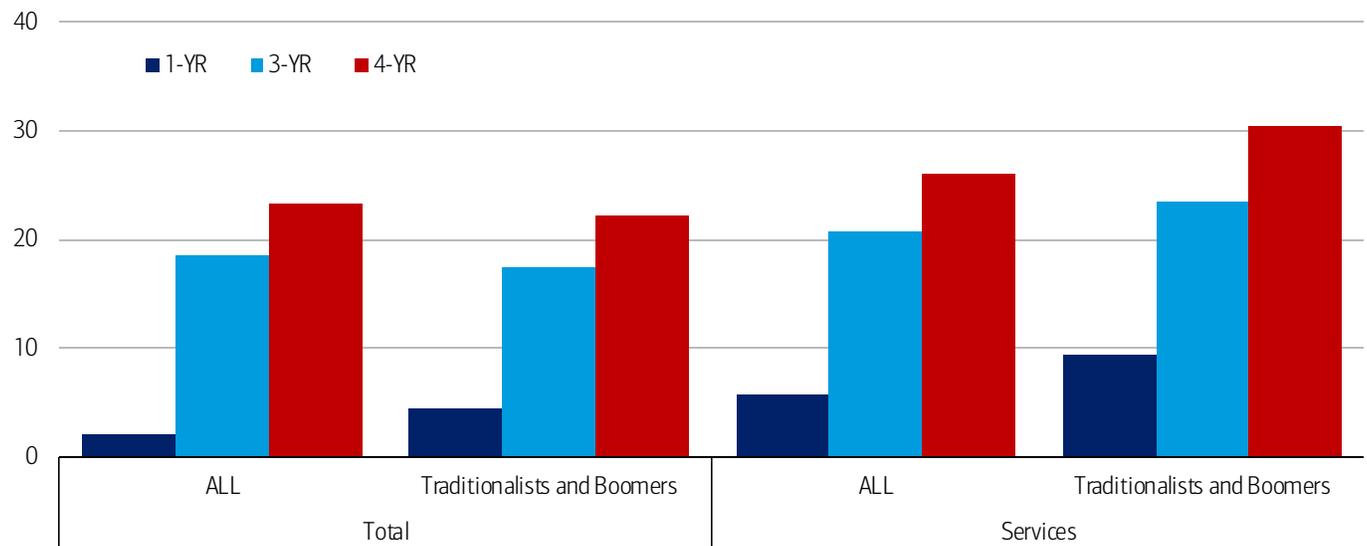
So the impact of the social security COLA increase looks important and it could be its effect is still be felt in spending.

There are two further factors we think could also be important in driving the recent outperformance spending in the older generations.

The first is that that the impact of the pandemic was felt differently across generations. Exhibit 8 shows that, while the growth in older-generation spending is outstripping the total in 2022, this isn't the case compared with the same period in 2019 and 2020. Accordingly, their spending may simply be playing 'catch-up' to other groups. Older cohort spending on services in particular is rising at a faster pace than the generational average, perhaps reflecting their pent-up desire to enjoy travel and leisure activities.

**Exhibit 8: Bank of America total card spending per household by selected age groups (7-day moving average ending on Feb 18<sup>th</sup>, 1,3 and 4-year % growth rates)**

Older generations spending on services is rising at a faster pace than the generational average



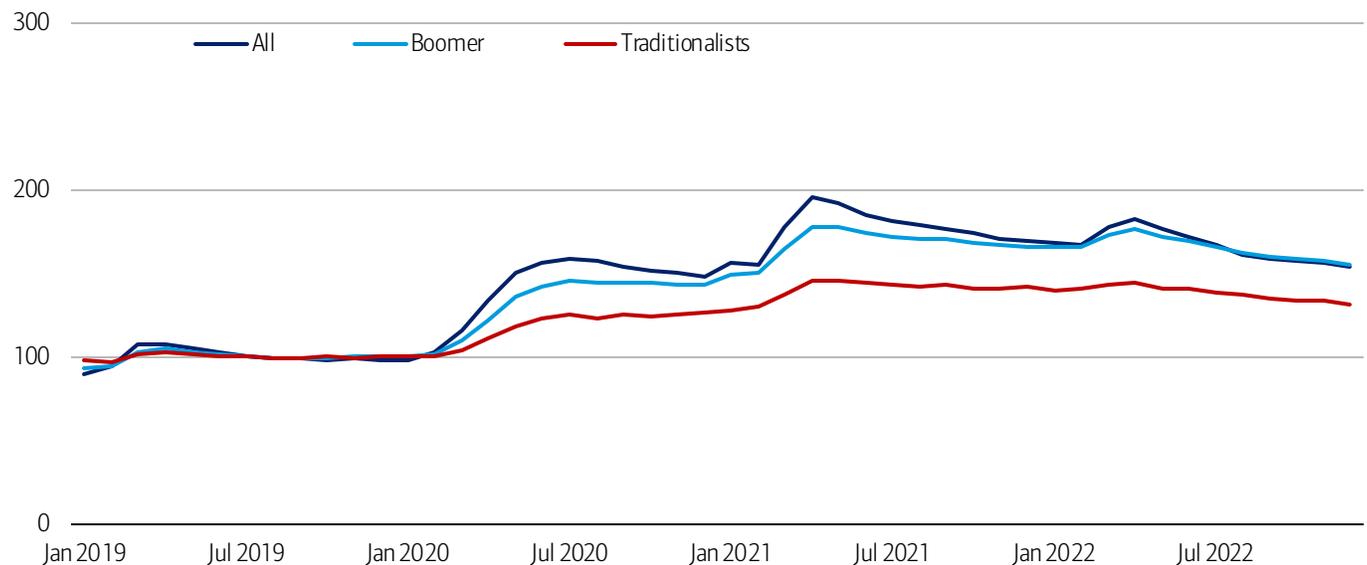
Source: Bank of America internal data

A second reason is that the pattern of stimulus payments tended to disproportionately boost younger generations' spending over the pandemic. Exhibit 9 shows that while all generations show higher deposits relative to before the pandemic, boomers and especially traditionalists appear to have received less of a boost from stimulus checks and tax credits. These stimulus payments may therefore have fueled some outperformance of younger generations' spending, which is now reverting.

If either of these reasons is playing a part in the pattern of generational spending, it seems reasonable to assume the outperformance of older generations will narrow over time. But the positive impact from the COLA increase can potentially continue to help boost older generations spending for some time yet.

**Exhibit 9: Monthly median household savings and checking balances by age generation (2019=100) for a fixed group of households**

Older generations' savings received less of a boost from stimulus payments



Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through December 2022.

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## Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash and checks.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and generally defined as under \$5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

The differences between the total and per household card spending growth rate can be explained by the following reasons:

1. Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.
2. Per household card spending growth only looks at households that complete at least five transactions with Bank of America cards in the month. Per household spending growth isolates impacts from a changing sample size, which could be unrelated to underlying economic momentum, and potential spending volatility from less active users.
3. Overall total card spending includes small business card spending while per household card spending does not.
4. Differences due to using processing dates (total card spending) versus transaction date (per household card spending).
5. Other differences including household formations due to young adults moving in and out of their parent's houses during COVID.

Any household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Whenever median household savings and checking balances are quoted, the data is based on a fixed cohort of households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through the most current month of data shown.

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Bank of America credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1996
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964
6. Traditionalist: pre-1946

Any reference to card spending per household on gasoline include all purchases at gasoline stations and might include purchases of non-gas items.

Additional information about the methodology used to aggregate the data is available upon request.

# Disclosures

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