

## Older Americans' Spending Profiles: One Size Does Not Fit All

By Zahra Ebrahimi, Ph.D., Employee Benefit Research Institute

### AT A GLANCE

Understanding the spending patterns of the elderly and forming an educated estimate of households' budgets throughout households' old age is a key element of retirement planning. In this *Issue Brief*, the Employee Benefit Research Institute (EBRI) explores variations in spending of older households using the Health and Retirement Study (HRS) and the Consumption and Activities Mail Survey (CAMS). The analysis also seeks to identify the factors that are correlated with spending patterns in order to provide additional insight for approaches to saving and investment for retirement. Such analysis can also help in the development of more effective withdrawal strategies during retirement.

Assessing the HRS CAMS data, we find there are four spending profiles: Typical, Home, Health, and Discretionary.

- **Typical Spender:** Typical Spenders had no large variation in spending relative to the overall sample average. Typical Spenders within the 55–64 age group were characterized as slightly more likely than not to be part of a couple. Just under a quarter had a college degree. Nearly half (48 percent) were either retired or partially retired. Just under a third (29 percent) received pension or annuity income, and the median age of those claiming Social Security was 61.5 years old. Slightly more (54 percent) Typical Spenders ages 65–74 were single vs. their younger counterparts, and 62 percent of Typical Spenders ages 75–85 were single. Both older Typical Spender age groups were more likely than the younger Typical Spenders to have pension or annuity income: 57 and 61 percent, respectively.
- **Home Spenders:** Home Spenders are households allocating 60 percent or more of their total spending to housing expenses. They were far more likely to be single, had low levels of income and wealth, and were the least likely to hold a college degree. They were also more likely to report their labor market status as disabled, unemployed, or out of the labor force. Those falling into this category were least likely to have pension or annuity income across all age cohorts, and those ages 55–64 were the most likely to claim their Social Security benefits early.
- **Health Spenders:** Health Spenders are households allocating 20 percent or more of their total spending to out-of-pocket health expenses. Those in the 65–74 and 75–85 age cohorts had the highest likelihood of reporting poor health status (26 and 30 percent, respectively) and the highest levels of utilizing medical care. Health Spenders that are 55–64 years old were the most likely to be retired or partially retired (58 percent) and were the second most likely to claim Social Security benefits early, after Home Spenders.
- **Discretionary Spenders:** Discretionary Spenders are households allocating 25 percent or more of their total spending on the entertainment, gifts, and contributions categories. Discretionary Spenders were more likely to be part of a couple and had the highest likelihood of holding a college degree compared with other spenders. They also had higher levels of income and wealth across all age cohorts and were the least likely to report poor health status. Many of these spenders said they were partly retired — more than any other spenders in the 55–64 and 65–74 age cohorts. This suggests that they are taking a gradual transition path to retirement. They also had the highest likelihood of receiving pension or annuity income, and those 55–64 years old were more likely to claim their Social Security benefits at older ages.

The research also examined how spenders transition over time. The spending type that was most likely to remain consistent from ages 55–64 and 65–74 was the Typical Spender. After Typical Spenders, Discretionary Spenders remained the most likely to remain in their same spending category over time. Home Spenders in the 55–64 age group had the highest probability of switching to a Typical Spender (48 percent) when they were ages 65–74. Health Spenders showed the most movement, with only 28 percent remaining in this spending category from ages 55–64 to 65–74.

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Health and Retirement Study (HRS), public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI (1992–2016).

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# Older Americans' Spending Profiles: One Size Does Not Fit All

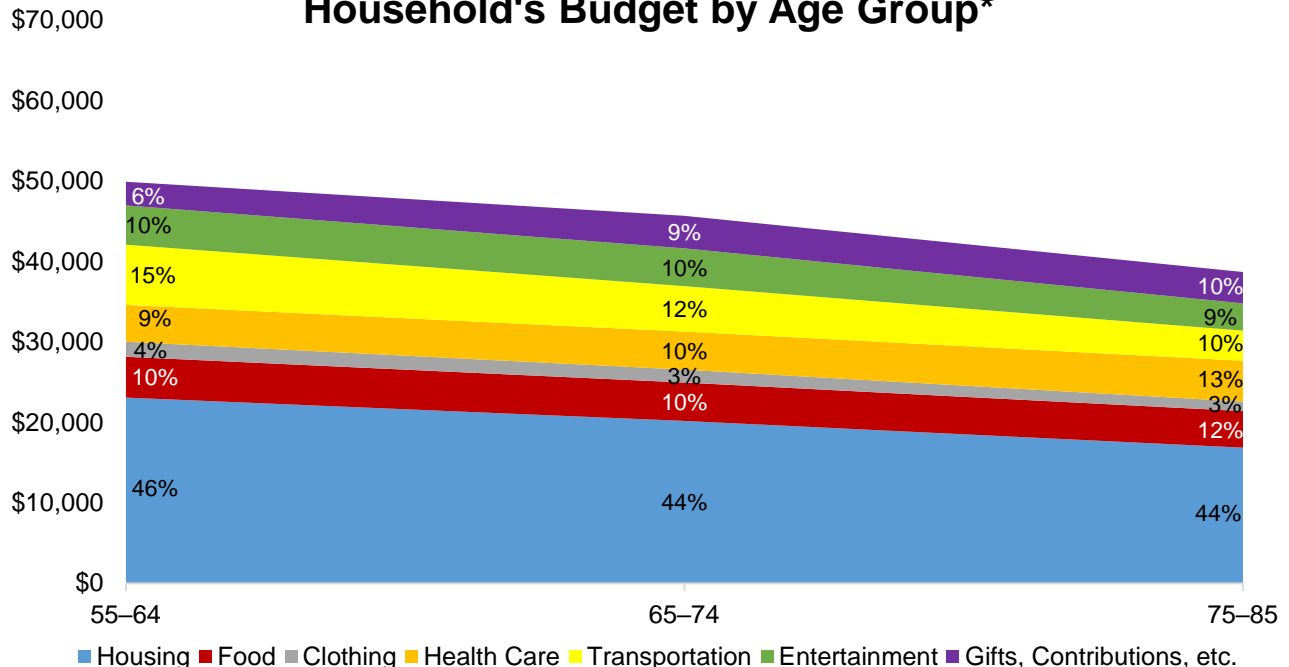
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## Introduction

Understanding the spending patterns of the elderly and forming an educated estimate of households' budgets throughout their old age is a key element of retirement planning. Most of the retirement planning approaches are based on the assumptions about average (or median) households' spending throughout retirement and how it evolves as they age.

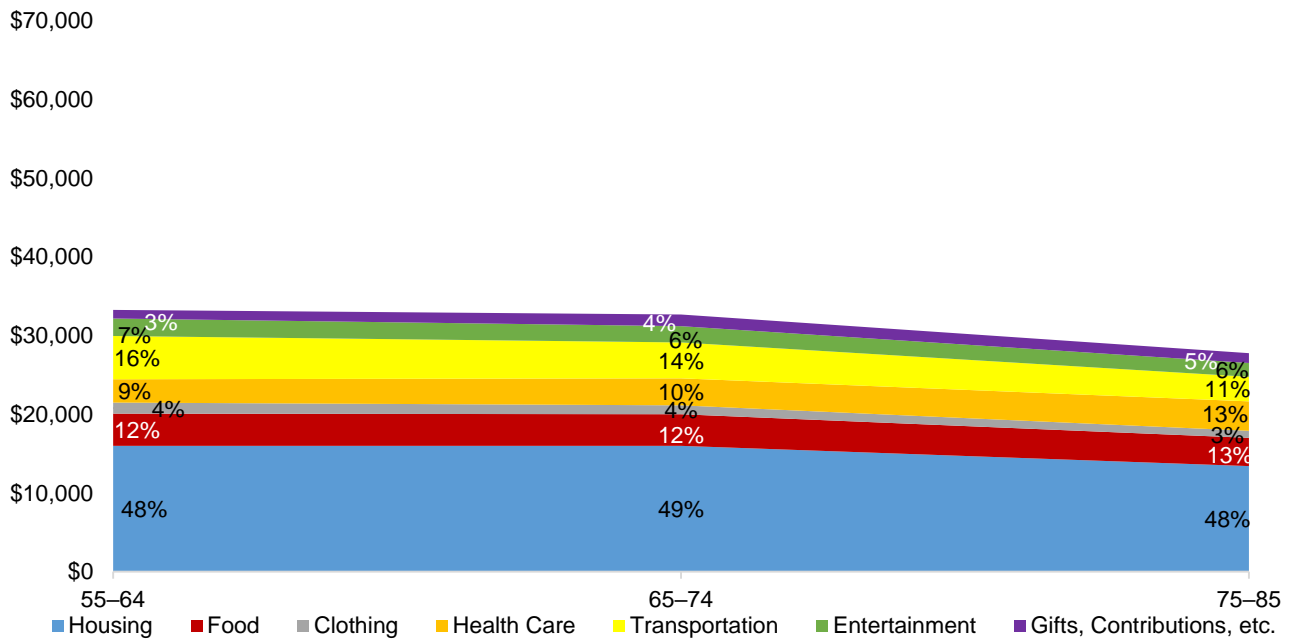
Analysis by the Employee Benefit Research Institute (EBRI)<sup>1</sup> shows that total spending declines as retirees age and allocations to spending areas such as transportation become proportionately smaller over time as well (Figure 1). However, our analysis also shows considerable variations in the elderly's spending patterns, which is not captured by averages. Figures 2A and 2B show how different spending patterns are for older households when split into the top half vs. bottom half of wealth cohorts. The wealthiest households spend more in virtually every category than the least wealthy households, but their spending also changes more linearly and dramatically over time. Exploring these variations in spending and identifying the factors that are correlated with them could provide additional insight for approaches to saving and investment for retirement as well help in the development of more effective withdrawal strategies during retirement.

Figure 1  
Average Spending and Average Share of Household's Budget by Age Group\*



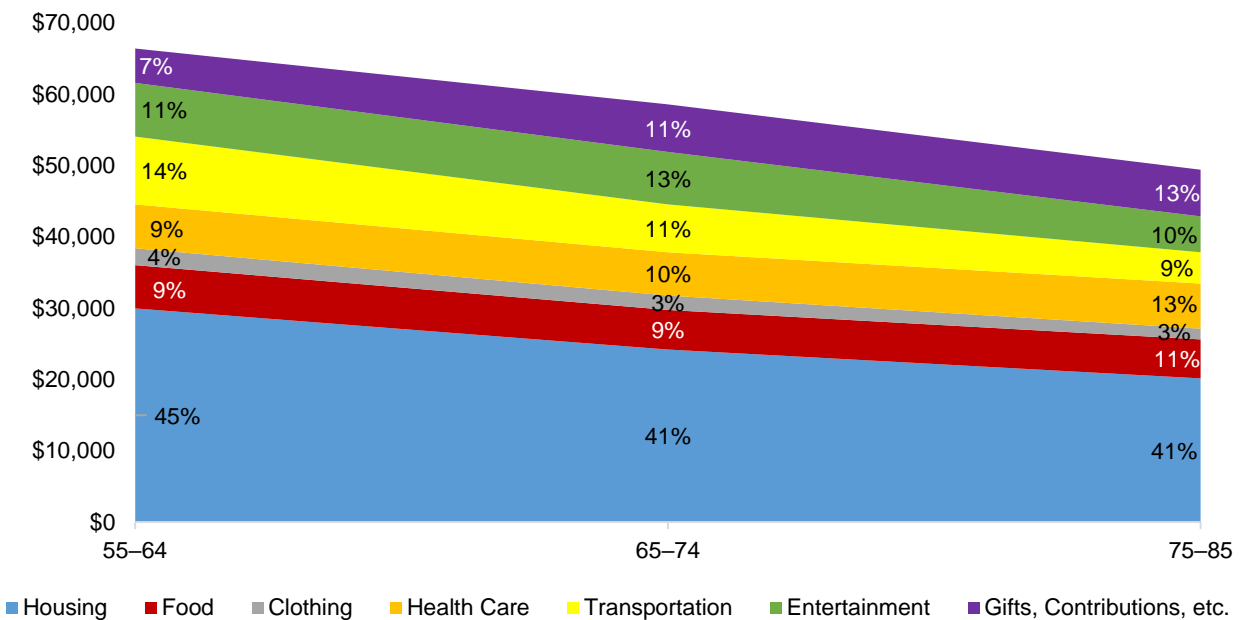
\*Based on a cross-sectional analysis of households observed in the CAMS from 2003–2017.  
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

**Figure 2A**  
**Average Spending by Age Group\***  
**Bottom 50% (1st to 50th Wealth Percentiles)**



\*Based on a cross-sectional analysis of households observed in the CAMS from 2003–2017.  
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

**Figure 2B**  
**Average Spending by Age Group\***  
**Top 50% (50th to 100th Wealth Percentiles)**



\*Based on a cross-sectional analysis of households observed in the CAMS from 2003–2017.  
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

To explore this issue further, this *Issue Brief* uses the data from the Health and Retirement Study (HRS) 2002–2016 and Consumption and Activities Mail Survey (CAMS) 2003–2017, which is a supplement of the HRS, to report the spending profile of the households headed by those 55 and older. The discussion is focused on a cross-sectional analysis of three age groups of 55–64, 65–74, and 75–85 years old (based on the age of the household financial representative).

First, based on the analysis of households' spending in the CAMS, spending profiles are defined and the shares of each type of spender spending in each age group are reported. Next, various socioeconomic characteristics that are correlated with households' spending profiles are explored, and finally, a subsection of data is analyzed to estimate the likelihood of a household's transition to a different spending profile as they grow older.

## Defining Spending Profiles

Analyzing the estimated total spending and allocations for individual categories in HRS/CAMS, four mutually exclusive<sup>2</sup> spending profiles were identified as follows:

**Home Spenders:** Households who allocate 60 percent or more of their total spending to housing expenses such as mortgage payments, property taxes, homeowner's or renter's insurance, rent, utilities, home repairs, home furnishings, cleaning supplies, housekeeping and laundry services, gardening and yard supplies, and gardening and yard services.

**Health Spenders:** Households who allocate 20 percent or more of their total spending to out-of-pocket health expenses such as out-of-pocket (uninsured) health insurance costs, including Medicare supplemental insurance; out-of-pocket costs for prescription and nonprescription drugs; out-of-pocket costs for hospital care, doctor services, lab tests, eye, dental, and nursing home care; and out-of-pocket costs for medical supplies.

**Discretionary Spender:** Households who allocate 25 percent or more of their total spending to the entertainment, gifts, and contributions categories.

**Typical Spender:** Households of this type have no distinct large spending in a specific category and have the closest average budget allocation to the overall sample average.

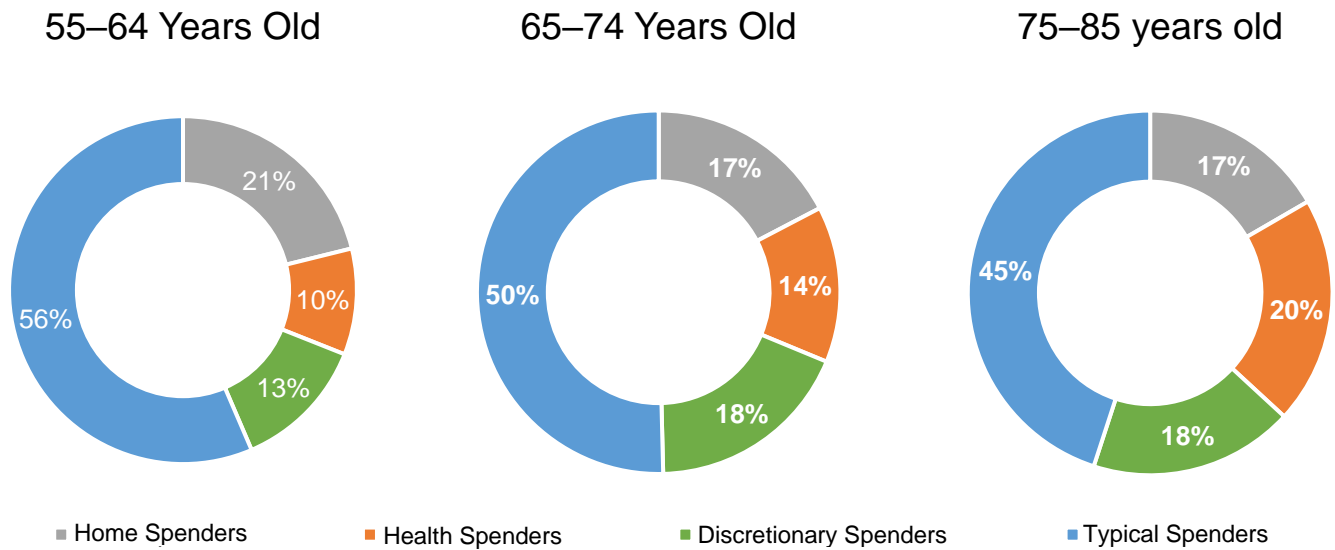
### About the Use of CAMS in This Analysis

Given the small sample size of the spending data available on CAMS and the large share of unreported and missing values in the household consumption detail, tracking the same households over the years would only provide a very small viable sample size, which makes further analysis unreliable. To avoid this problem, households are divided into three age groups — 55–64, 65–74, and 75–85 — based on the age of their reference person, and the average total spending and spending subcategories are estimated for each household during the respective age range.

Figure 3 shows the distribution of spending profiles by age group. As expected, Typical Spenders were the largest cohort across all age groups. However, the share of this type of spenders was the highest for the youngest age cohort (56 percent) and fell to 50 percent and 45 percent for the 65–74 and 75–85 age groups, respectively. Similarly, the percentage of Home Spenders was the highest at 21 percent in the youngest age cohort (55–64) and dropped to 17 percent for the other two older age groups. This is also consistent with the fact that the majority of households would pay their mortgages before retirement.

In contrast, the shares of Health Spenders and Discretionary Spenders increased within the older cohorts. For instance, the share of Discretionary Spenders increased from 13 percent of the 55–64-year-old households to 18 percent of the households in the 65–74 and 75–85 age groups. Since health status is strongly age dependent and households' health care costs rise as they age, expectedly, the share of Health Spenders was the largest (20 percent) among the oldest age group, compared with 14 and 10 percent of the households in the 65–74 and 55–64 age groups, respectively.

Figure 3  
**Spending Profiles by Age Group**



\*Home Spenders spend 60% or more of their budget on housing. Health Spenders spend 20% or more on health care costs. Discretionary Spenders spend 25% or more on entertainment, gifts, and contributions. Typical Spenders are the rest of the households.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

### Who Are the Typical Spenders?

As mentioned in the previous section, Typical Spenders constitute the largest share of the households in each age cohort. The main factor that differentiates this type of spender from others is that their budget allocation is the closest to the overall sample average, with no observed disproportionate spending in any specific category. This makes them a good benchmark as we explore the potential factors that are associated with a household’s spending profile. Therefore, to know who the Typical Spenders are, the characteristics of Typical Spenders in each age cohort are summarized in this section to use as a point of reference in the following sections, where the distribution of socioeconomic factors among all spending profiles is detailed, discussed, and compared.

#### 55–64 Age Cohort

A 55–64-year-old Typical Spender was slightly more likely to be part of a couple (52 percent) than single (48 percent), with 23 percent holding a college degree or above. The median total income and wealth for Typical Spenders in this age cohorts were \$56,000 and \$114,000, respectively, and their annual average spending was \$47,000.

Annually, Typical Spenders in this age cohort on average spent \$21,000 (44 percent) on housing expenses, \$6,000 (13 percent) on food, \$9,000 (19 percent) on transportation, \$4,000 (8 percent) each on out-of-pocket health care and entertainment, and \$2,000 (4 percent) each on clothing and gifts or contributions (Figure 4A).

Just under 1 in 5 (18 percent) of this type of spender reported poor health status (self or spouse) at least once from ages 55–64, while 12 percent reported utilizing medical care (including hospitals, nursing homes, outpatient surgery, and special facilities or services) during the same period.

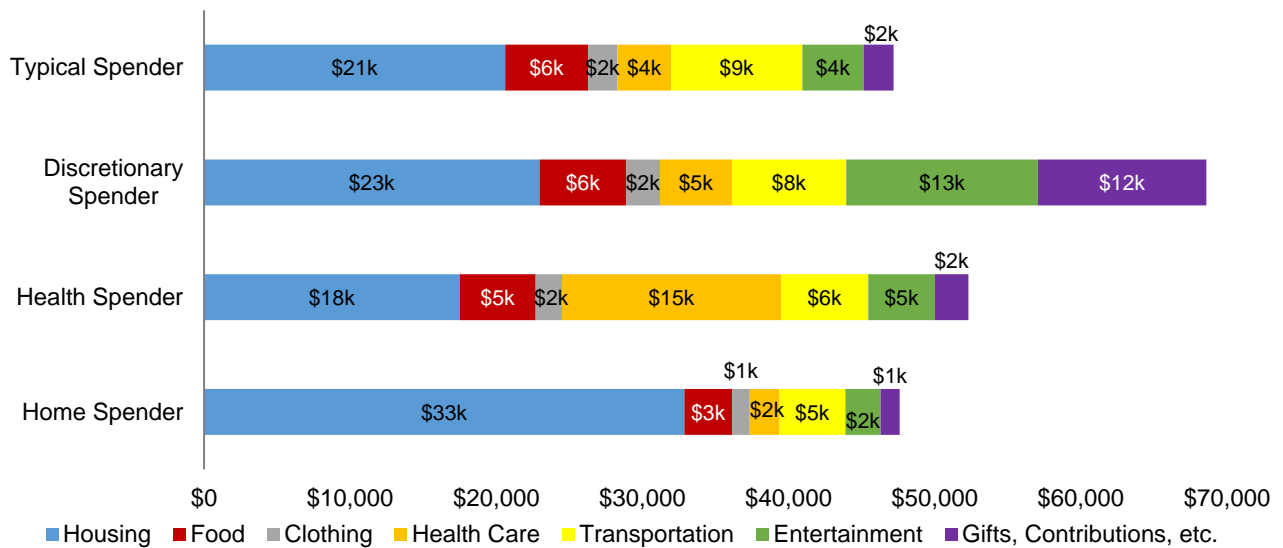
Just over two-thirds (69 percent) of these households never had government-sponsored health insurance, and 22 percent never had private health insurance (including employer-sponsored health insurance). But only 5 percent reported no health insurance from private or public sources.



Analysis of the last observed employment status of the 55–64-year-old Typical Spenders shows that 39 and 9 percent of the primary earners in these households were retired or partially retired. In comparison, 37 percent and 6 percent were last observed to work full time or part time, respectively, and only 9 percent were disabled, unemployed, or out of the labor force.

Three in ten (29 percent) Typical Spenders in this age cohort received pension or annuity income, and 47 percent received Social Security income during this period. The average and median ages of receiving the first Social Security benefits were 61.5 and 62.2, respectively.

**Figure 4A**  
**Average Spending by Spending Profile, 55–64 Years Old**



In 2016 dollars.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

### 65–74 Age Cohort

The 65–74-year-old Typical Spender is slightly more likely to be single (54 percent) than part of a couple (46 percent), with 18 percent having a college degree or above. The median total income and wealth of these households were \$42,600 and \$174,400, respectively, while on average they spent slightly below \$40,000 annually.

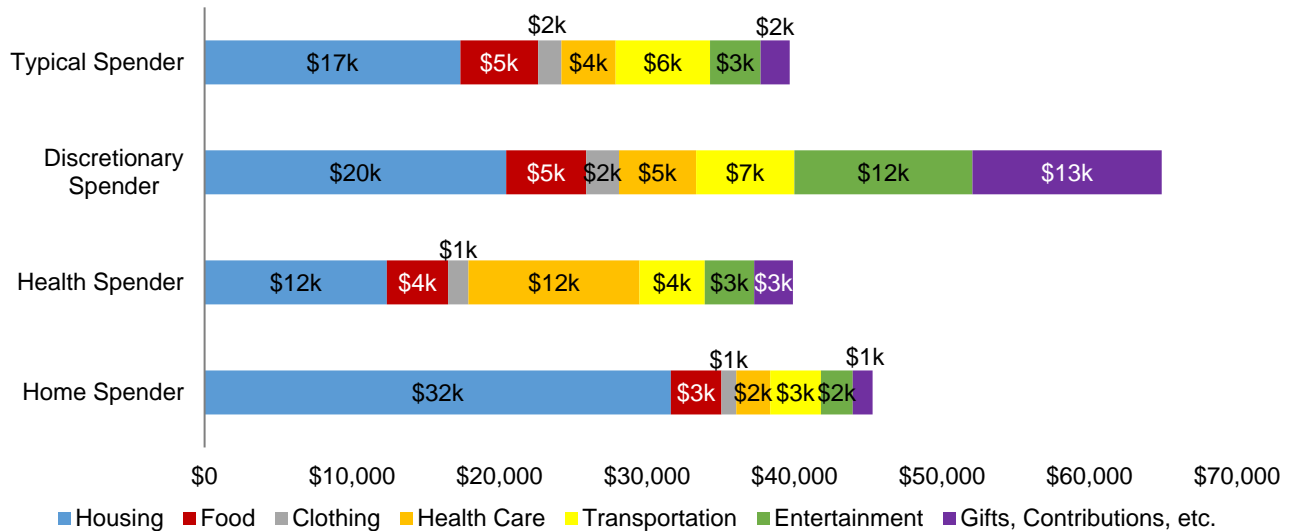
Annually, Typical Spenders in this age cohort spend proportionally about the same on various expenditures but at lower levels. On average, they spent \$17,000 on housing expenses, \$5,000 on food, \$4,000 on out-of-pocket health care, \$3,000 on entertainment, and \$2,000 each on clothing and gifts or contributions. The area in which there was a material proportional difference was transportation spending, in which they spent \$6,000 on average on transportation, or an average of 15 percent of their budget (Figure 4B).

Just over 1 in 5 (21 percent) of this type of spender reported a poor health status (self or spouse) at least once while ages 65–74, while 15 percent reported utilizing medical care (including hospital, nursing home, outpatient surgery, and special facilities or services). Expectedly, almost all households in this age cohort reported having government-sponsored health insurance coverage.

Nearly three-quarters (72 percent) and 13 percent of the Typical Spenders in this age range were last observed to be retired and partly retired, respectively, and only 11 percent reported working full or part time.

Analysis of the income sources indicates that a much higher proportion — 57 percent — of Typical Spenders in this age cohort reported receiving pension or annuity income vs. their younger counterparts. Almost everyone (95 percent) reported having Social Security benefits.

**Figure 4B**  
**Average Spending by Spending Profile, 65–74 Years Old**



In 2016 dollars.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

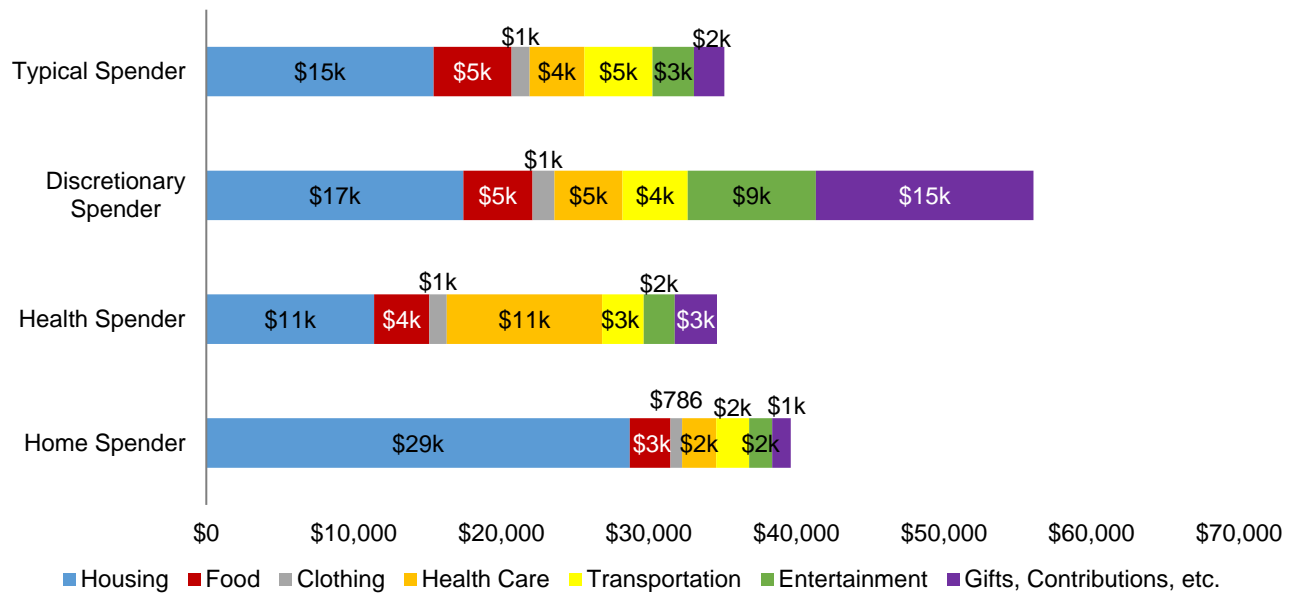
### 75–85 Age Cohort

Typical Spenders in the 75–85 age cohort are more likely to be single (6 out of 10) than in a couple and had a 16 percent likelihood of holding a college degree or above. The median total income and wealth for the 75–85 Typical Spenders were \$32,300 and \$208,600, respectively, and the average annual spending was \$35,000.

Proportionally, spending for this older age cohort was similar to the 65–74 age cohort but at a lower overall level. Typical Spenders in this age cohort on average spent \$15,000 on housing expenses, \$5,000 on food, \$5,000 on transportation, \$4,000 on out-of-pocket health care, \$3,000 on entertainment, and \$2,000 on gifts or contributions. Clothing is the one area where there was more than a 1 percentage point difference in proportional spending for this age cohort vs. the 65–74 age cohort at an annual spending level of \$1,000 (Figure 4C).

One in four (24 percent) of the Typical Spenders in this age cohort reported poor health status in their household, while 15 percent reported utilizing medical care during the same period. Almost all households reported being covered by public-sponsored health insurance. The majority of the Typical Spenders in this age cohort reported being retired and receiving Social Security benefits. The majority (61 percent) reported receiving pension or annuity income.

Figure 4C  
Average Spending by Spending Profile, 75–85 Years Old



### Spending Profiles and Budget Allocations

Figures 4A–C also compare the expenditures of various spending profiles by age cohort. The findings indicate how, on average, the extra spending on a specific category by spending profile impacts households’ budget allocations for other categories of spending.

For instance, as shown in Figure 4A, Home Spenders and Typical Spenders in the 55–64 age group had a similar average total spending. This is because Home Spenders’ large share of housing expenses was evened out by reductions in spending on all other categories. Meanwhile, Health Spenders on average had slightly higher total spending. However, on average, their larger health care cost was offset by smaller budget allocations on housing and transportation compared with a Typical Spender.

In contrast, Discretionary Spenders — who by definition spend a relatively large proportion of their budget on entertainment, gifts, and contributions — appeared to have the largest average total budget among spender types, with no adjustment in their spending on other categories in comparison to Typical Spenders. This suggests that Discretionary Spenders simply have the financial means to afford larger discretionary expenses while keeping their consumption in other categories at typical levels.

Figures 4B and 4C reveal a similar pattern in budgeting for each spending profile in the 65–74 and 75–85 age groups, respectively. Even though the total spending for each type of spender gets smaller as age increases, the pattern of budget reallocations remains the same across age groups.

### Socioeconomic Characteristics of the Spending Profiles

#### Variations by Marital Status

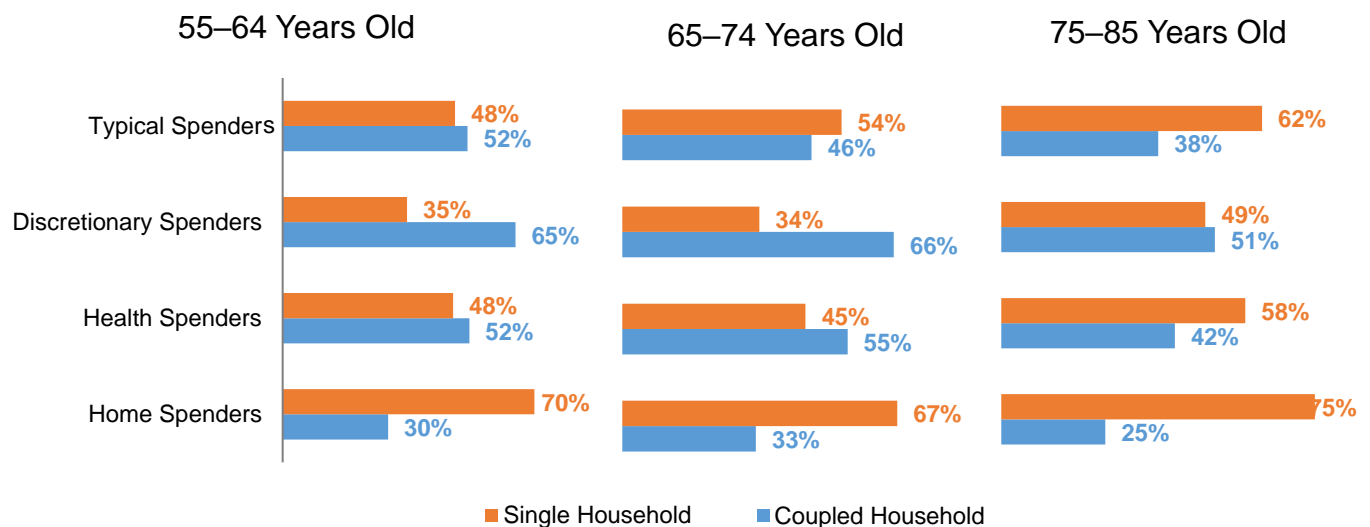
Figure 5 shows the combination of marital status<sup>3</sup> for each spending profile within each age group. As shown for the 55–64 age cohort, the probability of being a Typical or a Health Spender was fairly evenly split between households who were comprised of singles vs. couples. In comparison, Discretionary Spenders in this age group were more likely to

report being in a coupled household rather than a single household (65 vs. 35 percent). Conversely, Home Spenders were much more likely to report being in a single household than a coupled household (70 percent vs. 30 percent).

The Typical Spender in the 65–74 and 75–85 age groups was increasingly more likely to be in a single vs. a coupled household, which is consistent with the fact that the likelihood of a partner dying increases with age. Similar to the youngest age cohort, Health Spenders and Discretionary Spenders in the middle-old age group (65–74 years old) were more likely to be in a coupled household vs. a single household, while Home Spenders were more likely to be in a single household.

In contrast to the Discretionary Spenders in younger age cohorts, a relatively equal share of single and coupled households in the 75–85 age group were Discretionary Spenders. Additionally, in comparison to the Health Spenders in younger age cohorts, Health Spenders in this age group were more likely to be in single households than coupled households (58 vs. 42 percent).

**Figure 5**  
**Spending Profiles by Age Group and Marital Status\***



\*Marital status is the last observed status during the age range. Single includes: separated, divorced, widowed, and never married. Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

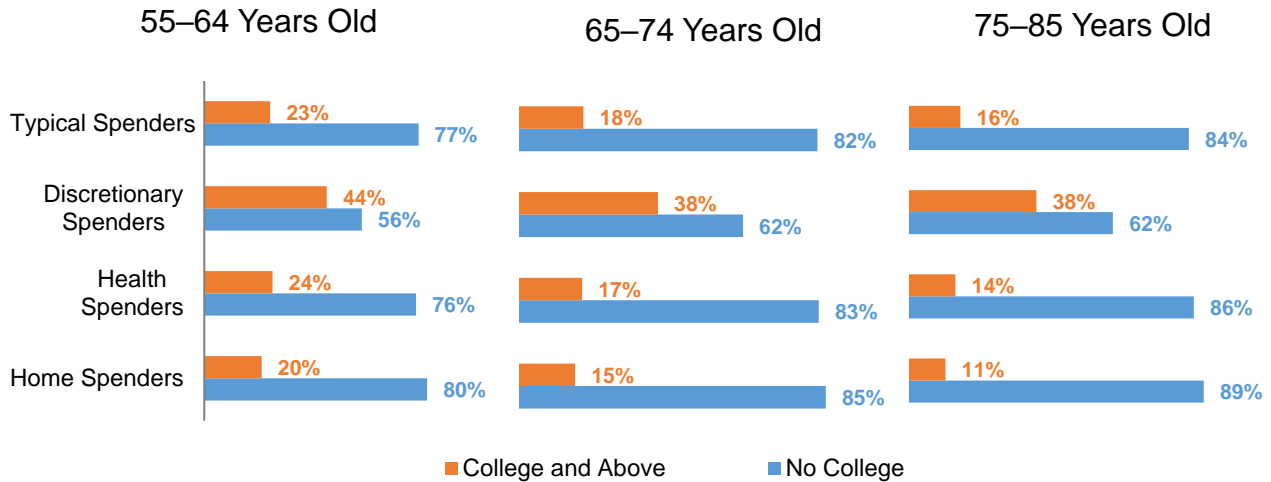
### Variations by Education Level

Figure 6 shows the percentage of respondents with or without a college education<sup>4</sup> for each type of spender by age group. As shown, the composition of education levels for each spending profile was relatively consistent across age groups. Discretionary Spenders in all age groups had the highest likelihood of being college educated compared with other spender types. Just over 4 in 10 (44 percent) of the Discretionary Spenders in the 55–64 age group had at least a college degree compared with 23 percent of the Typical Spenders. Just over a third of Discretionary Spenders in the 65–74 and 75–85 age groups had a college education, compared with 18 percent and 16 percent of Typical Spenders in the 65–74 and 75–85 age groups, respectively.

In contrast, Home Spenders were the least likely to hold a college degree. Among 55–64-year-olds, 20 percent of Home Spenders had a college degree vs. 23 percent of Typical Spenders in that age cohort. Among 65–74-year-old Home Spenders, 15 percent held a college degree compared with 18 percent of Typical Spenders in this age cohort. And 11 percent of Home Spenders in the 75–85 age cohort had a college degree compared with 16 percent of Typical Spenders in this age cohort.

Education levels among Health Spenders were similar to the educational distribution of the Typical Spenders in each age group.

**Figure 6  
Spending Profiles by Age Group and Education\***



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

### Differences in Household Total Income and Total Wealth

Figures 7 and 8 compare the total income and wealth distribution of spending profiles across the age groups. We focus on the middle quartiles of households’ total incomes, which declined from the youngest to the oldest age cohorts. This is consistent with the general downward trend of household income as individuals grow older<sup>5</sup> and is consistent with the fact that as households grow older, wage and salary income is eliminated from the sources of income, and total household income declines.

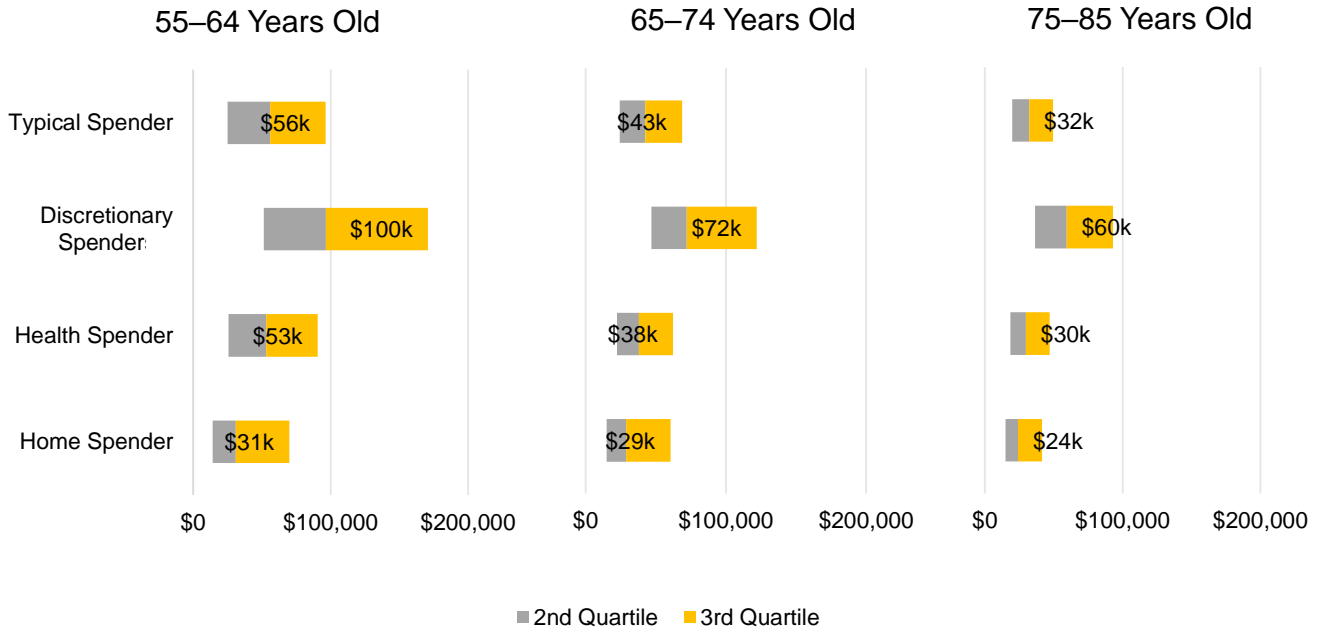
As shown, Discretionary Spenders across all age groups had the highest median income compared with other spender types. For example, the median total income of 55–64-year-old Discretionary Spenders was \$100,000, while the median total income of Typical Spenders of the same age cohort was \$56,000. Home Spenders across all age groups had the lowest median income (e.g., \$31,000 for the 55–64 age group) of all spender types. Health Spenders’ median total income was generally comparable to that of the Typical Spender.

When it comes to total wealth levels, Discretionary Spenders across all age groups had the highest median total wealth compared with the other types of spenders. For instance, the median wealth of Discretionary Spenders in the 65–74 age group was \$644,000 compared with a median wealth of \$174,000 for the Typical Spenders. Home Spenders across all age cohorts had the lowest level of wealth among all spending profiles (e.g., a median of \$76,500 for those 65–74 and \$86,000 for those 75–85). This pattern is not unexpected; one reason these households may be spending so much on housing is that they are not homeowners with significant equity in their homes. Instead, they may be paying rent or servicing home-related debt. Notably, total wealth levels appear to be higher for each spender type in the older age cohort compared with those in the younger cohorts. For instance, the median total wealth of a 55–64-year-old Typical Spender was \$114,000 compared with the median wealth of \$174,000 and \$209,000 for this type of spender in the 65–74 and 75–85 age cohorts, respectively.

The median wealths of the Health Spenders in the 55–64 and 65–74 age cohorts were relatively larger than those of the Typical Spenders in their respective age groups: \$163,000 vs. \$114,000 for the 55–64 age group and \$223,000 vs. \$174,000 for the 65–74 age group, respectively. However, the median wealths for the 75–85-year-old Health and

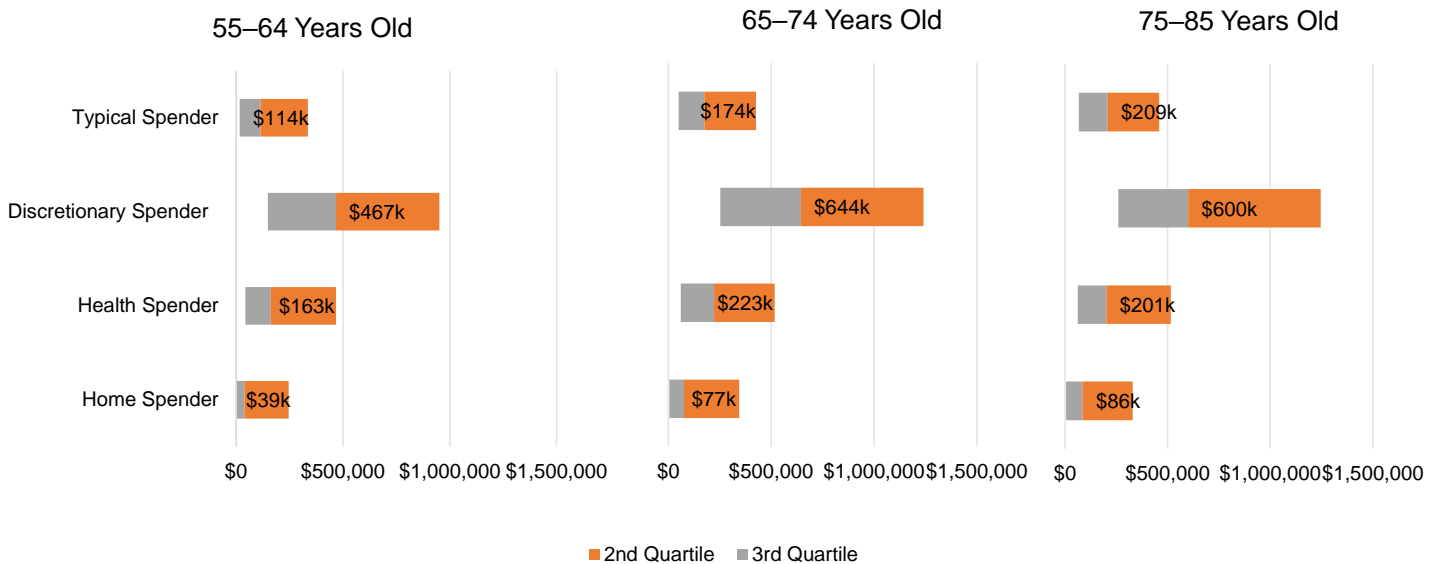
Typical Spenders were similar. This could suggest that as the need for health care increases due to aging, households' wealths are not as strong a determinant of health care utilization and cost as they are for the younger age cohorts.

**Figure 7**  
**Spending Profiles by Age Group and Total Income\***



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS). In 2016 dollars. Data labels are medians.

**Figure 8**  
**Spending Profiles by Age Group and Total Wealth**



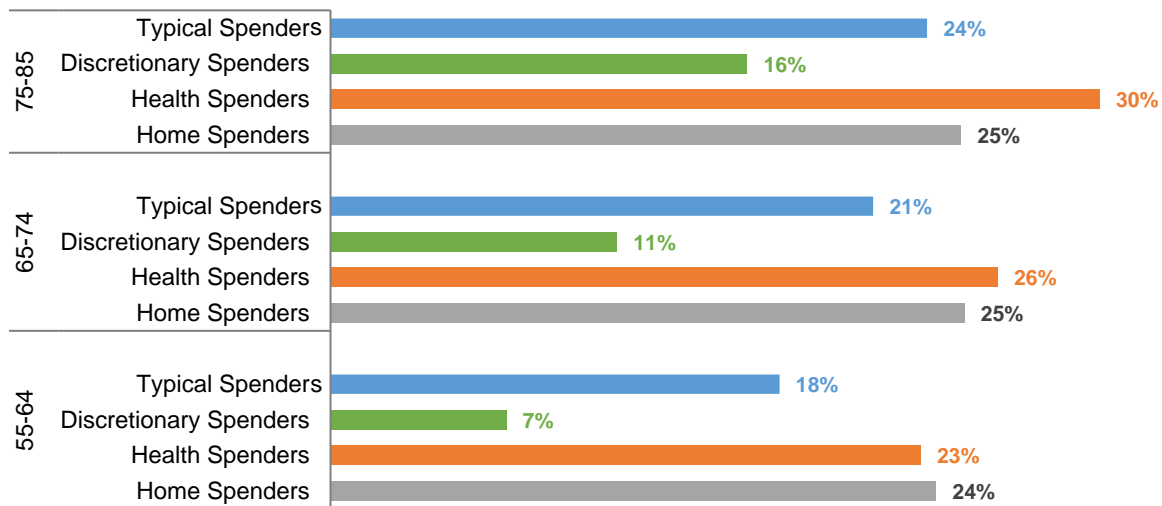
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS). In 2016 dollars. Data labels are medians.

## Differences in Health Status and Medical Expenditures

Figure 9 shows the percentage of households by spending profile for which the respondent or their spouse/partner reported their health status as “poor”<sup>6</sup> at any point during the age range. Consistent with the fact that common health conditions are associated with aging, the percentage of all types of spenders reporting poor health status increased from the youngest to the oldest age group.

Among those 75–85 years old, the share of households with poor health was the largest (30 percent) for the Health Spenders compared with other spending profiles. However, for households ages 55–64 and 65–74, a similar share of Health Spenders and Home Spenders described their health as poor. This could suggest that despite their need for health care, Home Spenders do not have the financial means to spend on their health care at similar rates to those of Health Spenders. Discretionary Spenders had the lowest rate of self-reported poor health status compared with other spenders in their respective age cohorts. For example, only 11 percent of Discretionary Spenders reported poor health status from ages 65–74 compared with 26 percent of the Health Spenders, 25 percent of Home Spenders, and 21 percent of Typical Spenders of the same age group.

Figure 9  
Share of Households With at Least One Spouse Reporting Poor Health Status During Age Range



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

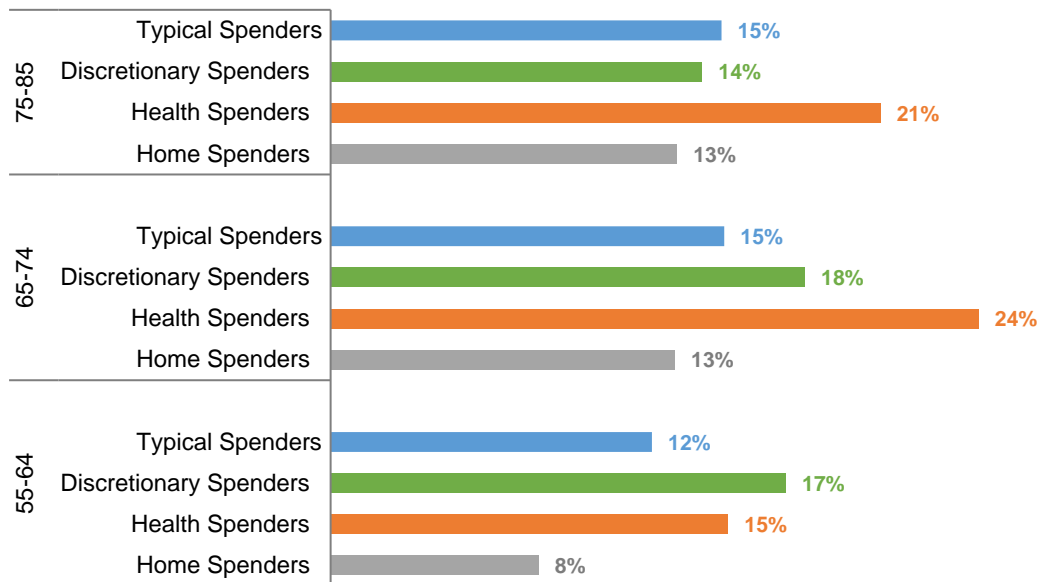
Besides self-reported health status, usage of medical care (preventative or therapeutic) could be another factor associated with the household’s budget allocation and spending profile. Figure 10 shows the share of households with at least one spouse reporting utilizing medical care (including hospitals, nursing homes, outpatient surgery, and special facilities or services) during the respective age range. As one could predict from the self-reported health status in the previous figure, Health Spenders had the highest rate of utilizing medical facilities across all age groups. Interestingly, Home Spenders — who had a similar rate of self-reported poor health status as Health Spenders — utilized medical care at a much lower rate than them. This could suggest that part of the out-of-pocket medical expenditure of Health Spenders is related to preventative rather than curative care. It could also indicate that despite medical needs, Home Spenders (who are also more likely to have lower levels of wealth and income) do not have the financial means to utilize medical facilities and services at similar rates.

This pattern was more pronounced for the 55–64 age cohort, where only 8 percent of Home Spenders reported using medical care compared with 15 and 12 percent of the Health Spenders and Typical Spenders in this age group. This

gap in the utilization of the medical care by different spending profiles narrowed with age. By ages 75–85, reported medical care utilization was very similar across all cohorts except for Health Spenders.

It should also be noted that despite having the lowest probability of reporting poor health across all age groups, Discretionary Spenders utilized health care more than any other type of spenders in the 55–64 age group, second to Health Spenders in the 65–74 age group, and at relatively similar rates to the typical and Home Spenders in the 75–85 age groups. This could suggest that due to financial means and higher levels of education, Discretionary Spenders follow a healthier lifestyle and are more likely to seek medical care for preventative purposes as well as treatment of health conditions.

Figure 10  
**Share of Households With at Least One Spouse Utilizing Medical Care\* During Age Range**



\*Hospital, nursing home, outpatient surgery, and special facilities or services.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

### Health Insurance Variations

Besides households' health status, health insurance coverage is a determinant of how much households spend on out-of-pocket medical expenses and therefore is a potential factor correlated with their spending profile. Having no coverage could be a potential issue for households in the youngest age cohort. The majority of those in the 65–74 and 75–85 age groups are eligible for Medicare<sup>7</sup>. Figure 11 shows the percentage of 55–64-year-old households<sup>8</sup> reporting no health insurance coverage from private and public sources within this age range. As expected, government-sponsored health insurance was not a major source of coverage among households in this age cohort. However, there were variations between spending profiles. Home Spenders had the lowest share of households who never had public health insurance (57 percent) compared with 86 percent of the Discretionary Spenders and 70 percent of the Typical and Health Spenders. This is consistent with our findings that Home Spenders were more likely to have low levels of income and wealth, which would make them more likely to be eligible for public assistance programs such as Medicaid. Discretionary Spenders, in contrast, were the least likely to have public health insurance coverage at this age range and the least likely to be without coverage through an employer or any other private source.

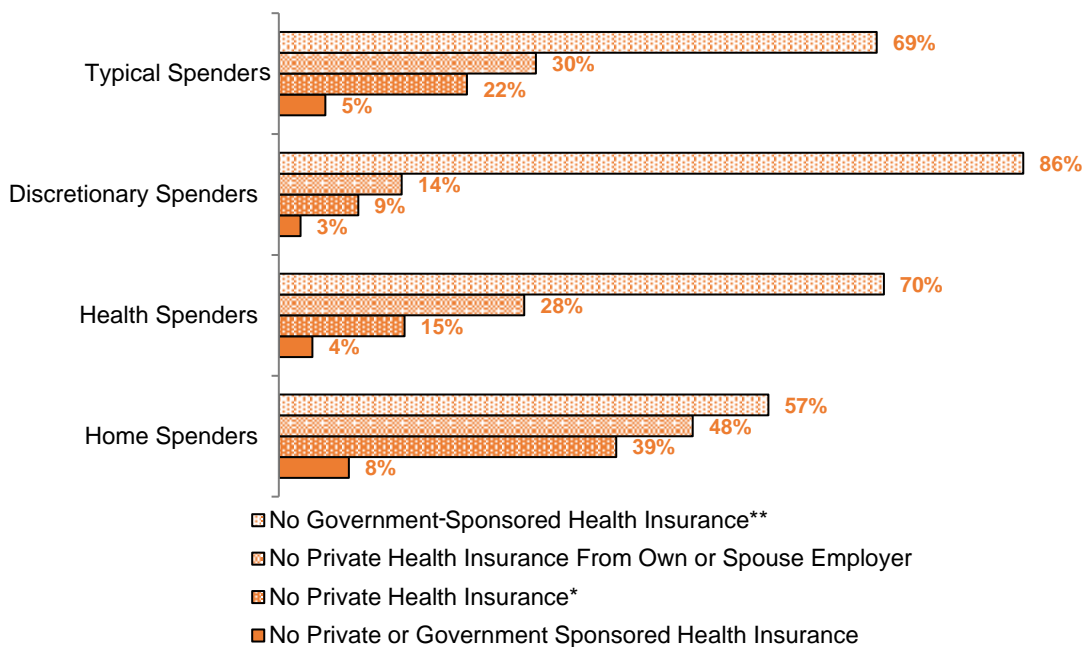
Comparing Typical and Health Spenders' health insurance coverage reveals that, for the most part, the ratios are very similar. However, comparing the share without private health insurance (from any source including employer sponsored) with those without employer-sponsored health insurance for the Health Spenders (28 percent and 15 percent, respectively) and Typical Spenders (30 percent and 22 percent, respectively) suggests that Health Spenders



are more likely to buy their health insurance from private sources other than employers, which could be another factor explaining their higher out-of-pocket health care cost.

Finally, in this age cohort, Home Spenders had the largest share of households without public or private health insurance (8 percent) compared with 5 percent, 3 percent, and 4 percent of the Typical, Discretionary, and Health Spenders, respectively.

**Figure 11**  
**Share of Households Without Health Insurance by Insurance Type, 55–64 Years Old**



\*Including coverage purchased through an employer, the individual insurance marketplaces, a union, or a trade association.

\*\*Medicare, Medicaid, VA/CHAMPUS, and other government health insurance.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

### Employment Status Differences

The labor force status of households is another factor that could be correlated with the household’s spending behavior. Figure 12 looks at the last reported employment status of households’ primary earner<sup>9</sup> during the respective age range by spending profile and for the 55–64- and 65–74-year-old age groups. Those 75–85 are not shown since they are largely retired and, hence, there are minimal variations in their employment status.

## Determining Employment Status

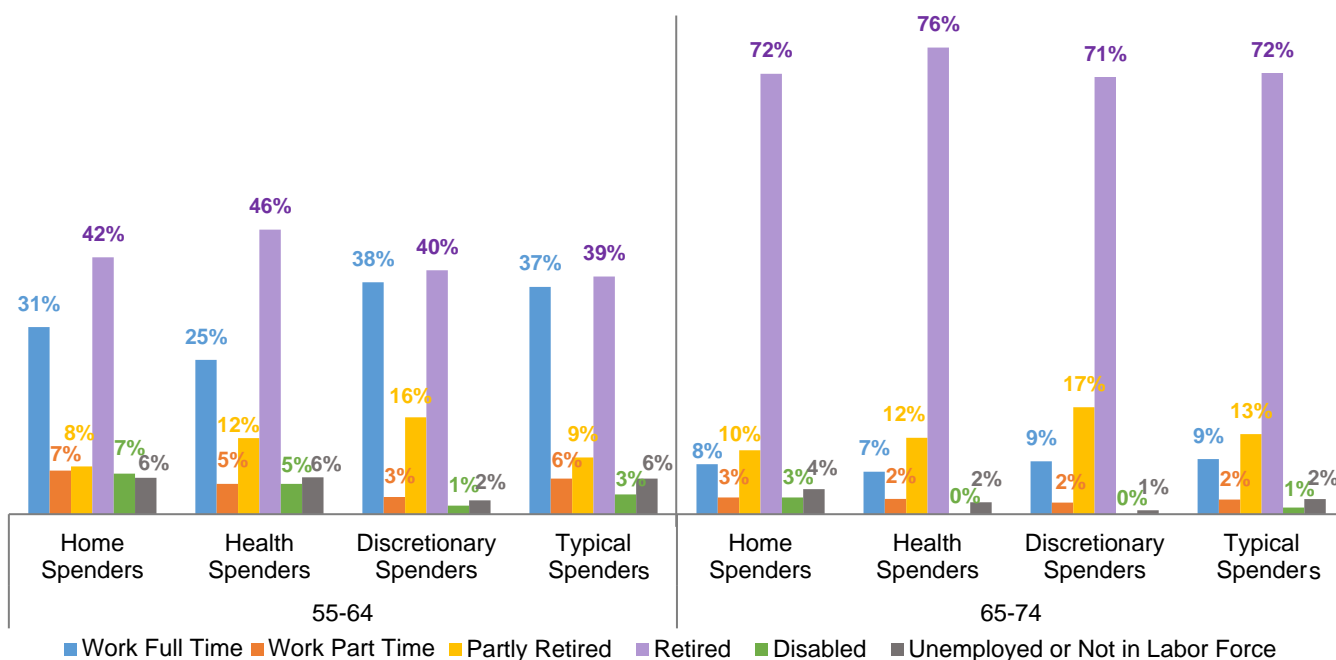
HRS uses various questions in each wave to determine households' employment status. The HRS RAND labor force status variable, which has been used in this study, pulls the responses from these questions and sorts through the discrepancies to summarize the employment status of the respondent and their spouse (if married).

According to HRS RAND documentation: "If the respondent is working 'full-time', the variable is set to this status. If s/he is working part-time and mentions retirement, it is set to 'partly retired'. If there is no mention of retirement, it is set to 'working part-time'. If the Respondent is not working but is looking for a job, the status is set to 'unemployed'. If the Respondent is not looking for a job and there is any mention of retirement, it is set to 'retired'. If retirement is not mentioned and disabled employment status is given, it is set to 'disabled'. Otherwise, it is set to 'not in the labor force.'"

Working 35+ hours per week, 36+ weeks per year is considered full time. Less than this is considered part time. The hours and weeks from both the main and secondary jobs are considered in determining whether the Respondent is working full time or part time.

The first point to note is that Health Spenders have the highest rate of retirement compared with other spending profiles. For example, 58 percent of Health Spenders in the 55–64 age group were retired or partly retired compared with 48 percent of the Typical Spenders in this age cohort.

Figure 12  
**Last Reported Employment Status of Household's Primary Earner\* During Age Range**



\*Individual in household with higher income.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Primary earners in Discretionary Spenders reported partial retirement more than any other type of spender in both the 55–64 and 65–74 age groups. For example, in the 65–74 age groups, 17 percent of the Discretionary Spenders reported working part time while retired compared with 13 percent of Typical Spenders and 12 percent and 10 percent of the Health and Home Spenders, respectively. A similar pattern was observed for the 55–64 age cohort. This could

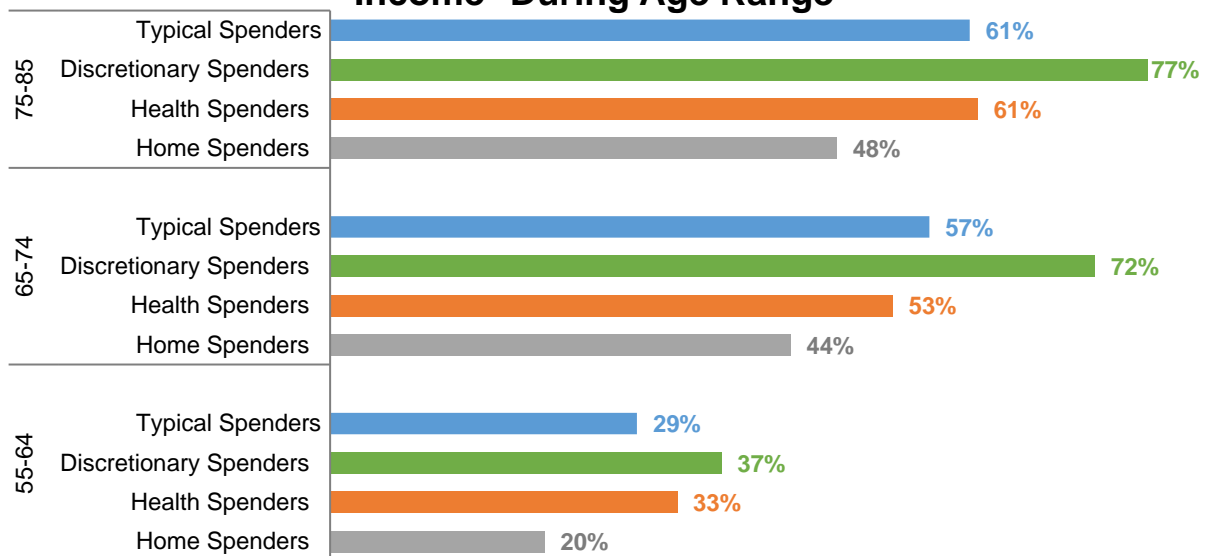
suggest that Discretionary Spenders are the most likely to reduce hours and take a gradual path to retirement or reenter the labor market after retirement compared with all other spender types. In the same vein, the combined share of households “Disabled” or “Unemployed or Not in Labor Force” was the lowest among Discretionary Spenders at only 3 percent, compared with 9 percent, 11 percent, and 13 percent of the Typical, Health, and Home Spender types in the 55–64 age group, respectively. This pattern is consistent with previous findings that Discretionary Spenders are least likely to report poor health and have higher levels of education, while Home and Health Spenders are more likely to report poor health status and have no college education. Poor health status and no college education are factors that are known to be correlated with disability, unemployment, and being out of the labor force.

### Availability of Stable Income

Figure 13 shows the share of households who reported receiving pension or annuity income<sup>10</sup> at least once during the respective age ranges. As might be expected, the overall likelihood of receiving pension income is the lowest among the youngest cohort compared with the other older age groups. While only 29 percent of the Typical Spenders in the 55–64 age cohort reported receiving pension income, 57 percent and 61 percent, respectively, of Typical Spenders in the 65–74 and 75–85 age cohorts did. Discretionary Spenders had the highest likelihood of receiving pension income across all age groups. For instance, 72 percent and 77 percent, respectively, of Discretionary Spenders in the 65–74 and 75–85 age cohorts reported receiving pension income compared with 57 and 61 percent, respectively, of Typical Spenders in these age cohorts.

On the other extreme, Home Spenders were least likely to receive income from pension plans (44 percent and 48 percent in the 65–74 and 75–85 age cohorts, respectively). Health Spenders were slightly less likely to have a pension income compared with Typical Spenders in the 65–74 age cohort (53 vs. 57 percent) but had the same likelihood of having it in the 75–85 age group (61 percent).

Figure 13  
Share of Households With Pension or Annuity Income\* During Age Range



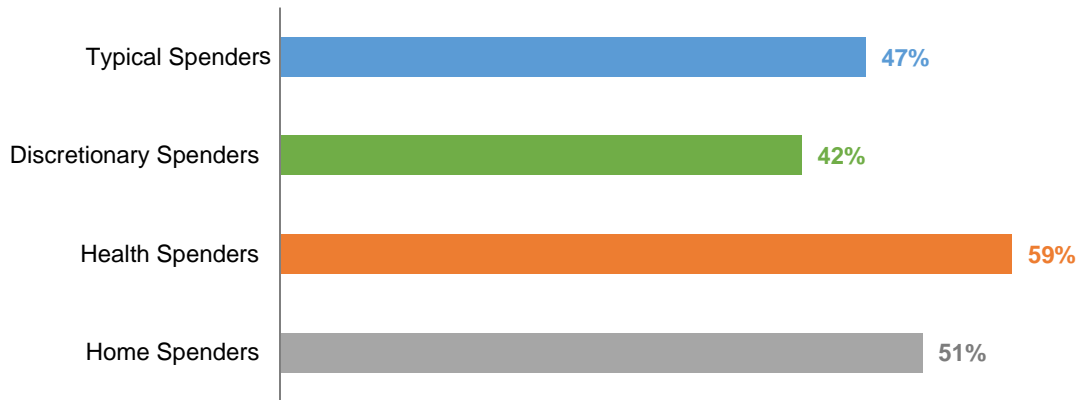
\*From respondent, if married from respondent or spouse.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Social Security claiming age is another component that could impact or be affected by household spending behavior. Figure 14 reports the percentage of households in the 55–64 age group where the primary earner started to receive Social Security income before or at the age of 64. As shown, primary earners in the Health Spender households were the most likely (59 percent) to have claimed their Social Security benefit by the age of 64, while Discretionary Spenders

were the least likely (42 percent). Home Spenders had the second-highest likelihood of having Social Security income in the 55–64 age cohort at 51 percent, compared with 47 percent of Typical Spenders. This suggests that Discretionary Spenders are the most likely to delay claiming their Social Security benefit.

**Figure 14**  
**Share of 55–64-Year-Old Households With Primary Earner\* Receiving Social Security During Age Range**

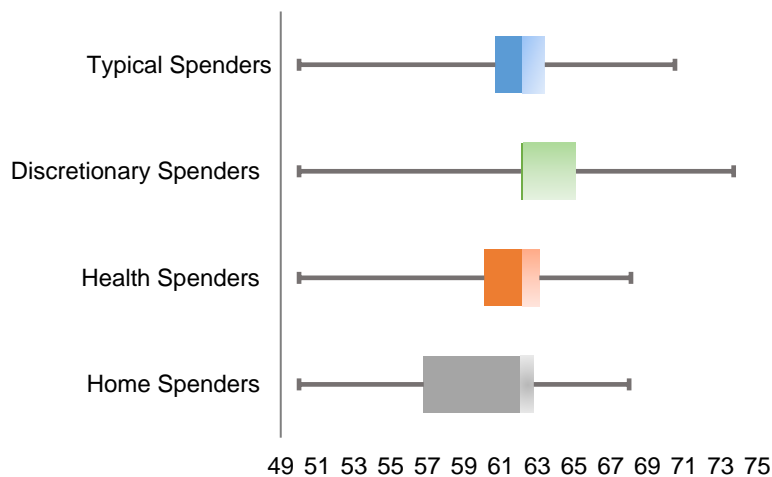


\*Individual in household with higher income.

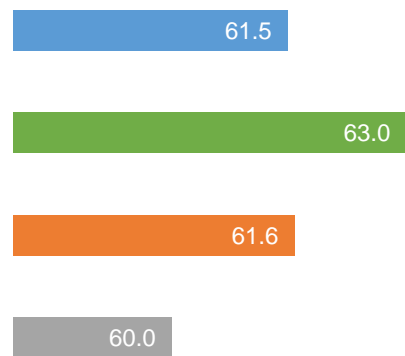
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

This point is driven home in Figures 15A and 15B, where the distribution and the average age of Social Security benefit claiming for the primary earners of the household in the 55–64 age group are shown. The average age that Discretionary Spenders first claimed Social Security income was 63, and as the distribution shows, they tended to claim at older ages compared with other spenders. On the opposite side of the spectrum, the average age at which Home Spenders claim Social Security was 60, and the wide 2<sup>nd</sup> quartile of Home Spenders suggests that they were most likely to claim their benefit at younger ages. Health Spenders and Typical Spenders claimed at relatively similar ages. However, comparing the claiming-age distribution of the two in 15A, Health Spenders were more likely to claim their benefit at younger ages compared with Typical Spenders.

**Figure 15A**  
**Distribution\* of the First Age Social Security Income Received,\*\* 55–64 Years Old**



**Figure 15B**  
**Average First Age Social Security Income Received,\*\* 55–64 Years Old**



\*Solid colored areas are the 2<sup>nd</sup> quartiles and the gradient colored are the 3<sup>rd</sup> quartiles. Left and right whiskers are bottom and top quartiles.

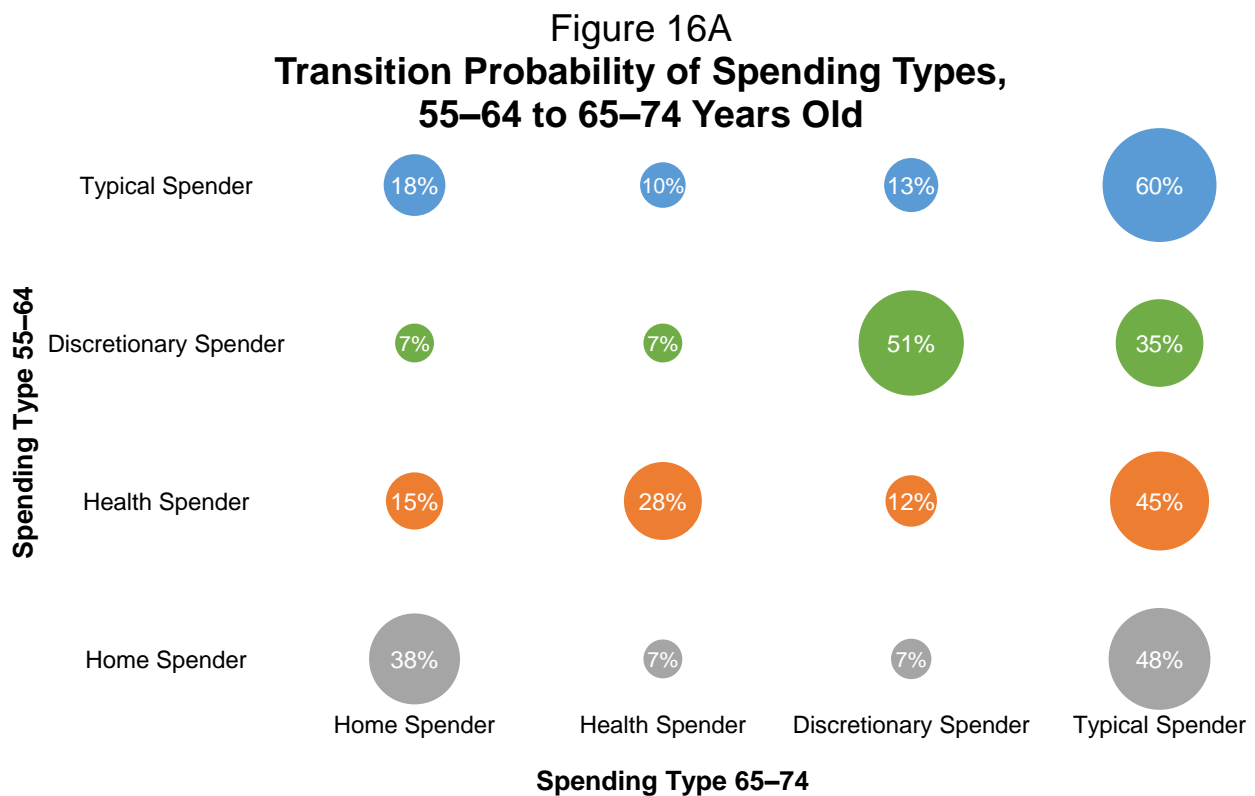
\*\*By household's primary earner.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

## How Spending Profiles Change by Age

As mentioned earlier, due to the small sample size of the CAMS datasets used for this study, the analysis in this paper has so far been focused on a cross-section of age groups rather than tracking the same individuals over time. However, it is interesting to have a sense of the likelihood of change in household spending profiles as spenders grow older. To do this, we took advantage of the longitudinal feature of the data and looked for a subsample of households with observations across all three respective age cohorts. The number of households with observations across all three cohorts was very limited and not sufficient for further division and analysis of the spending types. Instead, households with available data in two age cohorts at a time were considered. Following this approach, two subsamples of households were identified. The first group is those households who were observed during ages 55–64 and ages 65–74, and the second group is those households for which there are observations available during the ages of 65–74 and 75–85.

Figures 16A and 16B summarize the probabilities of transitioning from one spending type to another for the 55–64 and 65–74 age cohorts as they grow older. As shown, the spending type that was most likely to remain consistent between ages 55–64 and 65–74 was the Typical Spender, with 60 percent of households who were Typical Spenders ages 55–64 remaining Typical Spenders at ages 65–74 (Figure 16A). Just over half (51 percent) of Discretionary Spenders remained so between these two age cohorts. Health Spenders showed the most movement, with only 28 percent remaining in this spending category from ages 55–64 to 65–74. Indeed, nearly half (45 percent) of Health Spenders transitioned to Typical Spenders between these two age cohorts.



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

In comparison, for the middle age group, the probability of remaining a Typical Spender at ages 75–85 was lower at 54 percent (Figure 16B), and the probability of transitioning to a Health Spender was larger at 17 percent.

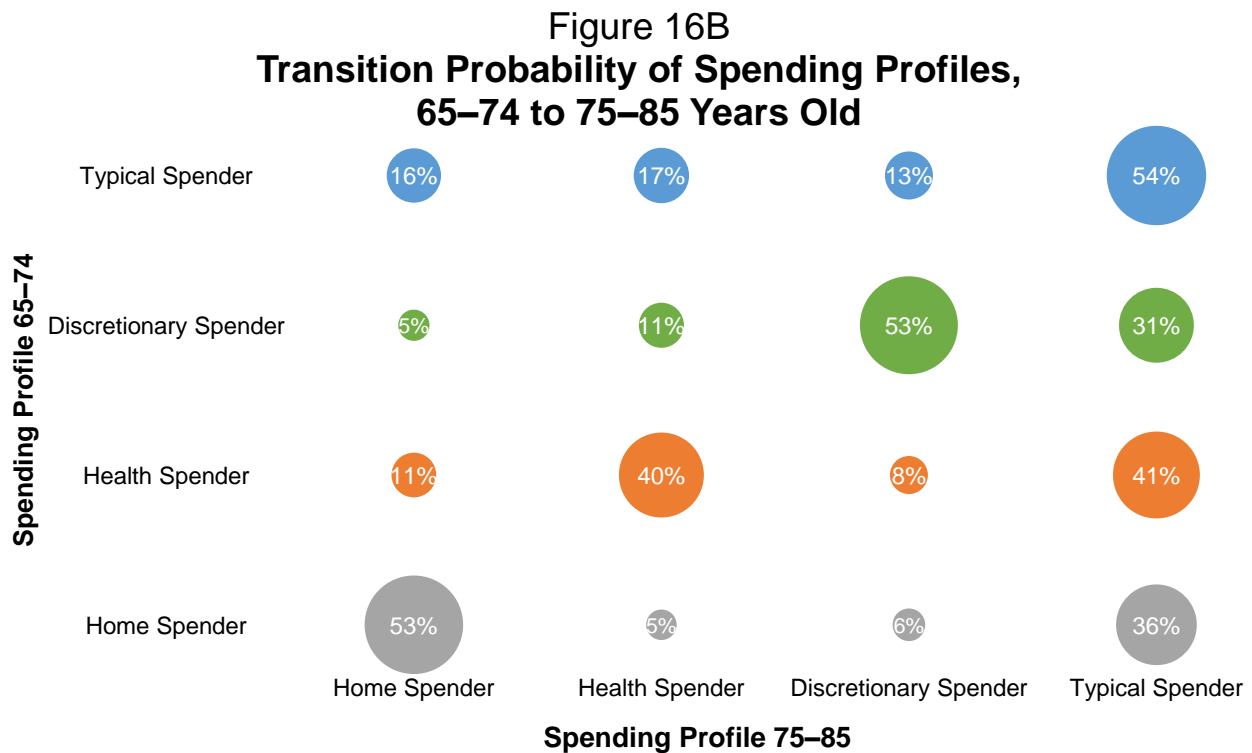
After Typical Spenders, Discretionary Spenders remained the most likely to remain in their same spending category over time — in addition to 51 percent remaining Discretionary Spenders between ages 55–64 and 65–74, 53 percent remained Discretionary Spenders between ages 65–74 and 75–85. Interestingly, Home Spenders were the least likely

to transition to Health Spenders, with only 7 percent doing so between 55–64 and 65–74 and only 5 percent doing so between 65–74 and 75–85. At the same time, Home Spenders were also unlikely to transition to Discretionary Spenders.

Health Spenders were the most likely to transition to Typical Spenders when moving from the 55–64 age cohort to the 65–74 age cohort.

However, Home Spenders in the 55–64 age group had the highest probability of switching to a Typical Spender (48 percent) when they were 65–74. Just over a third (36 percent) of Home Spenders transitioned to a Typical Spender when they were 75–85.

Overall, compared with those in the 55–64 age cohort, households who were Health and Home Spenders ages 65–74 appear to be more persistent with their spending types as they grow older.



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

## Conclusion

The findings of this research show that the spending patterns of pre-retirees and retirees are more diverse than is usually accounted for in strategies related to retirement savings and withdrawals. By incorporating retirees’ spending types and the correlated factors in financial planning, financial professionals will be better equipped to offer more specific and targeted solutions. EBRI will continue to explore this topic further by releasing another brief in early 2021 using the results of a recently conducted survey of retirees’ spending.

## Appendix

### *Spending Categories:*

**Housing expenses:** sum of mortgage payments, property taxes, homeowner's or renter's insurance, rent, utilities, home repairs, home furnishings, cleaning supplies, housekeeping and laundry services, gardening and yard supplies, and gardening and yard services.

**Food expenses:** includes food and drink, including alcoholic beverages that are bought in grocery and other stores. Dining out is not included.

**Health expenses:** include out-of-pocket (uninsured) health insurance costs, including Medicare supplemental insurance; out-of-pocket costs on prescription and nonprescription drugs; out-of-pocket costs of hospital care, doctor services, lab tests, eye, dental, and nursing home care; and out-of-pocket costs for medical supplies.

**Transportation expenses:** include car payments (principal and interest), vehicle insurance, vehicle maintenance, and gas.

**Clothing expenses:** include clothing and apparel (including jewelry), as well as personal-care products and services.

**Entertainment expenses:** sum of trips and vacations, tickets to movies and sporting or performing arts events; hobbies and leisure equipment (photography, reading, camping, etc.); dining out in restaurants, cafes, and diners; and take-out food.

**Other expenses:** include contributions to religious, educational, charitable, or political organizations, and cash and gifts to family and friends outside the household (including alimony and child support payments).

The *income measure* is taken from the RAND HRS and is the sum of:

**Labor income:** sum of wage and salary income; bonuses, overtime pay, commissions, and tips; second job income; and professional-practice or trade income.

**Capital income:** sum of business or farm income, self-employment earnings, business income, gross rent, dividend and interest income, trust funds or royalties, and other-asset income.

**Pension/annuity income:** sum of all pension and annuity payments. This includes income from defined benefit pensions and annuities, as well as income from other retirement savings such as 401(k) plans and individual retirement accounts (IRAs).

**Social Security income:** includes Social Security retirement, spouse, and widow or widower benefits.

**Other income:** sum of Social Security disability benefits, unemployment and workers' compensation, veterans' benefits, food stamps, alimony, lump sums from insurance, pensions, and inheritance.

*Total wealth* is defined (based on HRS RAND) as the sum of the:

- Value of primary residence.
- Net value of vehicles owned.
- Individual retirement accounts (IRAs). (Does not include assets in an employer-provided retirement plan such as a 401(k) plan.)
- Stocks and mutual funds.
- Checking, savings, and money market accounts.
- Certificates of deposit (CDs).
- Government savings bonds.
- Treasury bills and bonds and bond funds.
- Any other source of wealth (such as real estate outside of primary and secondary residences).

Minus all mortgages, other home loans, and other debt, such as consumer loans.



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## Endnotes

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- <sup>1</sup> Ebrahimi 2019.
- <sup>2</sup> The overlap among profiles for all age groups was minimal or none.
- <sup>3</sup> Marital status is defined as the last status reported during the age range.
- <sup>4</sup> Note that for coupled households, the educational level of the spouse with the higher income has been used.
- <sup>5</sup> Ebrahimi 2019.
- <sup>6</sup> The HRS survey instrument asks respondents to describe their health as "excellent", "very good", "good", "fair", or "poor."
- <sup>7</sup> The majority of the elderly become eligible for Medicare at age 65.
- <sup>8</sup> Including the spouse did not change the findings since for the majority of coupled households, when one spouse is covered, the other spouse also has coverage.
- <sup>9</sup> If single, the respondent, and if married, the spouse with the higher income.
- <sup>10</sup> The HRS survey instrument before 2012 asks, "Are you (or your (husband/wife/partner)) currently receiving an income from retirement pensions?" If yes, a subsequent question asks: "Who receives that?" From 2012 forward, the question, "Are you currently receiving regular payments from your [plan name]?", is asked of both the respondent and spouse if s/he reports having an employer-provided pension plan.