

INCOME MARKETS — Why the Confusion?



COMMENTARY

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Income is a popular way to segment the consumer market. Some common income segments are the middle market, upper-middle, affluent market, and currently popular the mass affluent. When you segment, you need a way to classify people — and that is where things get confusing with income segmentation. The term “middle market” would seem to imply the middle 50 percent of the population. But defining segments into income ranges is not as straightforward as you’d expect. For example, we see a variety of income definitions for the middle market:

- \$25,000 to \$75,000
- \$35,000 to \$100,000
- \$50,000 to \$125,000

All these cannot represent 50 percent of the population.

You would think that all you have to do is look at a distribution of the nation’s income: the middle 50 percent is the middle market, the top 10 percent is the affluent market, and so on ... no? There are three reasons why this rationale is not that easy:

1. *There are several different income databases — household income, personal income, taxable income, etc.*
2. *Financial service products often involve substantial monetary outlays— financial service companies are interested in segments with higher income ranges than are companies that sell other products*
3. *The segmentation has to be compatible with a particular company’s products and strategy*

The different definitions of income markets are frustrating to some people (I personally do not see them as that big a deal). Income markets define class status or a standard of living and are more about needs, behaviors, and attitudes than monetary ranges. Lower-income, middle-income, and affluent consumers have different standards of living, but our research shows that there are minimal differences in attitudes and behavior for people with \$40,000, \$50,000 or even \$75,000 of income. The specific cut points are not that important. Nonetheless, it is informative to understand how you can arrive at different income ranges for the same segment.

Figure 1 shows the distribution of income for three different data bases — *household* income, *personal* income, and adjusted gross income (AGI) from income tax returns. One difference that stands out is that some people have no personal income or an AGI of zero. Also, because many households are two-income households, the distribution of household income is shifted to the right of the other two. You can see the impact of using personal versus household income to define income segments. Using \$75,000 or more of personal income defines an affluent market of about 10 percent of the population, but using household income of \$100,000 or more would not work since that includes over 20 percent of the population.

Besides the distinction between personal and household income, another major factor is whether

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you include or exclude retirees. Those over 65 have significantly lower incomes because most are not working for pay. Figure 2 shows the difference in household income for those over and under age 65. Segmenting the affluent as over \$100,000 of household income works nicely for those over age 65, but not for those under age 65.

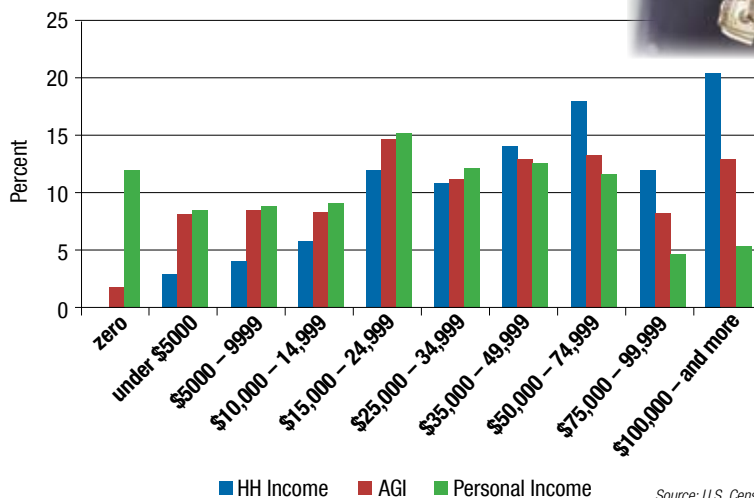
This is just scratching the surface of the nuances of income. The U.S. Census Bureau looks at a variety of measures of income, considering such factors as whether or not to include transfer receipts, pre- or post-tax income, and whether to include sources other than wages and salaries.

One final point: To segment on broad class status, the income segments do not have to be all inclusive. If the middle market is the middle 50 percent and the affluent is the top 10 percent, what about the 15 percent in between? The objective is to define two different social classes and it is not that critical to include everyone in one or the other segment.

The point I want to make is that for income segmentation to be useful it does not make that much difference what the actual income ranges are. Define segments that work for your company and your strategy and do not be concerned if others define a similar segment differently. You both are focusing on a group with the same standard of living. 🌐

Figure 1

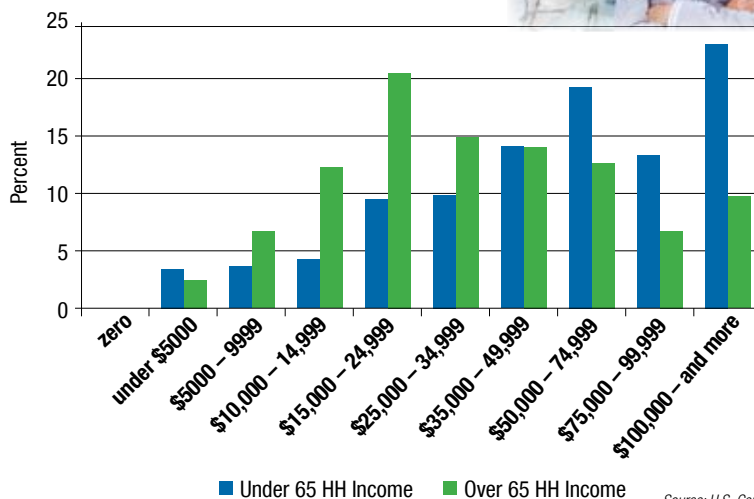
U.S. Income Distributions



Source: U.S. Census Bureau (2011)

Figure 2

U.S. Income Over 65 and Under 65



Source: U.S. Census Bureau (2011)