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Pension Income Plays Significant Role in Supporting Retirees' Spending, New EBRI Study on Spending Patterns Finds

Washington, D.C. – May 2, 2019 — A new study from the Employee Benefit Research Institute (EBRI) finds that households without pensions or annuities outspent their total income more commonly than those with pension or annuities. Specifically, EBRI found that while about a third (34 percent) of households with regular pension/annuity income spent more than their income, nearly half — 46 percent — of households without regular pension/annuity income spent more than their total income according to the study. "In the sample, 43 percent of retired single households and nearly two-thirds of retired couple households reported regular income from pensions or annuities — we know this is likely to decline with future generations of retirees," says Zahra Ebrahimi, EBRI Research Associate and author of the study. "So it is important to understand the role that pension income plays in supporting the spending of today's retirees, as well as the implications of fewer retirees having access to such income."

The *EBRI Issue Brief*, "**Spending Patterns of Older Households**," examines the spending behavior of the elderly in the U.S. population for different marital and retirement subgroups using data from the Health and Retirement Study (HRS) 2014 and the Consumption and Activities Mail Survey (CAMS) 2015, a supplement of the HRS. CAMS contains detailed spending information on durable and nondurable expenses. The amount being spent is compared with their income, and potential scenarios for financing gaps are provided. The majority of the households studied have either reached or are on the cusp of retirement.

The spending-to-income ratio is also higher for single retirees compared with retired couples; those in lower wealth quartiles had higher spending-to-income ratios than those in higher wealth quartiles.

Other major findings include:

- While the average single retiree and retired couple had fairly similar spending-to-income ratios (86 percent and 80 percent respectively), at the median there is a significant difference: the median single retired households spent 112 cents for every dollar of income reported; in comparison, the median retired couple spent 86 cents for every dollar of reported income.

- By wealth quartile, the lowest wealth quartile of single retirees has the highest spending-to-income ratio — spending an average of 131 cents for every dollar of reported income. In contrast, the highest wealth quartile of single retirees spends an average of 63 cents for every dollar of reported income. Meanwhile, the average low-wealth retired couple spends 72 cents for every dollar of reported income, compared with 96 cents for every dollar of reported income spent by high-wealth retired couples.

- Having an IRA or pension account is correlated with surpluses: 71 percent of households with a surplus had IRAs or pension accounts, vs. 52 percent with a deficit.

- The probability of having a deficit has a positive correlation with catastrophic medical expenses. For instance, of those who spent 20 percent or more of their income on medical expenses, 85 percent experienced a budget deficit. In comparison, of those who spent 5 percent or less of their income on health-related costs, only 20 percent experienced a deficit.

- Housing expenses are by far the largest item in all groups' budgets. For the average retired household, housing-related expenses accounted for 48 percent of total expenditures for those who are retired and 52 percent for those in the labor force. In contrast, their coupled counterparts allocated 7 percent less of their total spending to housing in 2015.

"With so many American workers heading for retirement, there is a clear need for continued research on consumption behavior of older Americans and accurate assessment of available financial resources in order to design better products and policies that help to maintain well-being through retirement, especially as pension income becomes less of a factor in retirement," said Ebrahimi.

"**Spending Patterns of Older Households**" is available online at www.ebri.org.

About EBRI:

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