EBRI FAST Facts
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# Do Retirees Spend a Fixed Amount Throughout Their Retirement?

As more Baby Boomers[1] are approaching retirement, fewer of them are covered by defined benefit (DB) plans, which typically generate a regular and consistent income stream, and instead increasingly have defined contribution (DC) plans, which build up benefits as an account balance. Consequently, there is an increasing demand for products and services that help retirees convert their assets into an income stream that will cover their needs throughout their retirement. To design such products, it is crucial to have precise assumptions on spending and budgeting during different phases of retirement. In addition, most guidelines — such as the 4 percent rule — that are oftentimes used for retirement planning are based on the assumption that retirees' spending remains the same during all years of their retirement, but is this assumption true?

A recent study by EBRI, "How Do Retirees' Spending Patterns Change Over Time?," challenges this assumption by showing that retirees spend less than those in preretirement and late retirees spend less compared with those in early retirement. The study used the Health and Retirement Study (HRS)[2] 2004–2016 and the Consumption and Activities Mail Survey (CAMS) 2005–2017.[3]

One of the key findings is that, on average, households in late retirement (75 and older) spend less than those in early retirement (65–74 years old) and preretirement (50–64 years old). As shown in the figure, in 2017, average total expenditures were:

- 8 percent less for those ages 65–74 vs. those ages 50–64 (an average of $50,300 vs. $54,500).
- 22 percent less for those ages 75 or older vs. those ages 65–74 (an average of $39,500 vs. $50,300).
- 28 percent less for those 75 or older than those ages 50–64.

As retirees grew older, on average, they spent less on housing, food, transportation, clothing, and entertainment and more on out-of-pocket health care costs and gifts and contributions.

This decline may be driven at least partially by necessity. As also shown in the figure, the probability of having a budget deficit — defined as having higher total spending than total income — increased with age, even though the average dollar amount spent was lower for older age groups compared with

[1] Born between 1944 and 1964.
[2] 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 (2014, 2015).
[3] RAND Center for the Study of Aging. 2019. RAND HRS Longitudinal File 2016 (V1) and RAND HRS CAMS Spending Data 2017 (V1). Santa Monica, CA, Funding from the National Institute on Aging and the Social Security Administration.



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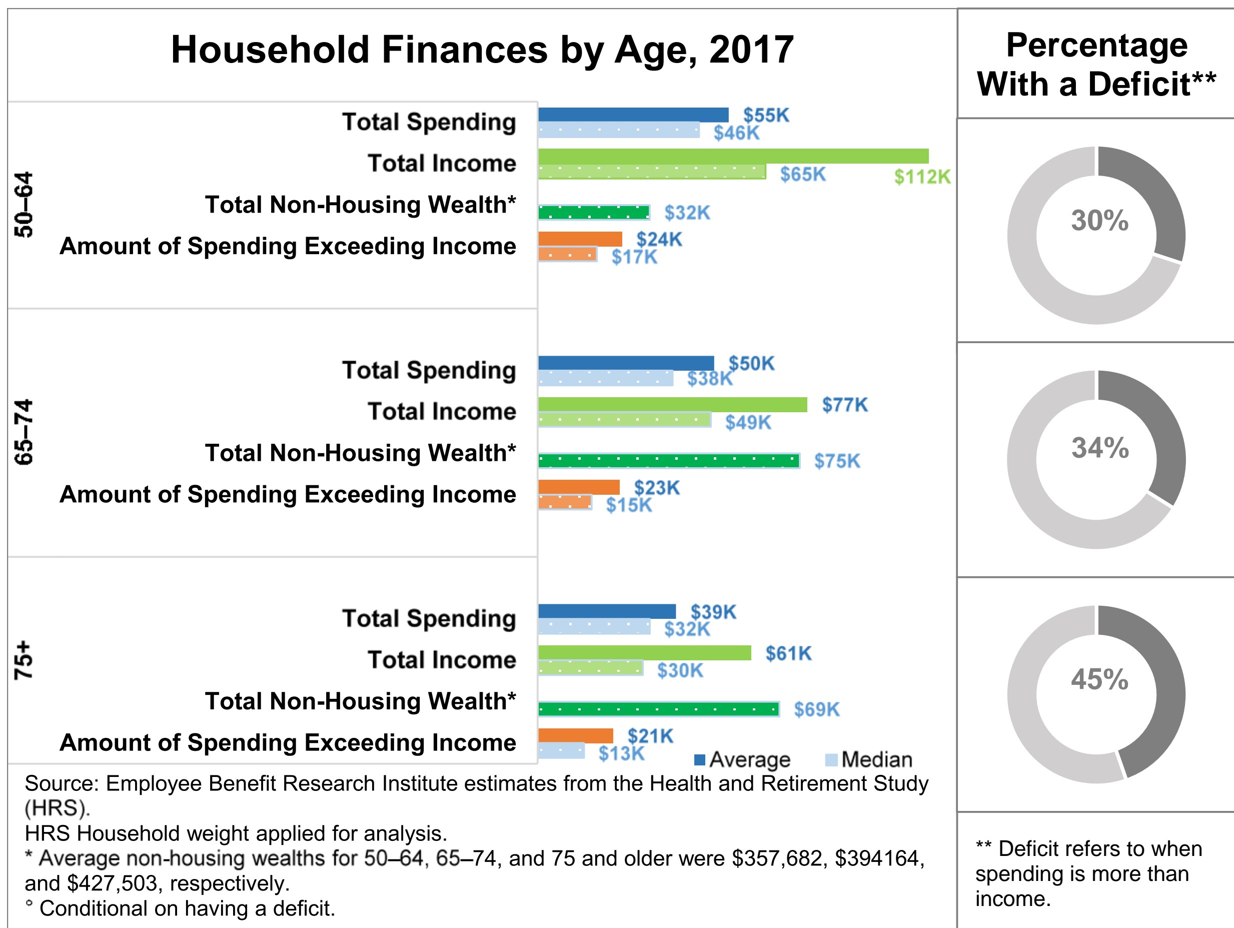
younger age groups. Both average total income[4] and average total non-housing wealth[5] were significantly lower for those ages 75 and older vs. those ages 65–74.

- In 2017, 30 percent of those ages 50–64 had budget deficits averaging $24,000.
- During that same period, 34 and 45 percent of households ages 65–74 and 75 or older experienced a budget deficit, respectively.
- However, the average amounts were $23,000 and $21,000, respectively, which could indicate that households are more willing to adjust their spending according to their income as they grow older.




Of course, increased frugality in retirement may be driven by other factors as well. Very old retirees may have less interest in or physical ability to engage in costly entertainment that requires transportation, for example. They could be hoarding money out of concern that a catastrophic health care event might occur. They could be reducing spending in order to bequeath their wealth to their loved ones. Or they may simply fear running out of money during a phase in life when it would be impossible to return to the labor force. While retirement planning strategies are designed around various

[4] Income is defined in the HRS RAND as the sum of labor income, capital income, pension/annuity income, Social Security income, and other income.

[5] Non-housing wealth is defined in the HRS RAND as the sum of the net value of vehicles owned; individual retirement accounts (IRAs); stocks and mutual funds; checking, savings, and money market accounts; certificates of deposit (CDs); government savings bonds; Treasury bills, and bonds and bond funds; and any other source of wealth (such as real estate outside of primary and secondary residences) minus all other debt, such as consumer loans.

uncertainties, it is certain that benefits and saving must be sufficient to cover the expenses for around three decades or more in retirement. The findings of this research help to understand how consumption patterns of older American evolve during different phases of retirement. EBRI will continue to explore this topic further by looking at various socio-economic factors that could impact spending in retirement.

The EBRI report, "How Do Retirees' Spending Patterns Change Over Time?,'" is published as the October 3, 2019, *EBRI Issue Brief* and is available online here.

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