A Tale of Three Retirement Lifestyles

Spending in retirement is an increasingly important area of focus for the retirement industry, plan sponsors, and policymakers as more individuals enter retirement. Indeed, in the third quarter of 2020, about 28.6 million Baby Boomers — those born between 1946 and 1964 — reported that they were out of the labor force due to retirement.¹ Yet not enough is understood about how retirees spend their money and, just as importantly, why they spend the way they do.

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In its Issue Brief “Why Do People Spend the Way They Do in Retirement? Findings From EBRI’s Spending in Retirement Survey,” the Employee Benefit Research Institute (EBRI) reported the spending habits and situation of 2,000 individuals ages 62 to 75 at and during retirement. Three types of retirees in particular stood out: (1) highly indebted retirees who described their debt as unmanageable or even crushing; (2) long-term secure retirees, or those retirees who reported they had long-term care insurance; and (3) full-nester retirees, or those reporting that they had at least one child at home with them. These three groups are highly distinct from one another and paint a portrait of starkly different retirement lifestyles depending on these three circumstances.

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Highly Indebted Retirees:

One in ten (10.3 percent) of the survey respondents reported that their debt was either unmanageable or crushing. These highly indebted retirees were characterized as predominantly female, divorced, Black, and in poor health, with relatively low household financial assets. Indeed, one-fifth had no financial assets, compared with 6 percent of typical retirees. The retirement lifestyle they portray is fraught with challenges, uncertainty, frustration, and the sense that they are barely hanging on.

They struggle with making ends meet: Retirees with unmanageable debt were nearly twice as likely to believe they saved less than was needed for retirement compared with the typical retiree, with 57 percent saying they saved much less than was needed. And indeed, the median value of their household’s financial assets was quite low at $3,000, compared with $75,000 for the typical retiree. Highly indebted retirees were more likely to have worked during retirement and have done so to pay for essential expenses such as housing, food, or medications (85 percent vs. 64 percent of typical retirees). Their debt was twice as likely to be credit card debt and was also likely to involve medical debt (51 percent vs. 11 percent of typical retirees). They were also highly likely to cite Social Security as a major source of income (87 percent vs. 71 percent of the typical retiree) and to have begun taking Social Security before the age of 62 (19 percent).

Highly indebted retirees were more likely to be spending their retirement assets on health and medical insurance (83 percent vs. 69 percent of typical retirees), housing (83 percent vs. 69 percent of typical retirees), and medical bills (76 percent). And in fact, they found most expenses to be somewhat or much more than expected in retirement: health and medical insurance (37 percent), housing costs (44 percent), medical bills (42 percent), housing expenses (44 percent), retirement lifestyle (39 percent), car expenses (38 percent), and needing physical support or care (22 percent).

They find spending is more challenging: Retirees with unmanageable debt are more likely to dip into their savings during volatile market periods. They were nearly five times as likely to say their current spending level was higher than they can afford compared with the typical retiree. More than 1 in 5 said it is difficult for them to determine what money is available for them to spend in retirement (21 percent vs. 6 percent of typical retirees). A third found it difficult to decide where their spending money will come from (34 percent vs. 8 percent of typical retirees). Three in ten found it difficult to estimate what kind of lifestyle they can afford (29 percent vs. 9 percent of typical retirees). Two-thirds expected to spend down all or a significant portion of their assets (67 percent, compared with 43 percent of typical retirees). Four in ten said they take money out of their financial accounts on a regular and systematic basis, or fairly often, in order to supplement their monthly income in order to purchase things, compared with 17 percent of typical retirees.

Their standard of living is not as high: Highly indebted retirees tended to have far lower household income as well, with 50 percent reporting total household income in 2019 of less than $30,000 — compared with 27 percent of typical retirees reporting that amount. Seven in ten said their standard of living was lower in retirement than it was while they were working (compared to 31 percent of typical retirees). One-quarter of highly indebted retirees reported depression/anxiety (compared with 11 percent of typical retirees), 18 percent reported obesity (compared with 8 percent of typical retirees), and 28 percent reported other chronic illnesses (compared with 15 percent of typical retirees).

Long-Term Secure Retirees:
In comparison, 18.6 percent of respondents reported having long-term care. These long-term secure retirees portray a life in retirement that is comfortable; stable; secure and even luxurious; and filled with flexibility, opportunities, and options.

**They are wealthier:** The household assets of long-term secure retirees were higher (a median of $150,000 vs. $75,000 for the typical retiree). Their household income was also higher, with 34 percent reporting income higher than $100,000, vs. 22 percent of typical retirees. Three in ten long-term secure retirees were not seeking to spend down their assets and even seeking to grow their assets in retirement (compared with 23 percent of typical retirees). The long-term secure retirees who had spent down or were planning to spend down their assets were predominantly doing so on discretionary items such as vacations, clothes, or jewelry (77 percent vs. 71 percent of typical retirees). They were also more likely than average to spending money on education for their children or grandchildren (19 percent, vs. 12 percent of typical retirees).

**They have more sources of — often stable — income:** Long-term secure retirees were considerably more likely to report having a defined benefit or traditional pension plan (70 percent vs. 58 percent of typical retirees). And they tended to have more sources of income generally and less reliance on Social Security: 59 percent said they had personal retirement savings (compared with 51 percent of typical retirees), 46 percent reported an individual retirement account (IRA) (vs. 38 percent of typical retirees), 36 percent reported a workplace retirement savings plan (compared with 30 percent of typical retirees), and 30 percent reported a product that guarantees monthly income for life, such as an annuity (compared with 23 percent of typical retirees). They were also likelier to report having retiree healthcare (14 percent).

**They aren’t seeking to spend down their assets:** Long-term secure retirees were more likely to describe the amount they saved for retirement as greater than was needed (23 percent, vs. 18 percent of typical retirees). They were less likely to say they stick to a monthly spending plan (25 percent, vs. 19 percent of typical retirees). And they were more likely than average to say that a goal at retirement was spending time with family and friends (74 percent vs. 68 percent of typical retirees) or to perform volunteer and charity work (28 percent, vs. 20 percent of typical retirees)

**Full-Nester Retirees**

Finally, 12.3 percent of the survey respondents reported that they had children living at home, with 65 percent noting one child, stepchild, or grandchild now living with them; 22 percent citing two; and 14 percent citing three or more. Full nesters were more likely than average to be Black (15 percent) or Asian/Pacific Islander (14 percent). This compares with 10 percent and 5 percent Black and Asian/Pacific Islander respectively among typical retirees. Full nesters’ retirements appear comfortable but focused much more on the needs of others. And while sometimes this focus may be financially detrimental to full nesters’ retirements, it also appears central to their overall well-being.

**They have lower assets but higher income:** Full nesters were most likely to say they are solely responsible for financial decisions when it comes to the household (43 percent, vs. 36 percent of typical retirees). Their median household financial assets were lower than average at $45,000, compared with $75,000 for the typical retiree. However, 27 percent reported more than $100,000 in income in 2019, compared with 22 percent of typical retirees.

**They desire to preserve assets but may spend more than they thought they would:** Full nesters are more likely than average to seek to maintain or even grow their assets during retirement (31 percent vs. 23 percent of typical retirees). However, those full nesters who were spending down their retirement assets were doing so on health and medical insurance (80 percent vs. 69 percent of typical retirees), housing repairs or renovations (77 percent), supporting other family members (53 percent), and education costs for children and grandchildren (21 percent vs. 12 percent of typical retirees). They were more likely than average to report that costs associated with supporting

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other family members were higher than expected (21 percent) and that education costs for children or grandchildren were higher than expected (11 percent vs. 3 percent of typical retirees).

**Their family and friends are increasingly important:** Full nesters reported that spending time with family and friends was very important at the time of their retirement (77 percent). And 98 percent of them said that this has become more important or of equal importance since they first retired.

**Conclusion**

While it is difficult to plan for every contingency during retirement, the findings from the **Spending in Retirement Survey** make it clear that three variables result in vastly different retirement outcomes. High debt is associated with considerable retirement insecurity across almost every measure. Other EBRI research, unfortunately, shows that more elderly people are finding themselves with debt in retirement. On the flip side, those reporting the presence of long-term care insurance demonstrated a higher level of retirement security across many measures. It is possible that such individuals are just above-average retirement planners or that they were fortunate enough to work for companies that provided excellent retirement benefits, such as retiree medical insurance. Finally, those with children living at home during retirement fell somewhere in the middle. While they had lower assets than average and spend more money than anticipated when it comes to their family members, their focus on prioritizing family and friends has only increased as retirement has progressed. Understanding such differences in retirement outcomes is essential when it comes to enhancing policies, products, and services geared to improve Americans’ financial lives in retirement.

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