EBRI Fast Facts
February 4, 2021, #380

How Has the Pandemic Changed the Spending Habits of Retirees?

Several factors can cause spending patterns to change in retirement; one is the stock market. When their nest eggs lose money, retirees may reduce spending to compensate. Another factor is loss of other sources of income. If a spouse stops working earlier than expected, spending patterns could change.

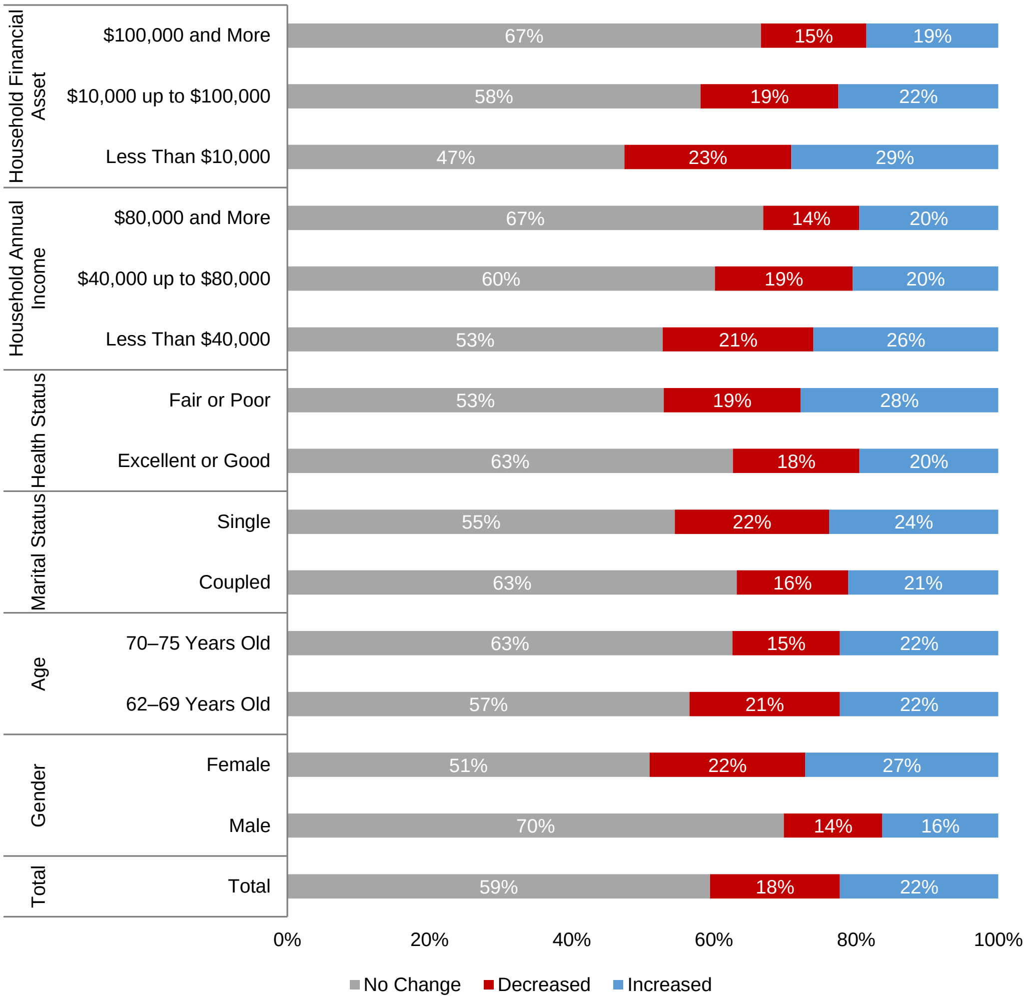
That said, the COVID-19 pandemic has been something of a mixed bag so far when it comes to factors that could impact retiree spending. Some retirees may have experienced increases in the value of their nest eggs during the pandemic: Despite large losses in February and March, the S&P 500 rose 18.4 percent in 2020 overall. At the same time, many also likely experienced losses in income and benefits. According to the Bureau of Labor Statistics, on average, 27.5 percent of the people who were not in the labor force and who did not look for work in the last four weeks because of the coronavirus pandemic between May and December of 2020 were ages 55 or older. Further, changes in lifestyle caused by fewer social events to attend during the pandemic, closures of shops and restaurants, less travel, and much more time spent at home could have affected spending.

We explored changes in spending during COVID-19 as part of the Employee Benefit Research Institute's recent survey discussed in our *Issue Brief*, "Why Do People Spend the Way They Do in Retirement?" The survey was conducted in September 2020. Two thousand retirees between the ages of 62 and 75 were asked how they handled their essential and discretionary spending during the pandemic and why.

As shown in Figure 1, since the beginning of the pandemic, the majority — 59 percent — of respondents have made no changes to their essential spending. And, among those making changes, more increased than decreased their essential spending: 22 and 18 percent, respectively. Male retirees, those older (70–75 years old), those from coupled households, and those with self-reported good health status were more likely to have made no changes in their essential budget. In addition, the higher households' incomes and financial assets, the less likely for them to change their essential expenses. For instance, 67 percent of the retirees with financial assets of $100,000 or more reported having made no changes in their essential spending, compared with 47 percent of those with less than $10,000 in financial assets.

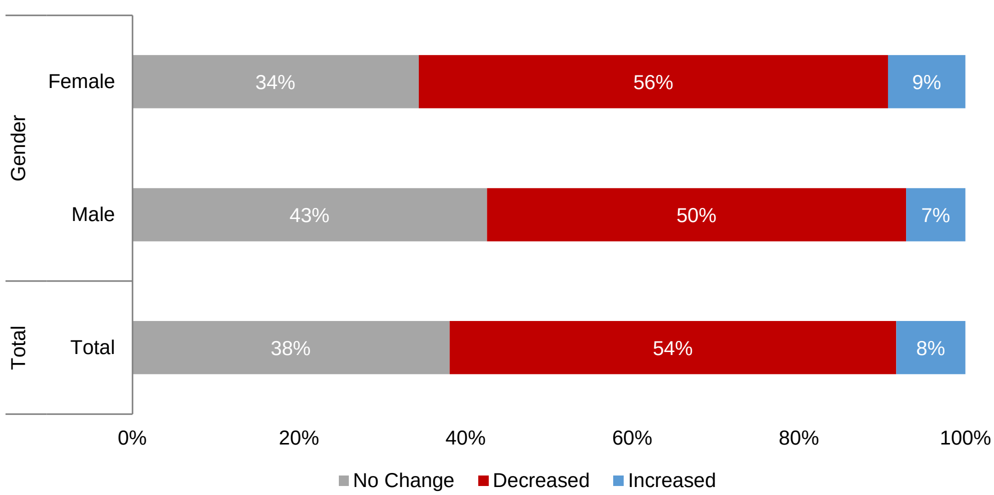
At the same time, 54 percent of the surveyed retirees somewhat or significantly reduced their *discretionary* spending since the start of the pandemic. Just over a third (38 percent) made no adjustments, and only 8 percent reported having increased their discretionary budget (Figure 2). The distribution of responses remains relatively unchanged if the sample is restricted to various demographic and economic status groups. However, male retirees were more likely to make no changes, while female retirees were more likely to report reducing their discretionary expenses.

Figure 1
Since the start of the pandemic, how have you changed your <u>essential spending</u>?



Source: EBRI's Spending in Retirement Survey.

Figure 2
Since the start of the pandemic, how have you changed your <u>discretionary spending</u>?

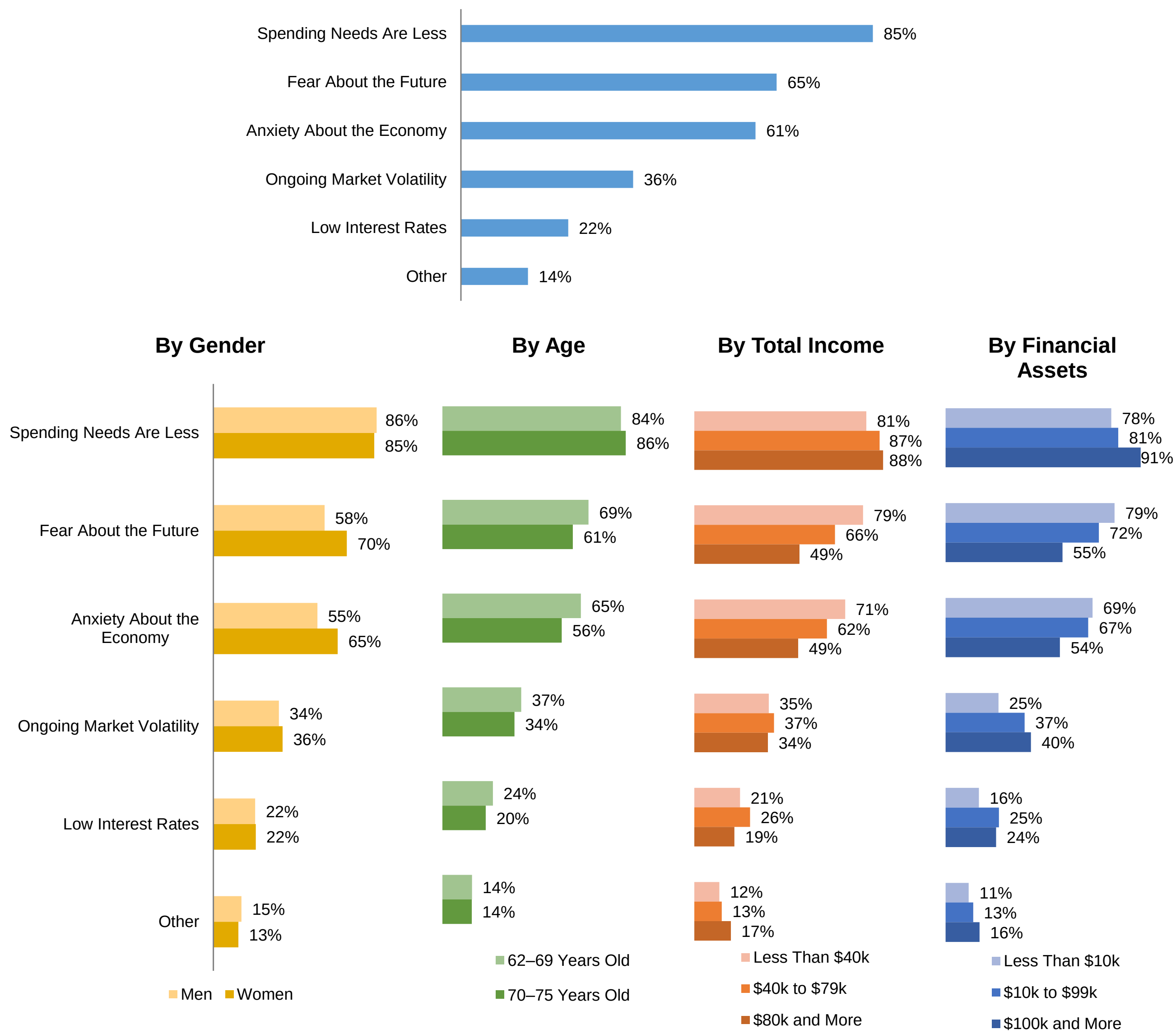


Source: EBRI's Spending in Retirement Survey.

Reasons for Reduced Spending During the COVID-19 Crisis

The EBRI survey also asked those respondents who reduced their essential or discretionary spending due to the pandemic about the factors that have motivated them to do so. As shown in Figure 3, the majority (85 percent) cited fewer spending needs, suggesting that pandemic-related lifestyle changes are the source of reduced spending. However, the second-highest selected reason at 65 percent was fear about the future, and this was closely followed by anxiety about the economy (61 percent). While these responses suggest that the pandemic's potential impact on retirement nest eggs, income, and benefits may be the source of the reduced spending, only 36 percent directly cited concerns about ongoing market volatility, and just 22 percent cited low interest rates as reasons for cutting their spending during the COVID-19 crisis.

Figure 3
What are the reasons your spending is reduced during the COVID-19 crisis?



Source: EBRI's Spending in Retirement Survey.

Respondents with higher levels of financial assets or annual income were more likely to choose fewer spending needs compared with those with lower levels of financial assets and income (91 percent of those with $100,000 or more in financial assets compared with 78 percent of those with less than $10,000). In contrast, those with lower levels of assets and income were more likely to refer to fear about the future and anxiety about the economy as a cause for reduced spending.

Younger (62–69 years old) and female retirees were also more likely to cite fear about the future and anxiety about the economy as a factor causing them to cut their spending during the COVID-19 crisis compared with their older (70–75 years old) and male counterparts.

It will be interesting to track whether the spending habits adopted by retirees during the COVID-19 crisis and quarantine are temporary or something that will outlast the current crisis.

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on Twitter or LinkedIn.

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