



## Upper Earners Hold Most Savings On Hand - Consumer Behavior

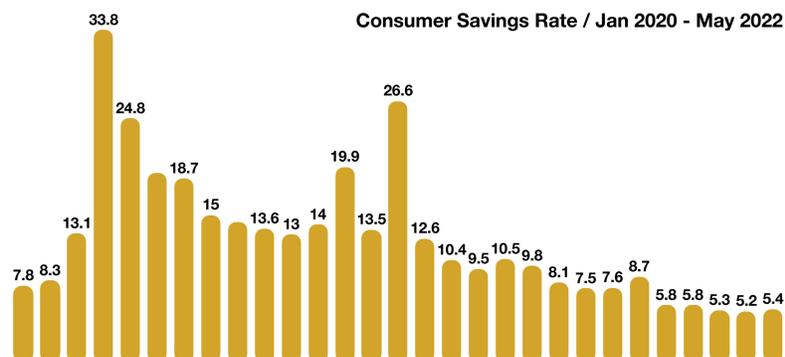
Consumers are now saving less than before the pandemic, as stimulus assistance funds and generous unemployment benefits have gradually evaporated, encouraging consumers to tap their savings at an accelerating pace. The drop in savings has been especially prolific for those nearing retirement. As markets have pulled back, so have retirement fund values, elongating the retirement threshold for many.

Savings rates rose dramatically in 2020 as billions of dollars in stimulus relief payments made their way into consumer accounts. Federal Reserve data found that households spent only 40 percent of their payments, used 30 percent to pay down debt, and saved about 30 percent on the initial round of stimulus payments. The spectacular rise in the savings rate to nearly 34 percent in April 2020 was a validation of how much of the payments went towards savings.

As additional relief programs along with generous unemployment benefits became effective, the savings rate remained elevated through the end of 2021. The most recent data show that the savings rate dropped to 5.4 percent in May 2022, lower than where it stood at roughly 7.5 percent before the pandemic began.

A Fed analysis found that lower-income households tend to spend most if not all of their income and end up having very little disposable income at the end of each month. Most lower-income households have already depleted their pandemic surplus funds in savings and are also being squeezed by inflation as food and energy prices continue to escalate. This has led to upper-income earners holding the most savings on hand, while lower-income savings begin to dwindle.

Source: U.S. Bureau of Economic Analysis, St. Louis Federal Reserve Bank, Marginal Propensity to Consume Working Paper; Federal Reserve Bank of Boston



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