The Golden Years: Planning for the changing face of the U.S.

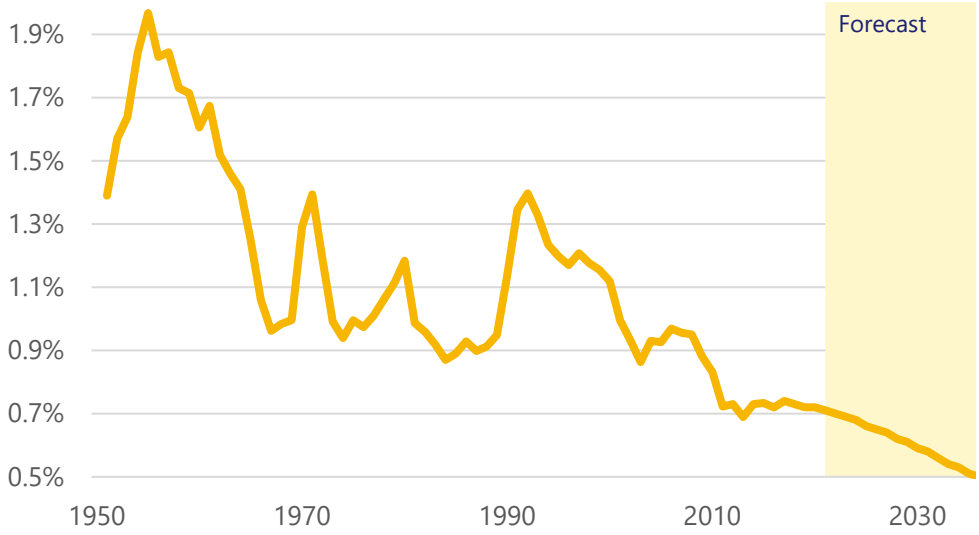
Demographic headwinds point to shifts in spending patterns – are you prepared?

Population growth and an aging population will likely impact U.S. spending patterns in the coming decade. Growth in the U.S. population has been slowing for several decades, compounded by lower net migration expected through 2030.[1] The pandemic has exacerbated this as more than 3 million consumers left the labor force in 2020.[2] This has a strong impact on potential GDP growth, which is expected to slow to 1.8 percent per year through 2030, from 2.3 percent in the past decade.[3]

As consumers age out of the labor force, sources of income change from a reliance on wages to a mix of retirement income, social security, dividends, interest income and other sources. This shift of a substantial portion of the population away from saving impacts spending patterns overall. Gen X and millennial consumers will take over as primary income earners and spenders. As baby boomers moderate their spending, moving past their peak spending age, they spend less on items such as air travel and restaurants, and shift spending more to healthcare, prescription drugs, and food at home.

With this population shift, financial institutions and merchants will need to adjust to a shrinking market for spend and slower overall consumption growth. More acute segmentation will be necessary to capture pockets of spending. Understanding these shifts may help mitigate the business impact.

Fig.1: Population growth slows precipitously through 2030



Sources: Visa Business and Economic Insights and U.S. Department of Commerce

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Key Points:

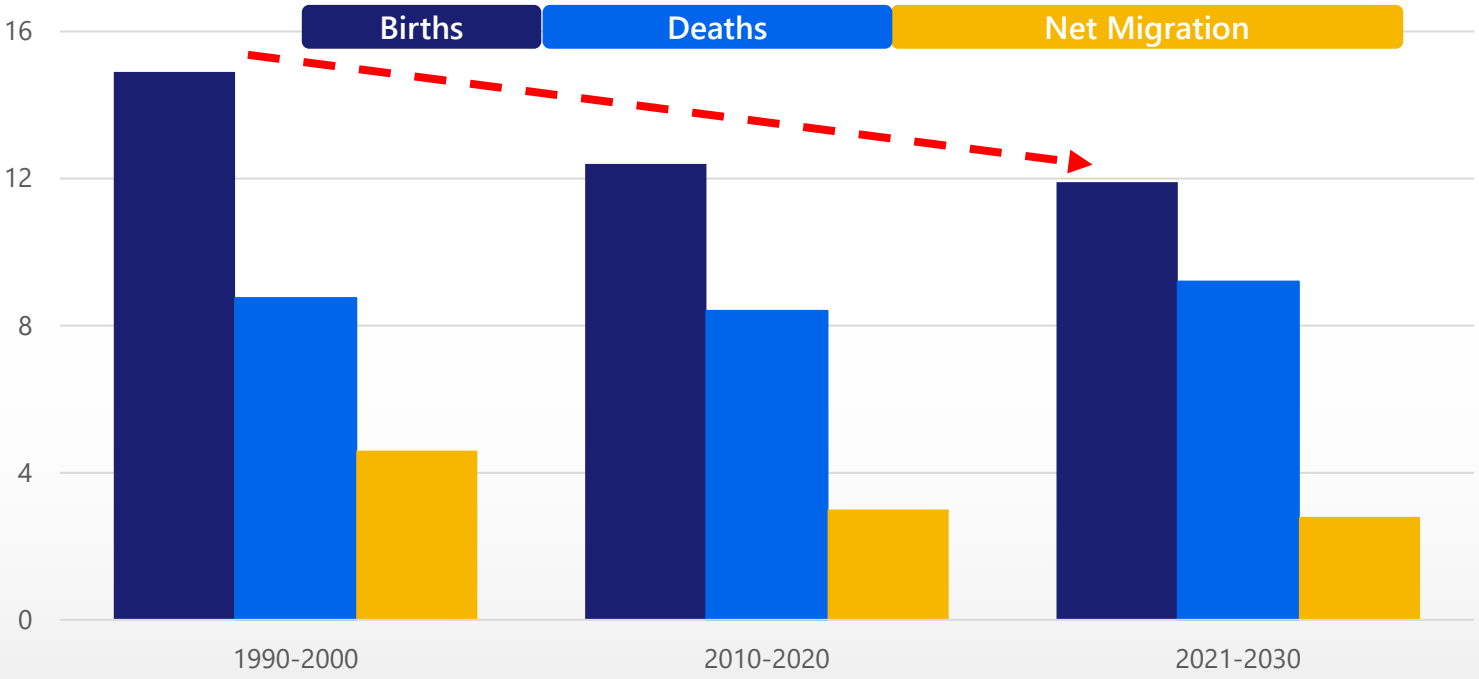
- The U.S. faces slowing population growth and an aging population in the coming years
- Aging U.S. population portends a slower rate of potential GDP growth
- Gen X and millennial consumers will rotate into key positions as primary consumers as baby boomers rotate out

U.S. population growth: the heyday is over

U.S. Population growth has been slowing since 1990

U.S. population growth has been trending downward for several decades and is forecast to continue slowing through 2030.[4] This has distinct implications for the economy and businesses. Accelerating population growth feeds consumption organically—more people inherently spend more in aggregate. With slower population growth, there are fewer consumers contributing to overall consumption. Businesses will need to factor in slowing population growth into their strategy and understand these implications.

Fig. 2: Net migration slows through 2030 (per 1,000 people)



Sources: Visa Business and Economic Insights, U.S. Department of Commerce and United Nations

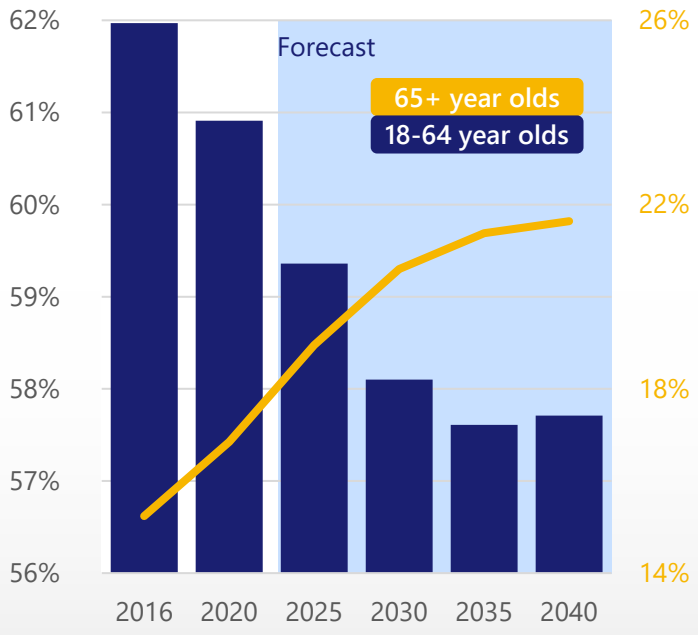
Components of slower population growth: Lower birth rate, increasing death rate, lower net migration

There are multiple reasons for slower population growth. The aging of the U.S. population is a key factor, as an older population naturally leads to a slowing birth rate and an increase in deaths, with fewer consumers to replace the loss of consumption. Additionally, the U.S. has experienced lower net migration over the past several decades[5], which exacerbates the issue of an aging population. In the past, migration has served as a partial or complete counterbalance to periods of lower birth rates. The slowing net migration that the U.S. has experienced in the past several decades—a trend forecast to continue—effectively eliminates the counterbalance and exacerbates the population headwinds.

Aging population leads to fewer workers

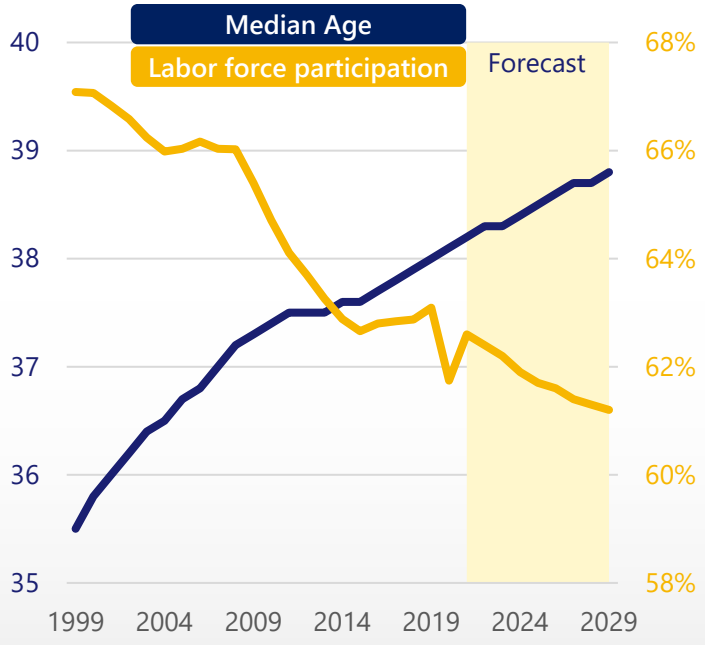
Based on population projections, the percentage of 65+ year olds in the U.S. will continue to expand, while the working age population of 18-64 year olds declines through 2035.[6] As a result, projections also show labor force participation dipping below 62 percent as the end of the decade approaches.[7]

Fig. 3: 65+ consumers make up an increasingly larger portion of the population



Sources: Visa Business and Economic Insights and U.S. Department of Commerce

Double whammy: median age increases and labor force participation declines



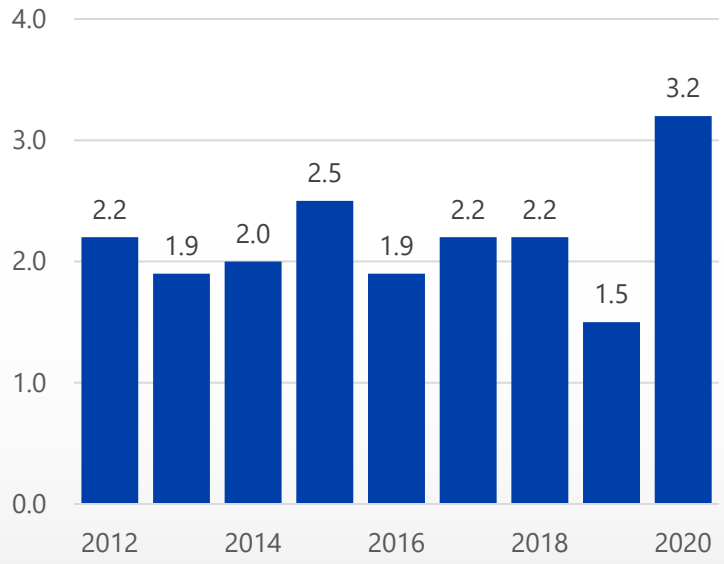
Sources: Visa Business and Economic Insights and U.S. Department of Labor

Labor force participation dissipates as the median consumer age increases

While the labor force participation rate (the percentage of the civilian noninstitutional population, 16 years and older, that is working or actively looking for work) has been on the decline throughout the 21st century. It is set to decline further over the next seven to eight years. After a pandemic-era recovery brings the participation rate above 62 percent, forecasts show a steady decline to just over 61 percent by 2029.[8] While the forecast drop of just over one percentage point may seem minimal, the impact it has on the labor market, aggregate spending, and potential GDP growth is substantial.

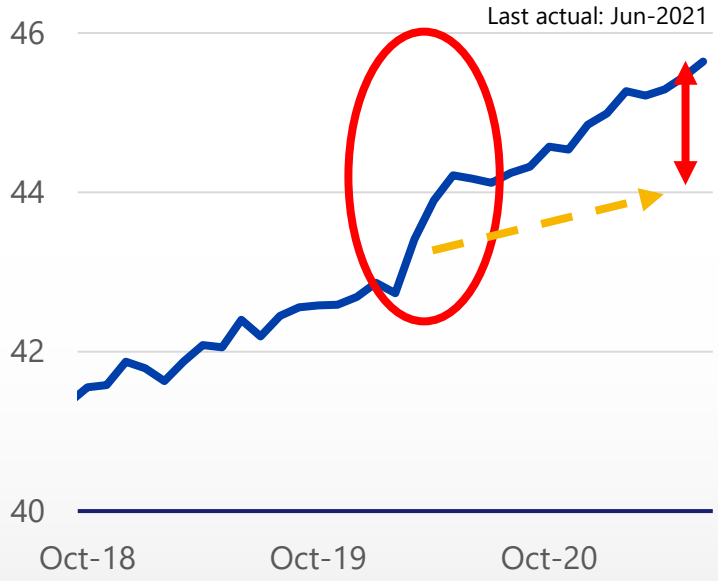
Retirement-age population set to expand as working-age population recedes in coming decades

Fig. 5: Unprecedented number of baby boomer retirees in 2020 (in millions)



Sources: Visa Business and Economic Insights and Pew Research Center

Fig. 6: People over 65 out of the labor force inflection point (in millions)



Sources: Visa Business and Economic Insights, U.S. Department of Labor

Unprecedented number of baby boomers retired in 2020

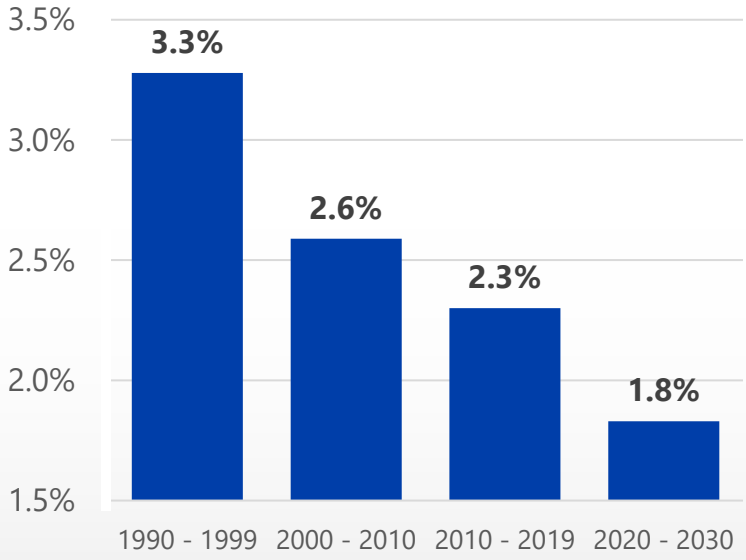
The pandemic accelerated this trend of workforce exits, with more than twice as many baby boomers retiring in 2020 than in 2019. Retirement rates for boomers averaged roughly 2 million from 2012-2018, dipped to 1.5 million in 2019, then jumped to 3.2 million in 2020.[9] There are 2 million fewer people in the labor force already in 2021, greatly impacting spending patterns. With the economic recovery and re-entry into the workforce of many who stayed on the sidelines (voluntarily or involuntarily) throughout the pandemic period, it is unlikely that we will see a repeat of retirements at this level moving forward, but the longer-term trend of elevated retirements averaging roughly 2 million per year should continue.

Number of consumers over the age of 65 accelerated with 2020 retirements

The pandemic added a shock to the labor force, not only to the unprecedented amount of job losses, but also the acceleration of the number of older consumers out of the labor force. With accelerated retirements in 2020 came a new, higher trend of 65+ year olds stepping away amid a smaller aggregate workforce.

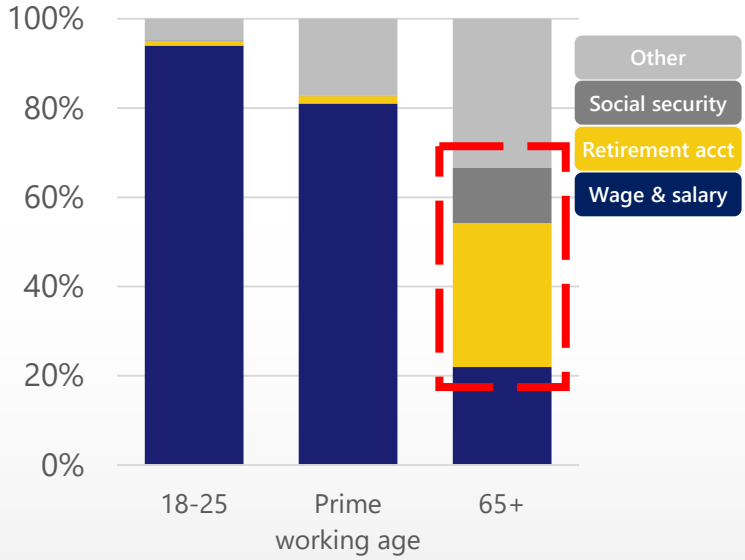
The result: Potential GDP growth negatively impacted

Fig. 7: Real potential GDP wanes (Average YoY percent change)



Sources: Visa Business and Economic Insights and Congressional Budget Office

Fig. 8: Income sources shift away from wages (Percent of total)



Sources: Visa Business and Economic Insights, Internal Revenue Service and Social Security Administration

Potential GDP growth decelerates as a result of aging population

Projected long run potential GDP growth stands to slow precipitously through the next decade to below 2 percent, down from 2.3 percent 2010-2019 and 2.6 percent 2000-2010.[10] Measuring potential GDP growth is a function of the pace of productivity growth (usually enhanced by technology investment and innovation), the aggregate amount of capital investment, and *the size of the labor force*. The path that this slowdown in potential GDP growth follows stems from slowing population growth and the aging of the population, leading to a smaller labor force. It is further spurred by the recent surge in retirements, combined with slowing net migration which results in the inability to replace retiring workers.

Retirements also impact consumption as older consumers rely less on income and more on retirement savings

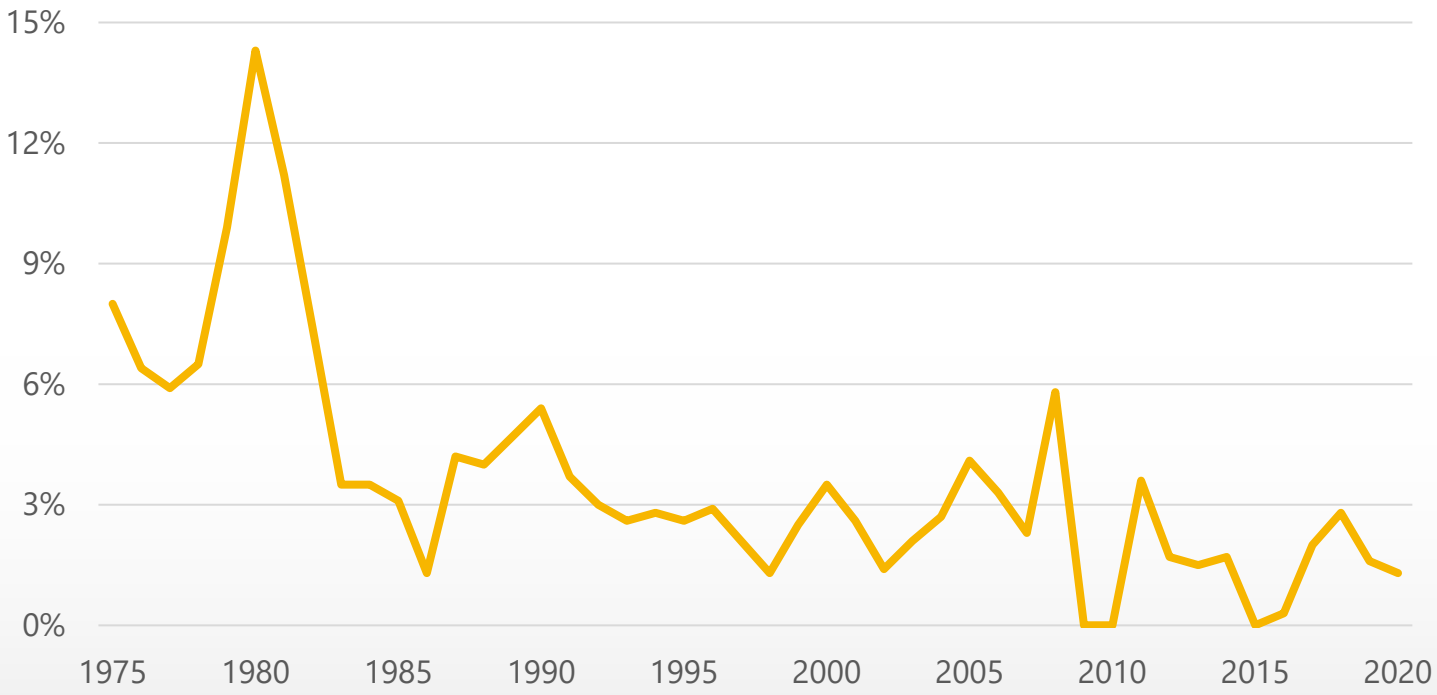
With the aging population and retirements comes a shift in income. Prime working age consumers get 81 percent of income from wages and salary. This drops to 22 percent among 65+ year olds, and is supplemented by 33 percent each from taxable retirement accounts, dividends, interest, business income and capital gains, as well as 12 percent from social security.[11] The most important impact is the inherent change in "saving" to "dissaving," or spending down their accumulated wealth. The mindset shift among consumers with lower income will put further pressure on overall spending, and discretionary spending in particular. Even among retiring individuals who believe they have saved "enough" for a comfortable retirement, this change will be evident.

As more boomers retire and transition to "dissaving," we predict the changes will play out not only in boomer spending patterns, but also in the aggregate sources of spending growth overall. The pie is shrinking, but spending is not vanishing. There are still opportunities for growth. Businesses will have to engage in more acute segmentation to find them, however, and understanding the nature of this shrinking pie is a solid start down the path of the coming 10 years.

Sources of spending also face downward pressure

The transition will be particularly difficult for retirees relying primarily on social security benefits, as social security cost of living adjustments (COLA) have been kept relatively low since the mid-1990s. Spending power will be challenging for those depending on social security and augmented by increased longevity and the possibility of exhausting other sources of income. We know many baby boomers have not saved enough for retirement, according to Stanford University. "*One-third of baby boomers had no money saved in retirement plans in 2014, when they were age 58, on average, leaving them with little time to start saving for retirement. Even for those with positive balances, the median was only about $200,000.*"[12]

Fig. 9: Social Security cost of living adjustment remains low (YoY percent change)



Sources: Visa Business and Economic Insights and Social Security Administration

Millennials and Gen X consumers move to primary spenders

The 2020s has brought a shift in boomers' role as consumers: from high income, high consumption to lower income (again, not lower wealth), and precipitously lower consumption as a result. Millennial and Gen X consumers will replace boomers as the high consumption age groups, but there will be challenges. Gen X is a smaller generation, at roughly 65 million, compared to nearly 71 million baby boomers.[13] And while millennials number more than even baby boomers at over 74 million, they face issues that boomers didn't, including higher student loan debt, and, in many cases, a forced delay of life events such as marriage, children, and home purchases as a result. These challenges could shift both category spend and even intra-category spend that will characterize this evolution in spending patterns.

These projections are not destiny. Policy changes may create incentives to increase family sizes, increase immigration, as well as social security reforms, potentially providing incentives for individuals to work longer and hold off retirement. But card programs should change and adjust to meet the new spending patterns. The focus on spending growth is squarely with Gen X and millennial generations in the coming decade. Understanding these consumers and their role in spending growth is paramount, but comes with constraints.

Rotation in income and consumption patterns through 2030

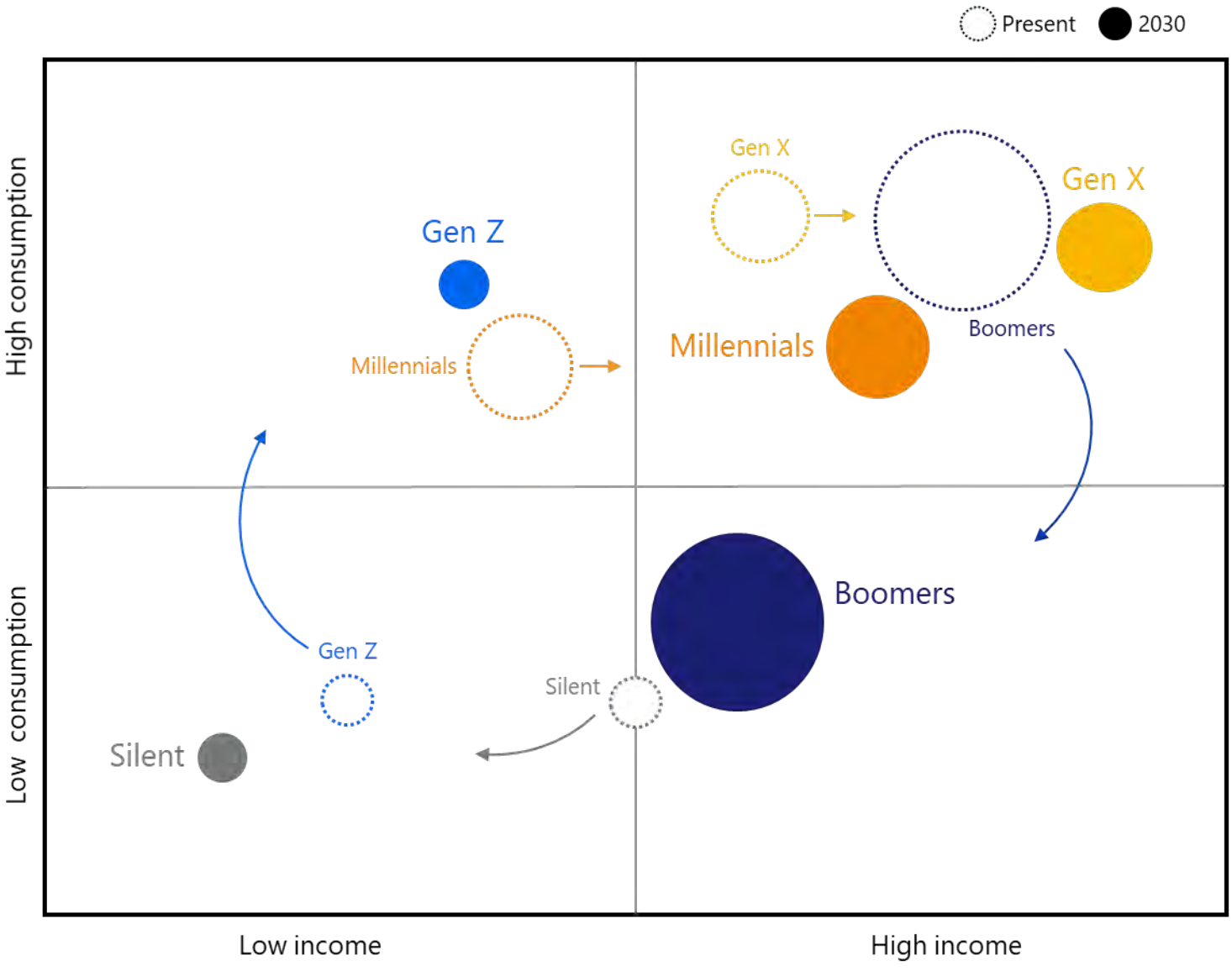
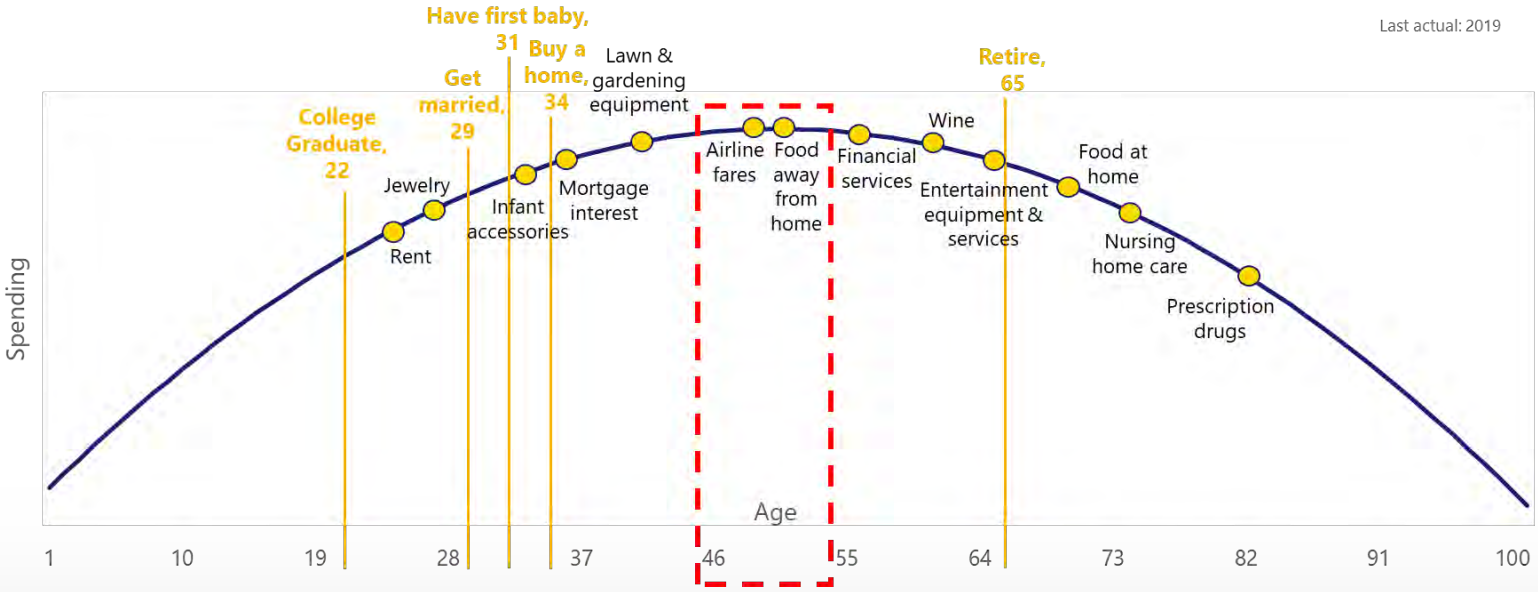


Fig. 11: Peak spending categories by age show distinct patterns as consumers reach life events



Sources: Visa Business and Economic Insights and U.S. Department of Labor

Issuers must first anticipate a shrinking market, in which spending growth decelerates. Consumption growth overall is slowing, but not disappearing. Increased market share will come from sharper customer targeting and growing new segments. Key to this strategy is reaching consumers at specific points in their life, such as millennials as they enter their home-buying phase, with all the ancillary spending that accompanies it in categories such as furniture, home decorating, or lawn and gardening. Conversely, what are the areas of spending that boomers may shift away from and towards? Entertainment equipment and services, food at home, and prescription drug purchases all reach their peak among consumers close to or past the age of 65.[14] Programs designed to understand and cater to these life events and the evolution of the consumer will bring card issuers closer to the goal of maintaining growth targets.

References and footnotes

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Accessibility Notes

Figure 1: Line chart for U.S. population growth from 1950 through 2030 (forecast). The y-axis scales from 0.5% to 1.9%, and the x-axis runs from year 1950 through 2030. The growth rate goes from 1.4% in 1951, reaches its apex in 1955 at 1.97%, declines steadily to 0.96% in 1967, goes up and down until reaching another apex in 1992 of 1.4%, then steadily declines to the latest reading of 0.71% in 2021. Population growth is then forecast to decline to 0.5% by 2030

Figure 2: Column chart showing net U.S. migration for the periods shown on the x-axis: 1990-2000, 2010-2020, and forecast for 2021-2030. The y-axis scale is 0-16, representing the births, deaths, and net migration counts per 1,000 people. For births per 1,000 people, there were 14.9 in the 1990-2000 period, 12.4 for the period 2010-2020, and 11.9 for the forecast period 2021-2030. For deaths per 1,000 people, there were 8.75 from 1990-2000, 8.4 for the period 2010-2020, and 9.2 for the forecast period 2021-2030. For net migration per 1,000 people, there were 4.6 from 1990-2000, 3.0 from 2010-2020, and 2.8 for the forecast period 2021-2030.

Figure 3: Combination column and line chart showing the percentage of 65+ year olds and percentage of 18-64 year olds in the U.S. population. The left side y-axis scale measures the percentage of 18-64 year olds in the U.S. population and runs from 56% to 62%, the right side y-axis measures the percentage of 65+ year olds in the U.S. and runs from 14% to 26%. The x-axis shows years of measurement: 2016, 2020, and projections for 2025, 2030, 2035, and 2040. The columns start in 2016 at 61.97% of 18-64 year olds as a percentage of the U.S. population, to 2020 at 60.91%, 2025 at 59.36%, 2030 at 58.1%, 2035 at 57.61%, 2040 at 57.71%. The line chart showing the percentage of 65+ year olds in the U.S. runs from 15.24% in 2016, 16.85% in 2020, 18.95% in 2025, 20.60% in 2030, 21.38% in 2035, and 21.64% in 2040.

Figure 4: Line chart showing the comparison between the median age in the U.S. population and the labor force participation percentage. The x-axis shows years 1999 with 5-year gaps forecast through 2029. The left side y-axis measures median age of the U.S. population, with the scale from 35 to 40. The right side y-axis measures labor force participation, with a scale from 58% to 68%. The median age line starts at 35.5 in 1999, and increases steadily to 38.8 in 2029. The labor force participation line starts at 67.08% in 1999 and declines steadily to a forecast of 61.2% in 2029.

Figure 5: Column chart showing the number of baby boomers retiring from 2012 through 2020 in millions. The y-axis scale runs from 0 to 4.0 million. The x-axis starts at the year 2012 and is labeled every two years through 2020. The columns show (in millions) 2.2 in 2012, 1.9 in 2013, 2.0 in 2014, 2.5 in 2015, 1.9 in 2016, 2.2 in 2017, 2.2 in 2018, 1.5 in 2019, and 3.2 in 2020.

Figure 6: Line chart showing (in millions) people in the U.S. over 65 and out of the labor force from Sep-2018 to Jun-2021. The y-axis scale runs (in millions) from 40 to 46. the x-axis labels run annually from Oct-2018 to Oct-2020. The line starts at 41.35 million in Sep-2018, increases slightly and steadily to 42.73 million in Feb-2020, then jumps precipitously to 44.22 million in May-2020. The line continues its steady increase from there to 45.64 million in Jun-2021. A thick red circle highlights the jump in 2020 of those over 65 out of the labor force from February to June of 2020. A dashed yellow line and arrow shows a more steady increase and highlights how the pattern would have likely continued from Feb-2020 absent COVID-19-related exit of 65+ year olds from the labor force. A red, vertical, two-headed arrow then exemplifies the gap between the actual number as of Jun-2021 (the top of the arrow) and the established, pre-COVID-19 pattern (the bottom of the arrow).

Figure 7: Column chart showing real potential GDP growth for time periods ranging from 1990 to a forecast through 2030. The y-axis scale is from 1.5% to 3.5%. The x-axis shows the following time periods: 1990-1999, 2000-2010, 2010-2019, and 2020-2030. Columns show the following real potential GDP numbers: 3.3% from 1990-1999, 2.6% from 2000-2010, 2.3% from 2010-2019, and 1.8% forecast from 2020-2030.

Accessibility Notes (cont.)

Figure 8: Stacked column chart showing income sources for different age groups within the U.S. population. The y-axis scale goes from 0-100. The x-axis shows three different age groups: 18-25, "Prime working age" (25-64 years old), and 65+ years old. Labels show the different sources of income, which include Wage and salary, Retirement accounts, social security benefits, and "other," which includes rental income, business income, and other sources). The columns show the following: For 18-25 year olds, wages and salary represent 94% of income, retirement accounts represent 1% of income, and other represents 5% of income sources. For Prime Working Age individuals, wage and salary represents 81%, retirement accounts 1.7%, and other represents 17.2% of income. For 65+ year olds, wage and salary represents 22%, retirement accounts represent 32%, Social Security represents 12.4%, and other represents 33% of income. A thick, dashed red box highlights the increased percentage of retirement accounts and Social Security as a source of income for 65+ year olds.

Figure 9: Line chart showing the stated Social Security cost of living adjustment from 1975 to 2020. The y-axis scale runs from 0% to 15%. The x-axis labels show every 5 years from 1975 to 2020. The line starts at 8% in 1975, declines to 5.9% in 1977, increases to 14.3% in 1980, declines severely to 1.3% in 1986, increases to 5.4% in 1990, remains steady near the 3% range through 2008, when it increases to 5.8%. The line declines to 0% in 2009 and 2010, increases to 3.6% in 2011, goes back to 0 by 2015, increases to 2.8% in 2018, then declines to 1.3% in 2020.

Figure 10: A chart showing four quadrants for low consumption/high consumption on the y-axis, and low income/high income on the x-axis. Each generation—including the silent generation, baby boomers, Gen X, millennials, and Gen Z—is shown represented through the next 10 years, starting as empty circles and moving across quadrants to filled-in circles where they end up at the end of the current decade.. The silent generation starts in the low consumption portion of the chart, and on the line between low income and high income, and moves further into the low consumption and low income quadrant in the coming 10 years. The baby boomers start in the high income/high consumption quadrant, then move into the high income/low consumption quadrant in the coming 10 years. Gen X starts in the high income/high consumption quadrant, and moves further up the income scale, remaining in the same quadrant over the coming 10 years. Millennials move from the low income/high consumption quadrant to the high income/high consumption quadrant in the coming 10 years, while Gen Z moves from the low income/low consumption quadrant to the low income/high consumption quadrant by 2030.

Figure 11: A chart with an arc showing peak spending for certain consumption categories throughout the typical life of a U.S. consumer. The x-axis shows ages ranging from 1 to 100, with spending on the vertical axis. Gold lines represent the following life events and the ages that they typically occur: graduating college at age 22, getting married at age 29, having first baby at 31, buying a home at 34, retiring at age 65. Dots on the arc represent the age when peak spending occurs for each of the following categories: Rent (age 250, Jewelry (age 27), infant accessories (age 32), mortgage interest (age 35), lawn and gardening equipment (age 40), airline fares (age 49), food away from home (age 50), financial services (age 56), wine (age 62), entertainment equipment and services (age 64), food at home (age 70), nursing home care (age 74), prescription drugs (age 82). A red rectangle highlights the "peak spending age" overall ranging from age 45 to 54.

Forward Looking Statements and Disclaimer

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