SPENDING PATTERNS OF RETIREES OVER TIME

POLICY FORUM #86

DECEMBER 12, 2019

EMPLOYEE BENEFIT RESEARCH INSTITUTE

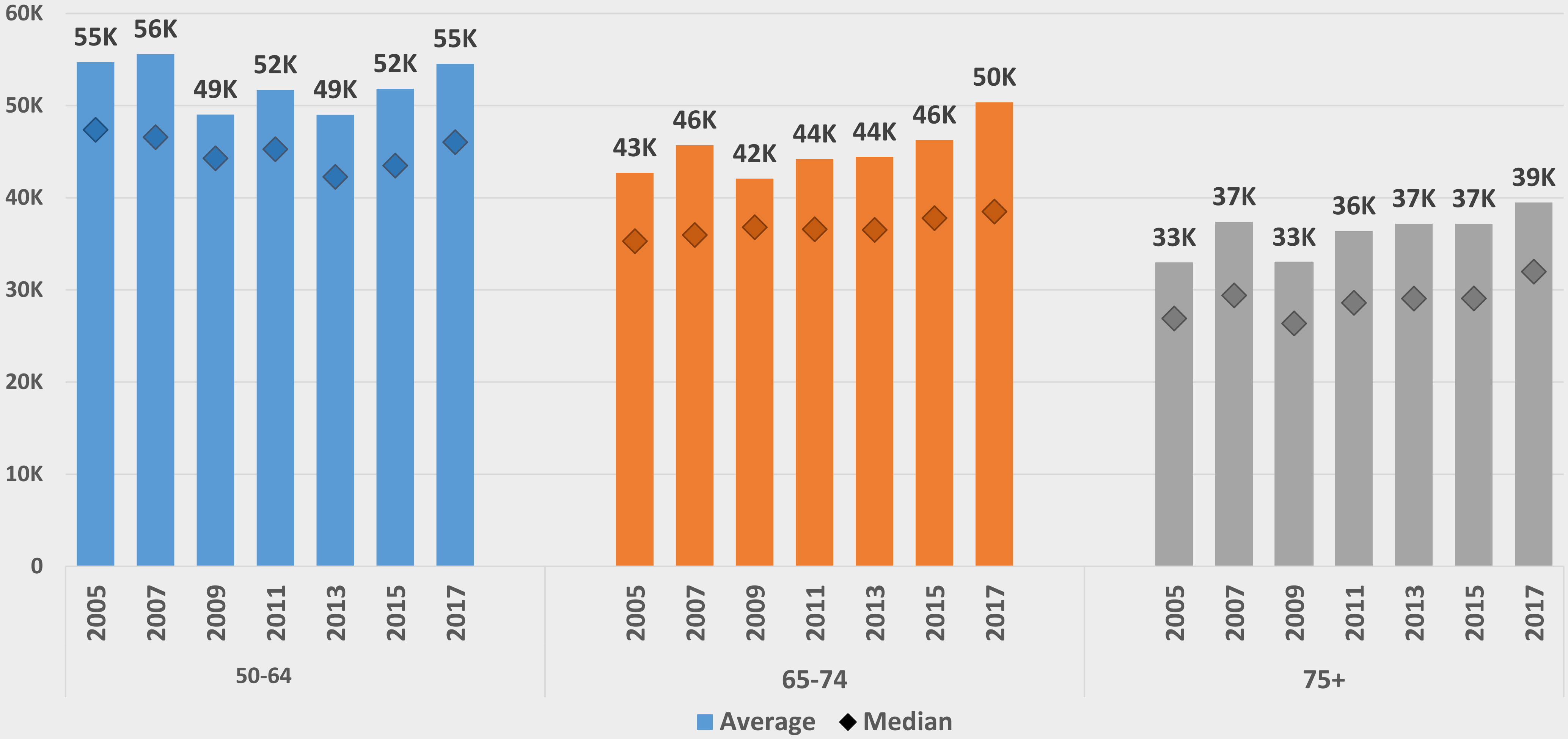
INTRODUCTION

- As many Baby Boomers are approaching retirement, fewer of them are covered by DB plans that typically generate a regular income in retirement and increasingly have DC plans that build up benefits as an account balance.
- There has been an increasing demand for products and services that help clients in decumulation in retirement as well as accumulation when they need to know:
  - Whether they have enough money to retire.
  - How to convert their assets into an income stream that will cover their needs in retirement.
- To design such products, precise assumptions on spending and budgeting for different phases of retirement (pre-retirement, early retirement, and late retirement) are crucial.
- Following EBRI's line of research on this issue, the current research focuses on spending patterns of the elderly as they transition into retirement as well as during retirement.

DATA AND DEMOGRAPHIC CHARACTERISTICS

- This study uses data from the Health and Retirement Study (HRS) 2004-2016 and the Consumption and Activities Mail Survey (CAMS) to examine the spending pattern of households with a financial representative in 50–64, 65–74, and 75-or-older age groups between 2005 and 2017, biennially.
- Households with a reference person 65 and older make up 60 percent of the sample.
- <u>Average family size drops by age</u>. The average household size for the overall sample was 2.15 members in 2016, with a high of 2.4 for the 50–64 age group and a low of 1.8 for the 75-or-older age group.
- <u>College education has increased</u>. In 2004, the percentage of households with a college-educated reference person was 25 percent, compared with 33 percent in 2016.
- In 2016, homeownership among older households was 76 percent for the 50–64 age group compared with 85 and 80 percent for the 65–74 and 75-and-older age groups, respectively.
- <u>Mortgage-free home ownership increases by age</u>. In 2016, 76 percent of homeowners 75-or-older had no mortgage debt compared with 60 and 40 percent of their counterparts in 65-74 and 50-64 age groups, respectively.

AVERAGE AND MEDIAN HOUSEHOLD TOTAL EXPENDITURES, BY AGE, 2005-2017, IN 2017 $S



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS)

EBRI

AGE AND SPENDING CATEGORIES

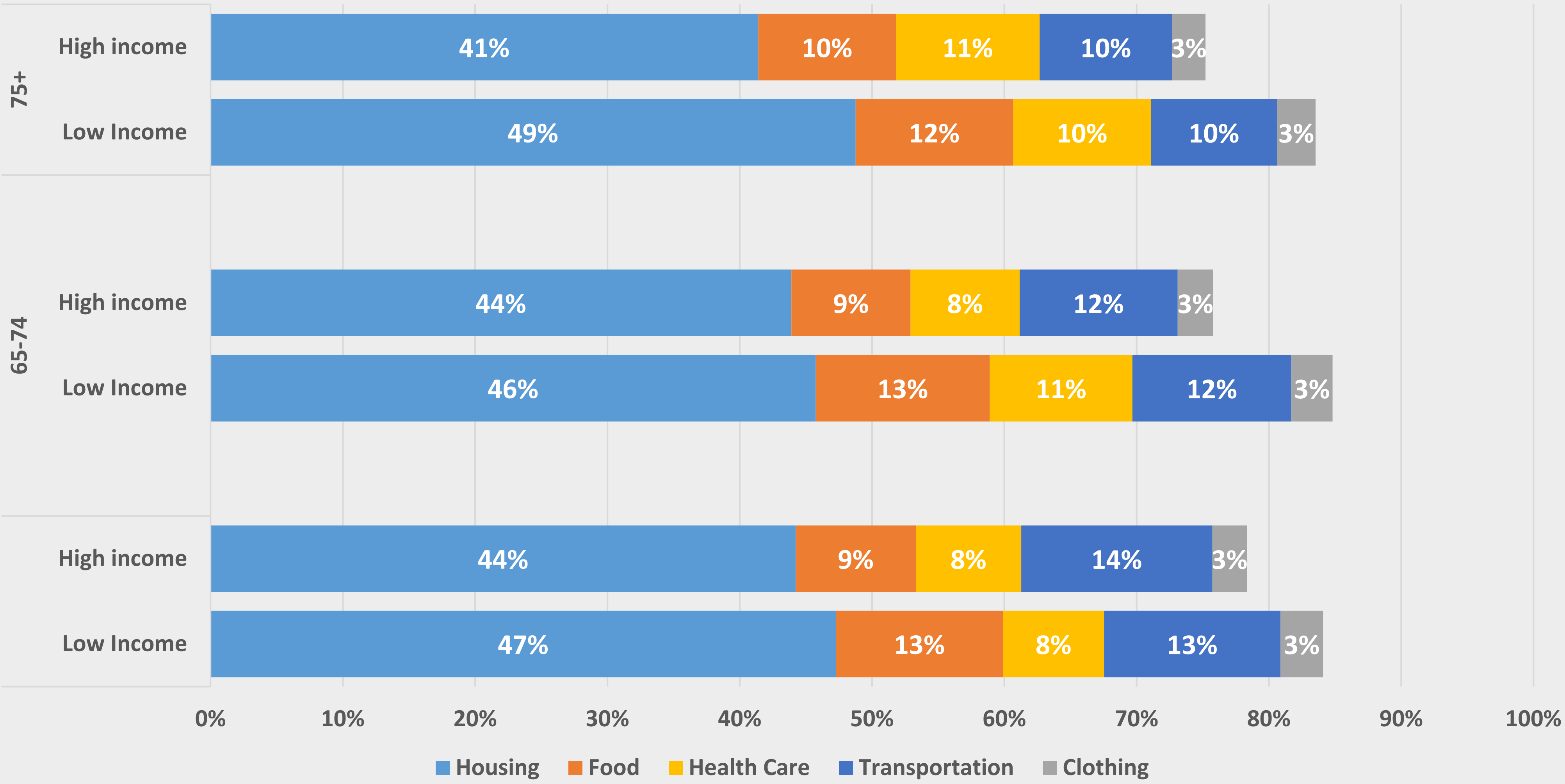
- The average dollar amount spent on housing, food, transportation, clothing and entertainment goes down as households grow older.
- The average dollar amount spent on health care cost and gifts and contributions either goes up or stays the same during all survey years. However, if we take into account that family size reduces with age, per person average health care spending is larger for the 75-or-older age group compared with younger households.

Percentage Difference in the Average Dollar Amount Spent by 50-64 and 75-and-older Age Groups, 2017

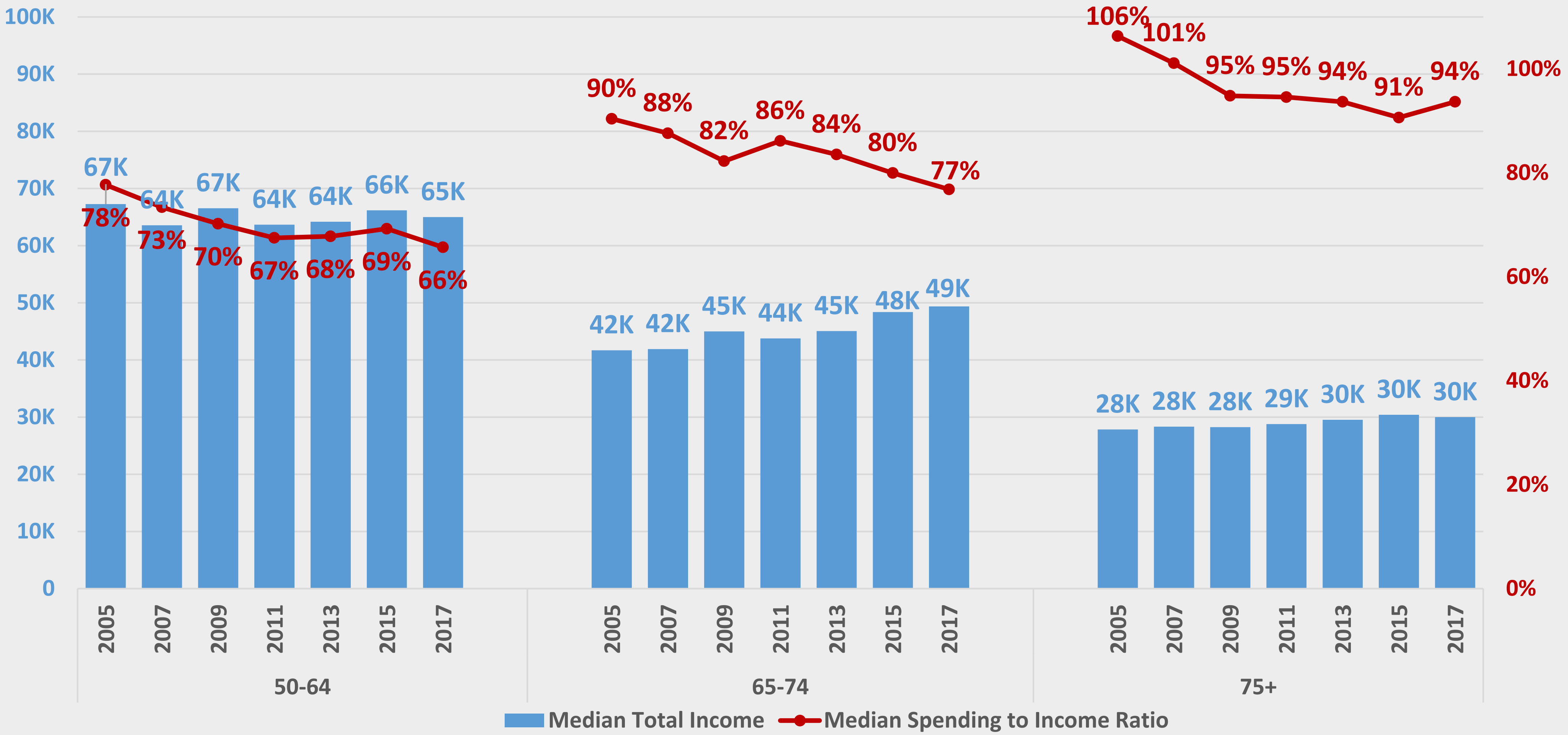
- Housing — 34%
- Food — 32%
- Transportation — 53%
- Clothing — 21%
- Entertainment — 34%

- Out of pocket health care cost — 0%
- Gifts, contributions, etc. — 6%

SHARE OF AVERAGE ANNUAL SPENDING ON NECESSITIES IN 2017, BY AGE AND INCOME DISTRIBUTION

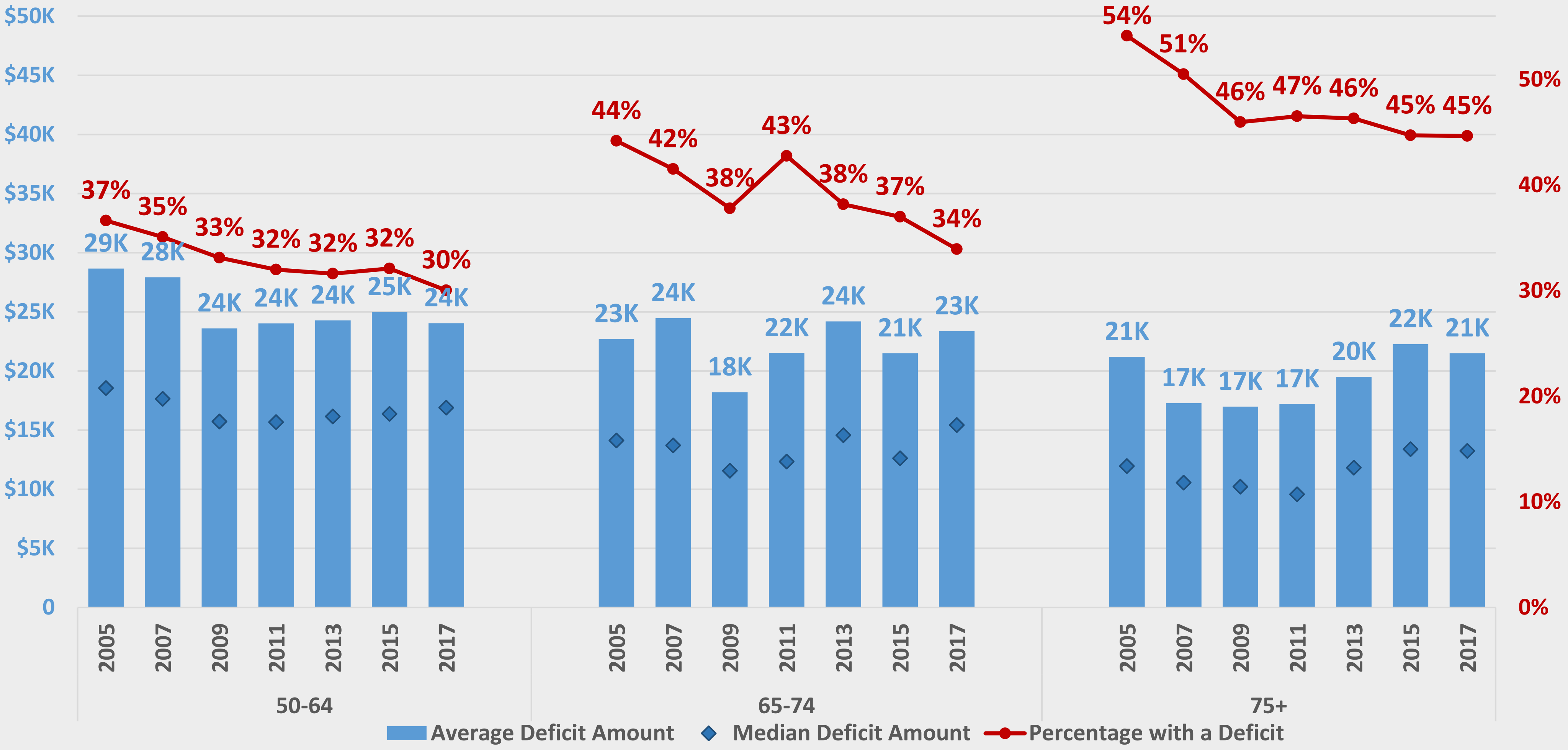


MEDIAN TOTAL INCOME AND SPENDING TO INCOME RATIO, BY AGE, 2005-2017, IN 2017 $S



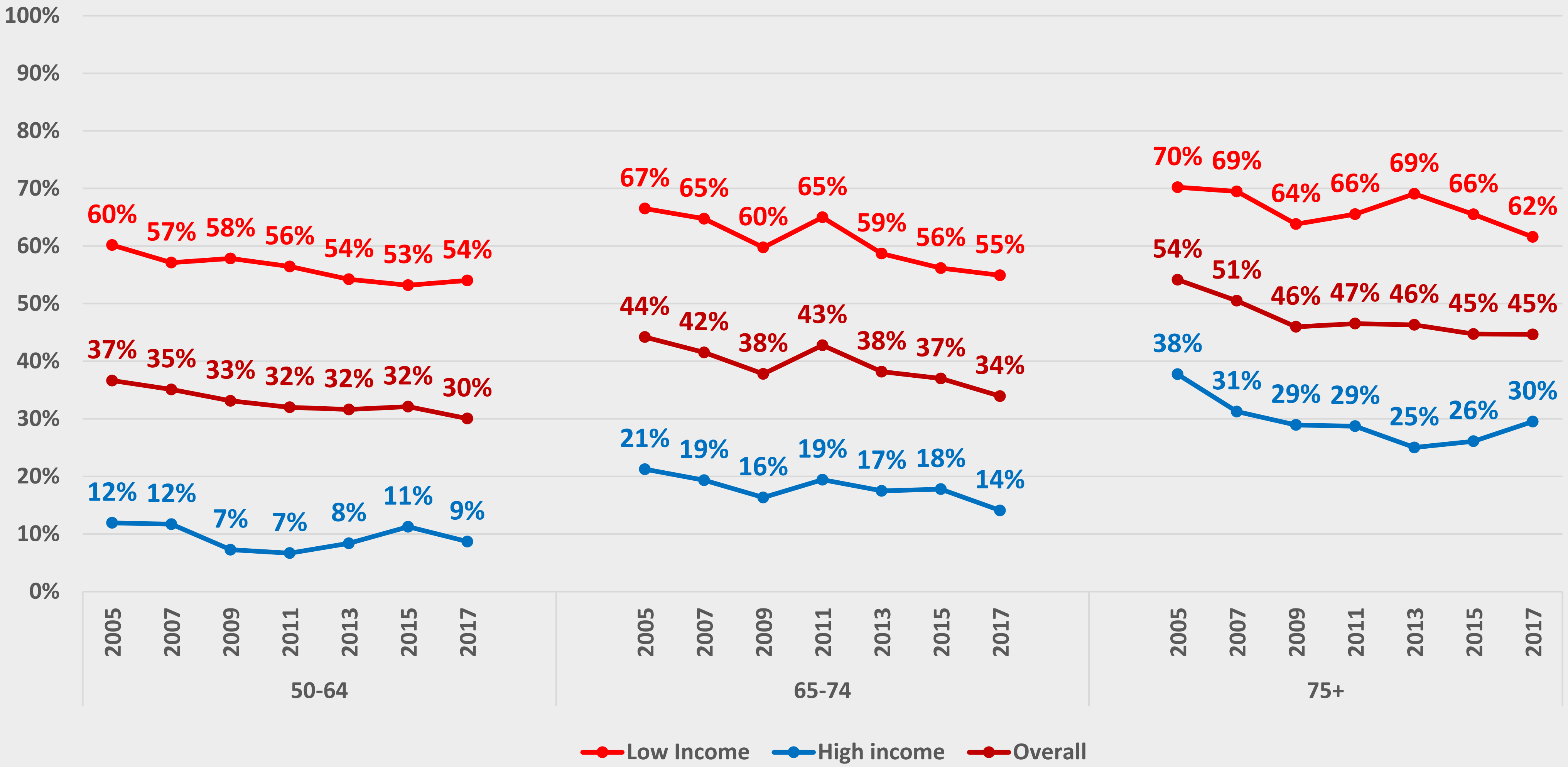
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS)

PERCENTAGE WITH A DEFICIT AND AVERAGE DEFICIT AMOUNT (CONDITIONAL ON HAVING A DEFICIT), BY AGE, 2005-2017



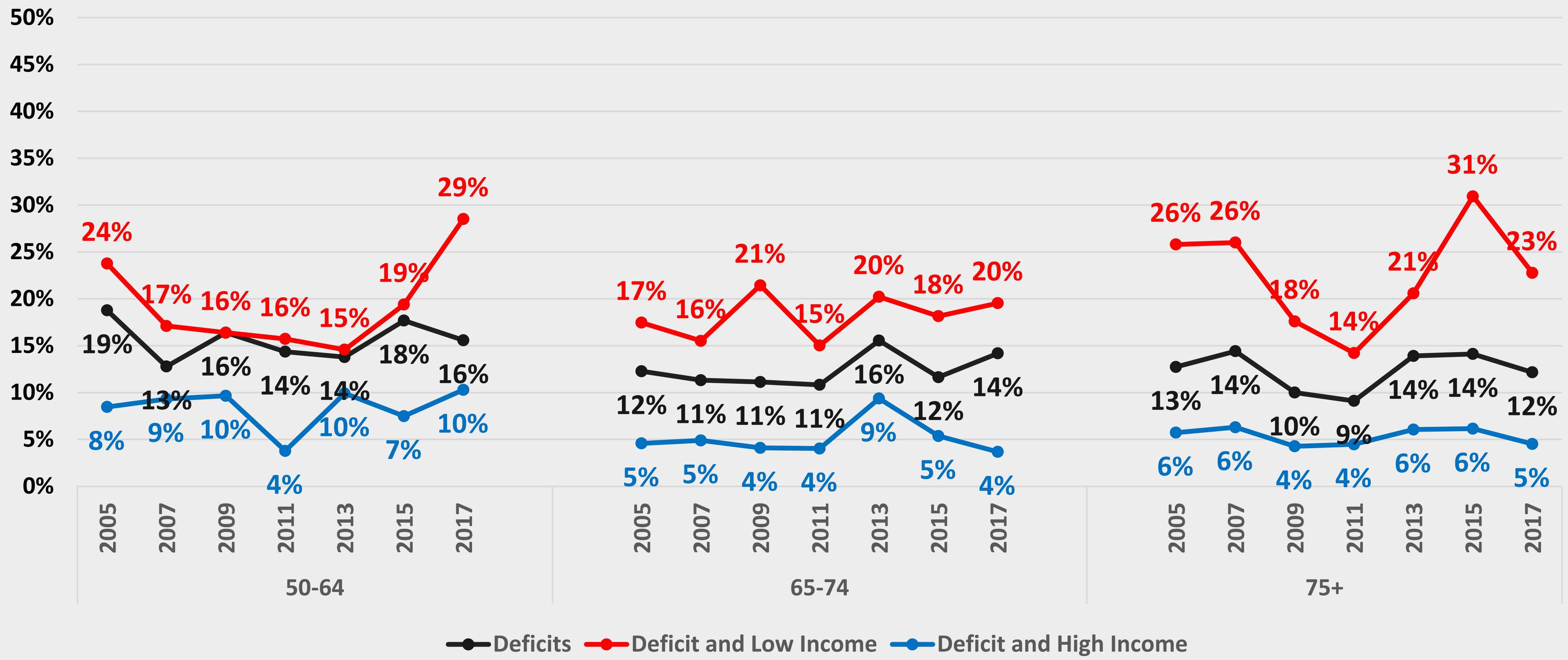
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS)

PERCENTAGE WITH A DEFICIT, BY AGE AND INCOME LEVEL, 2005-2017



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS)

MEDIAN BUDGET DEFICIT TO NON-HOUSING WEALTH RATIO CONDITIONAL ON HAVING A DEFICIT, BY AGE AND INCOME LEVEL, 2005-2017, IN 2017 $S



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS)

MAIN TAKEAWAYS

- ✓Average annual total spending is lower for households in older age groups compared with those in younger age groups.
- ✓On average, households spent less on housing, food, transportation, entertainment, and clothing as they grew older. Taking into account the reduction in family size, the average dollar amount spent on health care and gifts and contributions, is higher for older age groups.
- ✓Housing is the largest spending category for every age group.
- ✓The average share of budget allocated to health care costs and gifts and contributions, is higher for older age groups.
- ✓On average, low-income households, spend larger share of their expenses on necessities compared with those with a high income.
- ✓Median total income was lower for households in older age groups. In addition, they had higher median spending-to-income ratios than younger age groups.
- ✓The fraction of households who spent more than their income increased with age. However, the average amount overspent was lower for older age groups compared with younger age groups.
- ✓We show some evidences that suggest, households with low incomes are more likely to spend down their liquid assets to cover their expenses as they grow older.