Most Older Households Spend Conservatively

A recent study by EBRI, “Spending Patterns of Older Households,”\(^1\) shows that older households tend to spend at levels equal to or less than their available income and that retirees’ expenditures are even lower than those of pre-retirees.

The study used the Health and Retirement Study (HRS)\(^2\) 2014 and the Consumption and Activities Mail Survey (CAMS) 2015.\(^3\) A key finding is that most older households\(^4\) (59 percent) limited their expenses to a level that was at or below their income.\(^5\) While about a third (30 percent) of older households underspent their available annual income by $0 to $20,000, 29 percent underspent by more than $20,000 (Figure 1).

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\(^2\) Health and Retirement Study (2014 Core, CAMS 2015), 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 (2014, 2015).

\(^3\) The RAND HRS, which is a cleaned and streamlined version of HRS raw data, is only available until 2014.

\(^4\) The vast majority of the sample is ages 55 or older.

\(^5\) Income is defined in the HRS as labor income, capital income, pension/annuity income, Social Security income, and other income.
Further, while non-retired single Americans older than age 55 spent an average of $43,111 in 2015, retirees in a similar age range spent 25 percent less ($32,380). Households comprised of couples with at least one spouse in the labor force on average spent $68,757, while those with both partners retired spent 19 percent less, or $55,849.

The categories where retirees were spending less included housing, transportation, and entertainment.

The availability of pension income played an important role in spending. When a single retiree had regular pension income, that individual spent 32 percent more than a comparable individual without pension income ($37,560 vs. $28,464). Retired couples with regular pension income spent $59,512, or 21 percent more than those without regular pension income (who spent $49,257).

Of course, it is important to recognize that 41 percent of older households did outspend their annual income, according to the study. Those that overspent had significantly lower incomes relative to households that didn’t: $31,765 vs. $111,392 on average, respectively. At the same time, households that overspent also had higher expenditures on average than households that didn’t: $54,662 vs. $46,161, respectively (Figure 2).

![Average Income and Expenditures, by Spending Type](image_url)

Notably, the share of households that outspent their annual income was much higher when no pension income was available: while roughly 34 percent of households with pension income overspent, 46 percent of households without any regular pension income overspent.

Understanding spending patterns in retirement is critically important as Baby Boomers continue to enter retirement in large numbers. For financial planning purposes, adequacy of retirement income is commonly

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6 Pension income is the 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).
measured based on whether there is enough money to maintain a household’s pre-retirement standard of living. The accuracy of this target depends on a precise assessment of all sources of income as well as on spending needs in retirement. The findings of this research help to understand how retirees’ spending patterns vary across different demographic, financial, and retirement status groups and highlights the need for future research on how consumption patterns of older Americans evolve by age, economic conditions, health care expenses, and various life events before and after retirement.

The EBRI report, “Spending Patterns of Older Households,” is published as the May 2019 EBRI Issue Brief, and is available online here.

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7 EBRI’s Retirement Security Projection Model® simulates and defines retirement income adequacy as having sufficient financial resources to cover a set of deterministic and data-driven expenses including costs for food, apparel and services, transportation, entertainment, reading and education, housing, and uninsured medical expenses as well as stochastically modeled long-term costs related to longevity risk, investment risk, nursing facility care, and home-based health care. The findings of this paper and future research on spending patterns of the elderly using HRS and CAMS will be used to update the results of this model.