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Consumer Morsel

Paycheck to paycheck: what, who, where, why?

22 October 2024

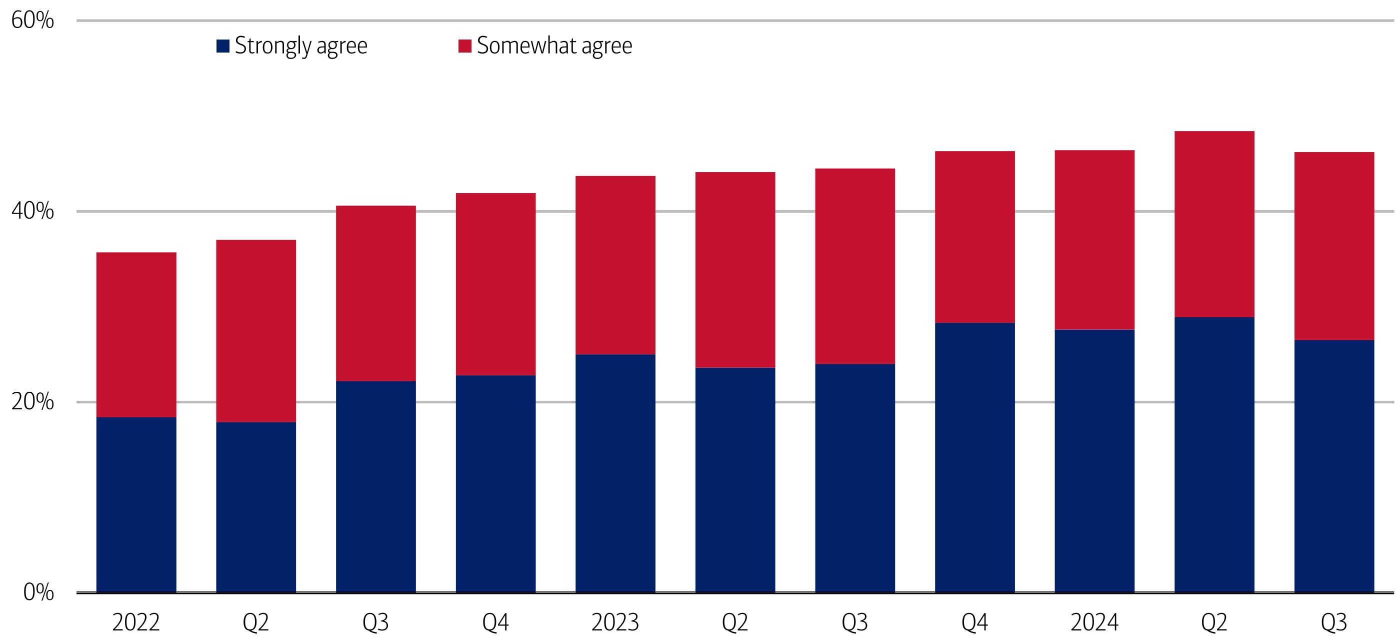
Key takeaways

- Living 'paycheck to paycheck' is a nebulous term. We dig into it using Bank of America internal data to estimate the share of households with a high proportion of necessity spending (such as housing, food, childcare) relative to their total household income.
- According to our analysis, in 2024, around a quarter of all households fall into this camp, an increase from 2019. Naturally, lower-income households are more likely to struggle financially, but even some higher-income households appear to be spending nearly all they earn.
- Generationally, paycheck to paycheck proportions rise with age, while geographically some states in the South have the highest share of paycheck to paycheck households.
- It appears paycheck to paycheck households have significantly higher necessity spending than others, and somewhat lower incomes. Many of these spending pressures are likely unavoidable, as they relate to family and housing costs.

What does it mean to live 'paycheck to paycheck'?

The term 'living paycheck to paycheck' is a fairly frequently heard expression but can be somewhat nebulous and is not always clearly defined. Broadly, one can imagine it refers to individuals or households that regularly spend nearly all of their income, leaving little to nothing left over for savings.

Exhibit 1: In Q3 2024, almost half of respondents perceive themselves as living 'paycheck to paycheck'
Please indicate how strongly you agree or disagree with each of the following statements about your personal financial situation: 'I am living paycheck to paycheck' (% responding)



Source: Bank of America Market Landscape Insights Study

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In fact, a large proportion of Americans do, perceive themselves to be in the 'paycheck to paycheck' camp. For example, the Bank of America Market Landscape Insights Study regularly asks people if they agree with the statement 'I am living paycheck to paycheck' and Exhibit 1 shows that in the third quarter of 2024 almost half of survey respondents agreed with this statement, either strongly or somewhat. It also appears the paycheck to paycheck proportion of respondents has been rising over at least the last two years which likely reflects the impact of higher consumer prices on people's perceptions and experiences of their finances.

Does hard data confirm perceptions?

But do people's perceptions of living paycheck to paycheck match the 'hard' data? Here we use Bank of America internal data to estimate the proportion of households living paycheck to paycheck using consumer deposit data.

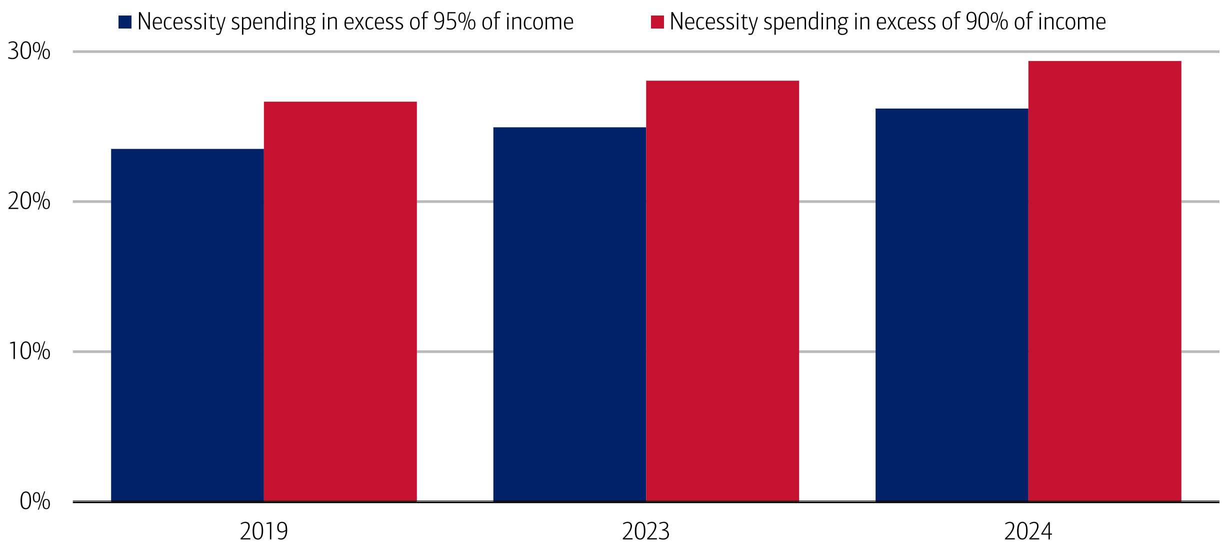
We arrive at our estimates by considering a sample of households that appear to have their primary banking relationship with Bank of America, so we are confident we can understand a large part of their spending. We then look at how these households' necessity spending compares to their household income. By focusing on necessities, we aim to narrow our analysis to households who have to live paycheck to paycheck, rather those households who spend a lot on discretionary/nice to have spending.

We consider a fairly broad measure of necessity spending, covering areas such as gasoline, food and utility bills, as well as general retailers, internet service provider subscriptions, public transportation and childcare. The methodology below gives further details.

Our central estimate of the proportion of households living paycheck to paycheck is based on the proportion of households where necessity spending is more than 95% of their household income, leaving them relatively little left over for 'nice to have' discretionary spending or saving. As a sensitivity, we also look at the share of households where necessity spending is more than 90% of their household income.

In Exhibit 2, we find that over a quarter of households in 2024 so far would be classified as living 'paycheck to paycheck' on our central '95%' threshold criteria. On the broader '90%' criteria this rises to around 30%.

Exhibit 2: 26% of households are living 'paycheck to paycheck' in the sense that their necessity spending is close to their total household income
Proportion of households where necessity spending exceeds 95% and 90% of their household income (%)



Source: Bank of America internal data

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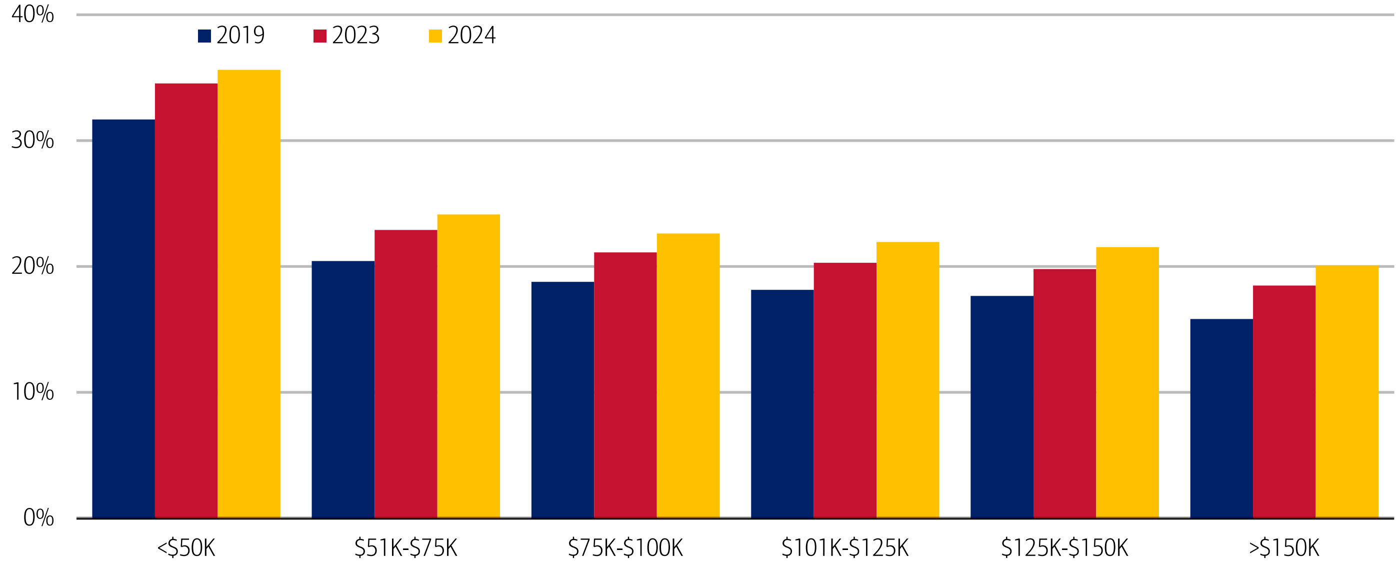
These proportions are lower than that suggested by respondents in the Bank of America Market Landscape Insights Study, in part reflecting our focus on necessity spending. Nonetheless they are significant and do suggest a relatively large proportion of households are living paycheck to paycheck. Moreover, our analysis also shows a rise in the share of paycheck to paycheck households since 2019, confirming what we see in the survey.

Who is living paycheck to paycheck?

Digging a little deeper into the characteristics of paycheck to paycheck households, we find that, intuitively, lower-income households are more likely to live paycheck to paycheck (Exhibit 3). Based on Bank of America internal data, around 35% of households with incomes below $50K a year are living paycheck to paycheck, up from 32% in 2019.

Exhibit 3: The share of households living paycheck to paycheck is highest for lower-income households
Proportion of households where necessity spending is above 95% of their income, by income range (%)



Source: Bank of America internal data

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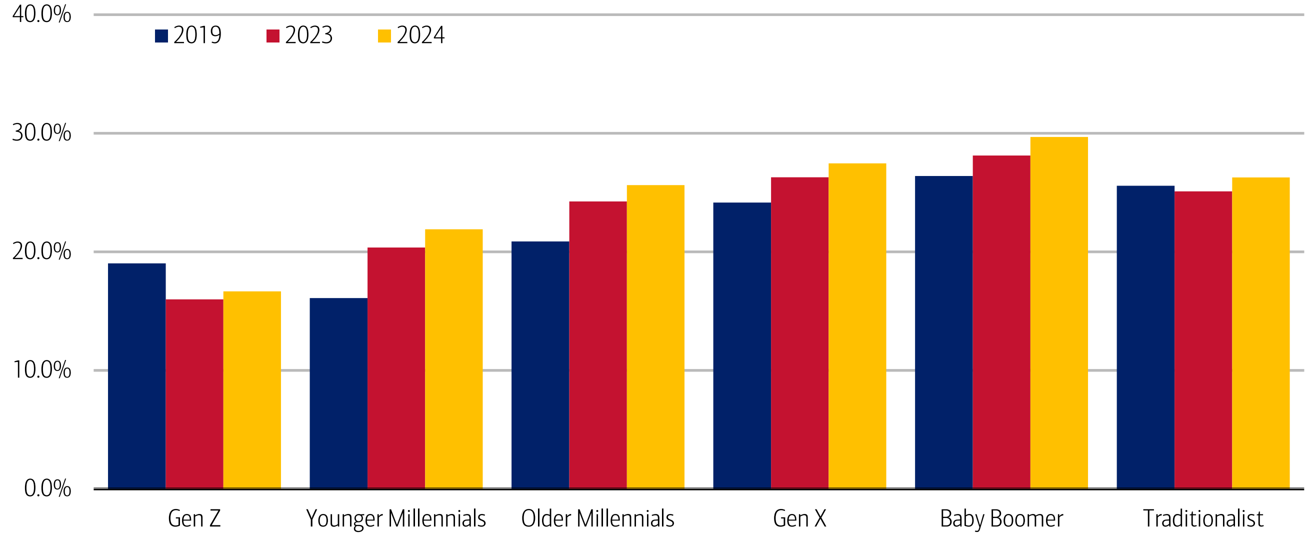
More surprising is that the proportion of households appearing to live paycheck to paycheck falls only slowly as incomes rise. Around 20% of households with incomes above $150K also appear to be living paycheck to paycheck. How can this be? One reason is that higher-income households may have bought larger, more expensive, homes and consequently have bigger mortgages. And often along with bigger homes come bigger insurance costs, property taxes and utility bills (See: Hidden costs of homeownership). It is also possible that as household incomes rise, some households may have more varied sources of income that are hard to capture – such as cash from sales of equities paid into brokerage accounts.

When we look across age generations (Exhibit 4) the share of paycheck-to-paycheck households tends to rise with the age of the generation, peaking with Baby Boomers. Gen X has the highest share of paycheck to paycheck households among those likely to be getting most of their income from the labor market. This is consistent with our previous piece, Gen X: the economy's struggling middle child?, which found that this generation has the highest share of necessity spending in their total spending.

Exhibit 4: Paycheck-to-paycheck pressures appear to rise across the generations, peaking at Baby Boomers
Proportion of households where necessity spending is above 95% of their income, by generation (%)



Source: Bank of America internal data

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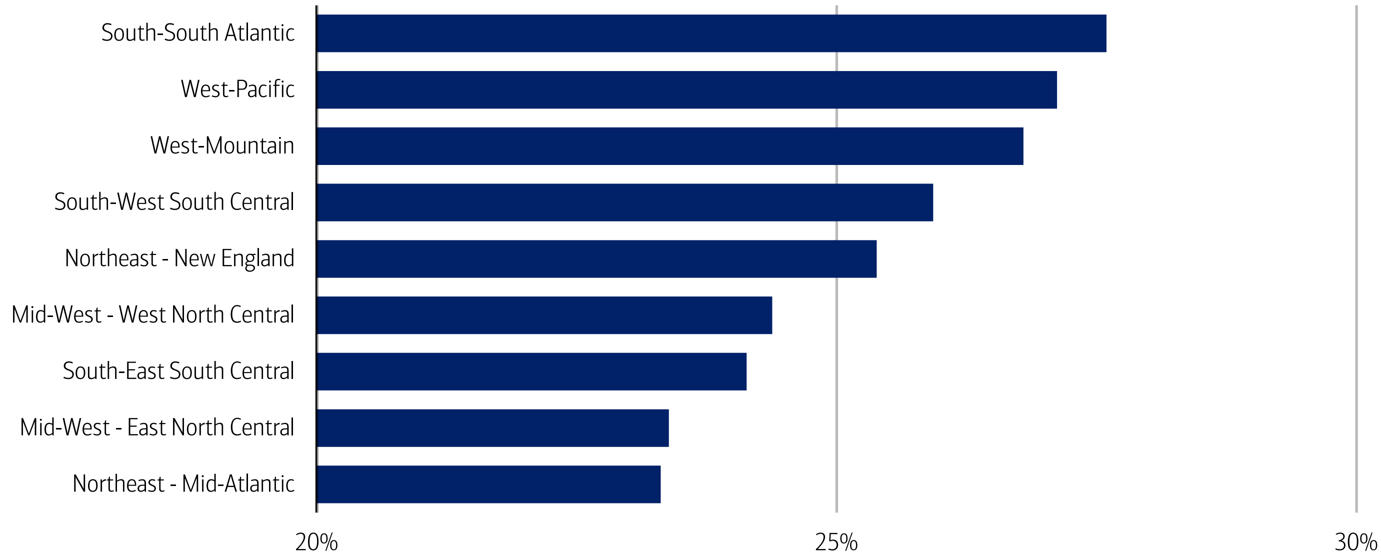
Where are people living paycheck to paycheck?

Looking across the country, there is some variation in the proportion of households living paycheck to paycheck. The Census division with the highest share of such households is the South Atlantic division (Delaware, DC, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia), while the division with the lowest share is the Northeast Mid-Atlantic region (New Jersey, New York, Pennsylvania).

Exhibit 5: The South Atlantic Census division has the highest (around 28%) of households living paycheck to paycheck

Proportion of households where necessity spending is above 95% of their income, by census division (%)



Source: Bank of America internal data

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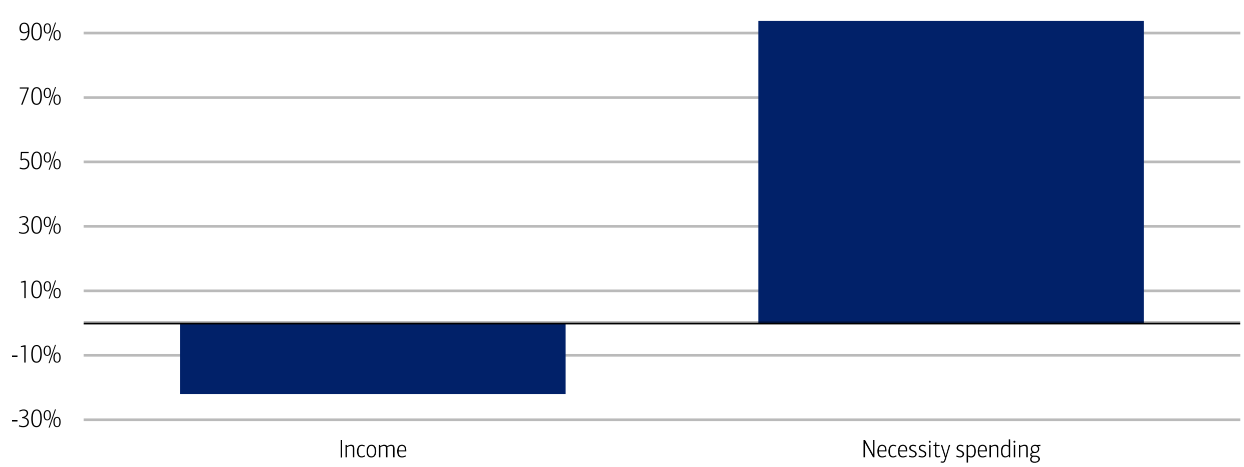
These regional differences will be determined in part by the interplay of housing costs and the distribution of income. In the South Atlantic, for example, housing costs may be relatively more affordable on average, but some households might not benefit as much as others from this region's strong economic growth and therefore they may still find, relative to their own income, living costs are a stretch.

Why are some households living paycheck to paycheck?

It could be that households living paycheck to paycheck have either higher necessity spending, lower incomes or a combination of both.

Exhibit 6: It appears households living paycheck to paycheck have over 90% higher necessity spending than households who do not live paycheck to paycheck

Percentage difference in average household incomes and necessity spending between those living paycheck to paycheck and those who are not*



Source: Bank of America internal data

*Paycheck to paycheck defined as where necessity spending is greater than 95% of total household income

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Exhibit 6 breaks down the percentage differences in income and spending between households living paycheck to paycheck on our estimates compared to those who are not. The main difference appears to lie with necessity spending. Paycheck-to-paycheck households appear to have 90% higher necessity spending than other households. While they also have lower incomes, the differences on this measure appear less.

What could be driving these differences in necessity spending? In our view, the drivers could relate to households' life cycle positions, such as having younger or larger families, as well as potentially geographic factors, including housing costs. Many of these costs are unavoidable (they are by definition necessary) and it is unlikely these households would be able to reduce their spending without some major changes to, for example, where they live.

One positive we see is that as overall inflation moderates, some of the spending pressures on paycheck to paycheck households could ease.

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.

Bank of America aggregated 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 1995
2. Younger Millennials: born 1989-1995
3. Older Millennials: born 1978-1988
4. Gen Xers: born 1965-1977
5. Baby Boomer: born 1946-1964
6. Traditionalists: born pre-1946

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

For our paycheck-to-paycheck analysis we use a sample of households that appears to have their primary banking relationship with Bank of America. We look at households who reside in the United States and have had a checking account for at least the past 12 months. We consider a measure of necessity spending that includes but is not limited to childcare, external credit card payments, gasoline, general retail, grocery, housing (mortgage/rent), insurance, cable TV/broadband, public transportation, tax payments, vehicle costs and payments. We consider spending across payment channels (ACH, credit and debit card, bill pay). Income is defined as regularly recurring payments into accounts, such as payroll, social security, unemployment insurance pensions, and annuity income. Households are defined as living paycheck to paycheck if in the quarter their necessity spending exceeds 95% of their income. Note where individuals in a household bank with different banks it is possible not all of their spending and income could be captured, increasing the uncertainty around paycheck to paycheck estimates.

Bank of America Proprietary Market Landscape Insights Study is an online quantitative survey among Bank of America customers and noncustomers sampled and balanced to provide a representative view of the U.S. adult population. Insights are based on aggregated and anonymized responses to surveys. Significance testing is done at the 90 percent confidence interval.

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

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Disclosures