Who Holds the Excess Savings?

Lower-income U.S. households may still have extra money accumulated during the pandemic.

- Excess saving was huge during the pandemic, and only about a third of it may have been spent.
- Conventional wisdom suggests that remaining excess savings sit in accounts of higher-income households.
- However, lower-income households have benefited from rapid wage growth and lower out of pocket medical costs, opening the possibility they still have some excess savings.
- Adequate data do not exist to settle the question.

One of the features of the economic environment during the pandemic was the massive excess saving that took place. U.S. consumers were restrained from spending by restrictions on activity and health fears that further limited activity outside the home at the same time government stimulus measures massively lifted after-tax income. Moody's Analytics estimates that excess saving between the onset of the pandemic and the late summer of 2021 approached $2.5 trillion. For context, that is nearly 12% of 2019 GDP or a little over two months of total spending at the 2019 pace.

Excess saving only slowly drawn down

An important question for the outlook for spending and the economy more broadly is how much more of those excess savings will be spent. Key to answering that question is not only how much remains, but who holds those remaining savings. We estimate about two-thirds of the accumulated excess savings are still held unspent by consumers. However, to the extent it is in the accounts of higher-income households, especially those nearing or in retirement or with future large expenses like college education for children, excess savings may be set aside for long-term purposes and viewed as wealth rather than a spendable windfall. Other, especially lower-income households may be more inclined to spend remaining excess savings.

Basic economic intuition suggests most of the remaining saving should be in accounts of higher-income or wealthier households. Lower-income households historically have been found to have higher propensities to spend, whether out of income or lump-sum receipts like stimulus checks. In addition, these households tend to struggle more in periods of high inflation, especially when the inflation is led by necessities such as gasoline and other forms of energy, food and housing costs. The environment over the past two years would seem likely to cause these households to draw down their excess savings.
For this reason, estimates we have been making since early in the pandemic regarding the distribution of excess savings are puzzling. We find that the bulk of the drawdown of savings thus far has come from the top of the income distribution. The approach we use to calculate excess personal saving during the pandemic by income group, is to calculate the amount of saving by income group based on the change in the value of assets owned and liabilities owed by income group. The source for the value of the assets and liabilities is the Federal Reserve’s Financial Accounts, and the source for the share of assets owned and liabilities owed by income group is the Fed’s Survey of Consumer Finance. We distribute Bureau of Economic Analysis-measured savings to income group using the share of savings by income group derived using the Financial Accounts and SCF. Excess personal savings are the difference between savings by income group since the pandemic began in the first quarter of 2020 and their savings in 2019 prior to the pandemic.

There are weaknesses in the methodology that could call the results into question. Most apparent is the assumption that shares of assets saved by income group from the 2019 SCF, the most recent version of the triennial survey available, applied throughout the pandemic. Similarly, assuming 2019 saving was normal might be problematic, though prior years were similar.

However, there are other, more fundamental economic reasons why the results might be correct. Lower-income workers may not have needed to dip into their savings to the extent thought because their labor income has been so strong.

The strength of the labor market since the onset of the recovery from the pandemic has been concentrated at the low end of the income distribution. Available jobs have set records as a share of unemployed workers, and job turnover has soared as workers switched jobs to improve their income or gain other benefits. The Atlanta Fed’s Wage Growth Tracker is a measure of the nominal wage growth of individuals. It shows growth in wages in the lower half of the income distribution outpacing wage growth for higher-income workers by an unprecedented amount at least back to the late 1990s.

Wage tracker data also show that until very recently job switchers were experiencing much stronger wage gains than workers who stayed with their employer. Given the higher turnover rates for many lower-paid hourly positions, this provides confirmation that these workers have had strong income gains to help them with the soaring prices.
While less current, the shift in income is confirmed by BEA data for households. The bureau’s annual data show households in the bottom 70% of the income distribution received a larger share of both disposable and personal income in 2020 and 2021 than the prior five-year average, at the expense of higher-income households.

![Income Shifted to Lower-Income Groups](image)

Many of these households were also able to strengthen their financial positions by shedding debt during the pandemic. Retail credit card balances have yet to return to pre-pandemic levels. General purpose credit card balances are up only about 10% over the last three years, a remarkably slow pace that lags both after-tax income and compensation, which have grown nearly twice as much. Further, high inflation likely lifted transactional balances held by higher-income cardholders.

The financial position of lower-income households may also have benefited from reduced healthcare expenses. The Centers for Medicare & Medicaid Services estimates that the out-of-pocket share of health spending was at record low in 2021, and CMS forecasts the out-of-pocket share to be even lower by 2030. This should benefit lower-income households.

Unfortunately, we do not have the kind of detailed household level financial data to know for sure, but there are reasons to believe that lower-income households might not yet have fully exhausted their pandemic-generated excess savings and may be in a somewhat better financial position than conventional wisdom would suggest. However, just like other groups, the willingness of lower-income households to spend any excess savings that remains is also an open question.