

Notes

How Does Household Expenditure Change With Age for Older Americans? p. 2

A T A G L A N C E

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- Home and home-related expenses is the largest spending category for every age group.
- Health expenses increase steadily with age. In 2011, households with at least one member between ages 50 and 64 spent 8 percent of their total budget on health items, compared with 19 percent for those age 85 or over. Health-related expenses occupy the second-largest share of total expenditure for those ages 75 or older.
- The two components of household expenditures that show a declining pattern across age groups are transportation expenses and entertainment expenses. Food and clothing expenses (as a share of total expenditure) remain more or less flat across the different age groups.
- There is a large increase in spending at the 95th percentile for those age 90 or older, which can be attributed to very high health care expenses.

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By Sudipto Banerjee, Ph.D., Employee Benefit Research Institute

Introduction

Retirement saving involves a lot of unknowns, the most important being not knowing how much money will be needed in retirement. Although it is impossible to predict the retirement expenses of any particular household, the average amounts spent by current retirees can serve as important benchmarks for individual savers as well as for industry experts and policymakers.

This *Notes* article examines the expenditure pattern of the older segment of the U.S. population. The majority of the households studied here have either reached retirement age or are on the cusp of retirement. The data come from the Health and Retirement Study (HRS) and the Consumption and Activities Mail Survey (CAMS), which is a supplement of the HRS (described below). CAMS contains detailed spending information on 26 nondurable and six durable categories, and it follows the same group of people over time. Using this information coupled with the income information available in the HRS, this study summarizes the consumption behavior of the American elderly. The primary goal is to examine how overall spending and spending in different categories change with age.

Data

Two data sources are used for this study. First is the HRS, which is a study of a nationally representative sample of U.S. households with individuals over age 50. It is the most comprehensive survey of older Americans in the nation and covers topics such as health, assets, income, and labor-force status in detail. It is a biennial, longitudinal survey with questionnaire waves in even-numbered years beginning in 1992. The initial sample consisted of individuals born between 1931–1941 and their spouses, regardless of their birth year. Younger cohorts have been added in following years. The study is sponsored by the National Institute on Aging (NIA) and the Social Security Administration (SSA) and administered by the Institute for Social Research (ISR) at the University of Michigan.

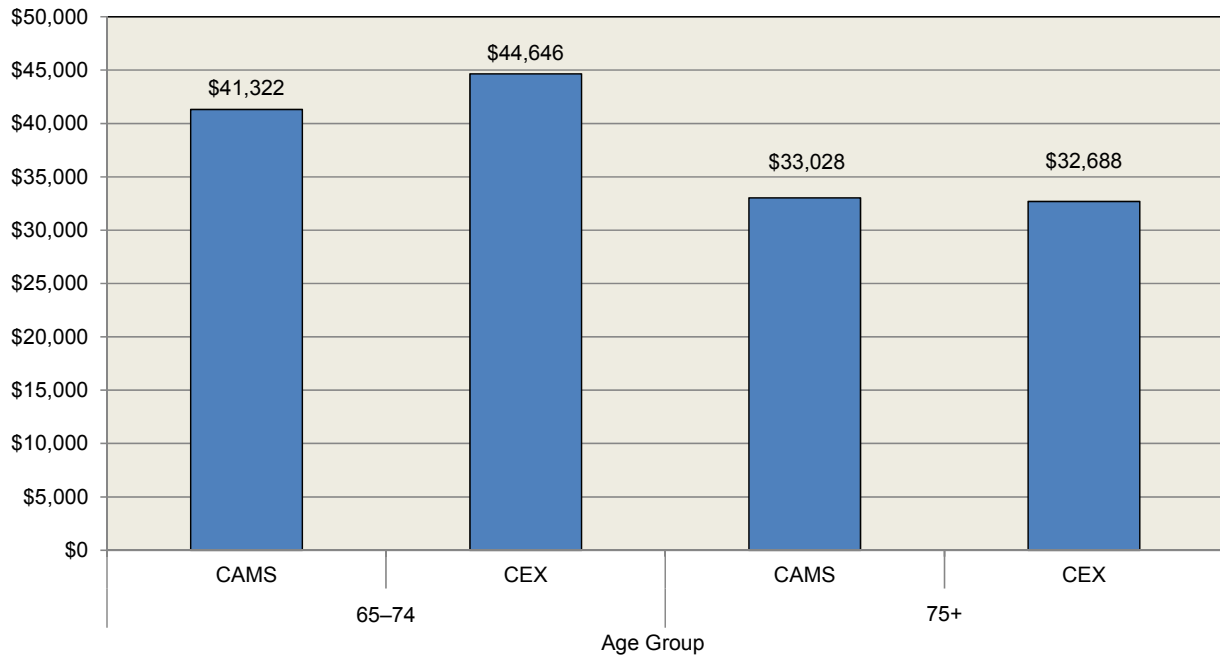
The second source of data used in this study comes from CAMS, which was started in 2001 as a supplement to the HRS. From the participants in the 2000 HRS, 5,000 households were selected at random and mailed the CAMS questionnaire. In couple households, the questionnaire was sent randomly to one of the two spouses. Since 2001, CAMS has been conducted every two years, with 2011 being the latest round of available data. It collects spending information on 32 categories (six durable and 26 non-durable categories).

Figure 1 shows how overall reported spending in CAMS households with at least one member above age 65 in 2011 compares with those reported in the Consumer Expenditure Survey (CEX), which is the benchmark survey on household expenditure in the United States. For households with at least one member between ages 65 and 74, CAMS reports a slightly lower (\$41,322) mean household expenditure than CEX (\$44,646). But for those ages 75 and above, there is not much difference in mean household expenditure between CAMS (\$33,028) and CEX (\$32,688). The household-income data are taken from the RAND version of HRS data because it provides a consistent measure of income across all waves.¹

Household Income and Expenditure Across Ages

Figure 2 takes a closer look at the expenditure pattern across ages, both by breaking total household expenditure into different categories and also by separating it into different age groups. The mean, median (in 2013 dollars) and percentage share of each category in total spending are reported. The different expenditure categories are described above.

Figure 1
Mean 2011 Household Expenditures in
Consumption Activities and Mail Survey (CAMS)
and Consumer Expenditure Survey (CEX), by Age



Source: Employee Benefit Research Institute estimates from CAMS and Bureau of Labor Statistics reported Expenditure Tables for CEX.

"Expenditures" Defined

- Home-related expenses include mortgages, property taxes, homeowner's or renter's insurance, rent, utilities, home repairs, home furnishings, housecleaning supplies, housekeeping and laundry services, gardening and yard supplies, and gardening and yard services.
- Food expenses include food and drink, including alcoholic beverages that are bought in grocery and other stores. Dining out is not included.
- Health expenses include out-of-pocket (uninsured) health insurance costs, including Medicare supplemental insurance; out-of-pocket costs on prescription and nonprescription drugs; out-of-pocket cost of hospital care, doctor services, lab tests, eye, dental, and nursing home care; and out-of-pocket costs for medical supplies.
- Transportation expenses include car payments (principal and interest), vehicle insurance, vehicle maintenance, and gas.
- Clothing expenses include clothing and apparel (including jewelry) and also personal-care products and services.
- Entertainment expenses include trips and vacations, tickets to movies, sporting, or performing-arts events; hobbies and leisure equipment (photography, reading, camping, etc.); dining out in restaurants, cafes, and diners; and take-out food.
- Other expenses include contributions to religious, educational, charitable, or political organizations, and cash and gifts to family and friends outside the household (including alimony and child-support payments).

Some immediate patterns emerge from Figure 2. First, as in previous studies (Banerjee, 2012; Butrica, Goldwyn, and Johnson, 2005; Butrica and Mermin, 2006), it is found that home and home-related expenses is the largest spending category for every age group. In any given year, the percentage of total expenditures for home-related items was very close for every age group. Second, health expenses increase steadily with age. In 2011, households with at least one member between ages 50 and 64 spent 8 percent of their total budget on health items, while those ages 85 or over spent 19 percent of their budget on health items. Health-related expenses occupy the second-largest share of total expenditure for those over age 75. For some, health care expenses can be heavily skewed toward the end of life (DeNardi et. al., 2010). To that extent, the difference between mean and median health care expenses for the oldest age group (85 and above) is important. For example, in 2011, while the median health care expenditure for this group was \$2,814, the mean was much higher at \$6,603.

The two components of household expenditures that show a declining pattern across age groups are transportation expenses and entertainment expenses. As a share of total expenses, transportation expenses fall the most. For example, in 2011, they constituted 16 percent of total expenses for households with at least one member between ages 50 and 64, as opposed to 7 percent for those ages 85 and above. With retirement, daily transportation needs (such as commuting to work) decrease, and with increasing age and declining health, people become more restricted to the indoors, which cuts entertainment expenses as well. Food and clothing expenses (as a share of total expenditure) remain more or less flat across the different age groups.

Change in Household Expenditure for a Fixed Group of Households

Although Figure 2 shows detailed household spending across several years, Figure 3 is more helpful in understanding how household spending changed in recent years as the household's members aged, because Figure 3 tracks the spending of a fixed set of households over time. Starting with 2005, it shows how total spending as well as spending in different categories have changed as people aged through 2011.

Average household spending dropped between 2005 and 2011 in every age group, and younger households cut back spending more than older households during that period. For example, households between ages 50–59 in 2005, most of whom were presumably still in the labor force but on the cusp of retirement, reported the highest drop. Their average household spending dropped from \$53,284 in 2005 to \$45,234 in 2011 (in 2013 \$s), a real decrease of 15 percent. In terms of specific categories, their average spending on clothing dropped 36 percent, followed by other spending at 25 percent.

Whether this was a short-run drop in response to the 2008 market crash or part of a long-run trend remains to be seen. Households between ages 60 and 64 and those between ages 65 and 74 both reported a 10 percent drop in average household spending. For both of these two groups, the highest drops came in transportation and clothing expenses. A large part of these expenses are related to work, and with many households in these age groups moving into retirement during the time frame these changes are not surprising. For the oldest group, 75 and above, there was a 5 percent drop in overall spending but a 6 percent increase in health-care expenses.

Age Trends

This section takes a detailed look at different components of household spending and how they change with age. Combining data from 2003 to 2009, Figure 4 shows how mean household income and expenditures change with age. Income falls much faster than expenditures for older age groups. Taking age 65 (i.e., households that have at least one member age 65) as the benchmark, average household income is 20 percent less by age 75 and 50 percent less by age 85. In comparison, average household expenditures, again measured against the age-65 benchmark, are 16 percent lower by age 75 and 40 percent lower by age 85. It should be noted here that the income and consumption paths do not show the same group of households at different ages (this is a cross-sectional trend).

Figure 2
Mean and Median Spending in 2013 \$s in Each Category, and Mean Percentage
Share of Each Category in Total Spending (Odd Years), by Age Groups

	50-64			65-74			75-84			85+		
	Mean	Median	% of Total Expenses	Mean	Median	% of Total Expenses	Mean	Median	% of Total Expenses	Mean	Median	% of Total Expenses
2003												
Home	\$24,803	\$16,381	40%	\$19,006	\$11,890	38%	\$17,144	\$10,466	40%	\$13,857	\$7,902	42%
Food	6,151	4,935	13	5,134	3,948	13	4,462	3,290	12	3,003	2,303	10
Health	5,462	3,204	10	5,558	3,436	12	6,402	4,024	15	8,081	4,533	21
Transport	9,134	5,897	15	6,060	3,835	13	3,960	2,616	10	2,258	1,084	5
Clothing	2,781	1,392	5	2,118	1,063	5	1,672	906	4	1,358	664	4
Entertainment	6,114	3,784	11	5,538	2,923	11	3,588	1,842	8	1,972	808	6
Other	4,177	1,581	7	5,750	1,525	8	4,966	1,518	10	3,646	1,066	10
Total Spending	59,588	46,430		49,175	38,566		43,434	29,953		36,571	25,147	
2005												
Home	23,996	17,782	44%	19,070	12,029	41%	13,579	10,403	40%	17,246	7,946	43%
Food	5,369	4,290	12	4,691	3,575	12	3,994	3,098	14	2,842	2,145	13
Health	4,873	2,765	9	4,730	3,253	12	5,555	3,772	16	6,334	3,492	21
Transport	8,522	6,489	16	5,979	3,909	14	3,611	2,622	11	1,535	1,127	6
Clothing	2,060	1,144	4	1,518	834	3	1,119	655	3	1,285	530	3
Entertainment	5,586	3,337	10	4,774	2,383	9	3,355	1,477	8	1,615	619	5
Other	3,830	1,203	6	3,979	1,191	7	4,706	1,138	8	3,007	715	7
Total Spending	55,673	45,611		44,285	34,456		35,707	28,402		32,474	21,715	
2007												
Home	26,381	17,151	45%	18,532	13,439	42%	15,543	9,868	41%	14,759	9,521	47%
Food	5,023	4,377	12	4,667	3,502	12	4,033	3,098	13	2,645	2,042	11
Health	4,751	2,632	9	4,652	3,008	11	5,063	3,263	14	4,475	3,140	16
Transport	8,086	6,066	16	6,137	4,186	14	3,695	2,755	11	1,723	1,111	6
Clothing	1,912	1,100	4	1,752	785	4	1,199	673	4	1,001	516	5
Entertainment	5,354	3,120	9	4,953	2,626	10	3,140	1,616	9	1,784	606	5
Other	3,085	1,122	5	4,242	1,122	7	4,081	1,144	8	3,734	752	10
Total Spending	55,934	44,205		45,158	34,729		38,287	30,656		30,137	23,865	
2009												
Home	24,401	17,810	47%	18,506	13,361	44%	14,861	11,000	42%	11,959	7,985	41%
Food	5,109	4,231	12	4,215	3,554	12	4,090	3,255	13	2,623	2,256	12
Health	4,999	2,604	9	4,388	3,140	11	5,688	3,502	15	5,651	2,786	20
Transport	6,925	5,358	14	5,008	3,580	13	3,552	2,528	10	1,674	1,144	7
Clothing	1,749	976	3	1,249	759	3	999	585	3	800	468	5
Entertainment	4,904	2,802	9	4,013	2,256	9	2,984	1,356	8	1,569	621	6
Other	2,993	1,085	5	3,603	1,112	7	3,826	1,085	8	3,741	672	9
Total Spending	49,373	41,638		41,516	34,931		36,566	29,054		28,596	21,141	
2011												
Home	22,668	16,398	47%	18,720	12,642	43%	14,732	10,805	42%	13,111	8,781	44%
Food	4,970	4,036	12	4,526	3,982	13	3,994	3,228	13	2,520	2,152	11
Health	4,176	2,338	8	4,383	3,104	11	4,624	3,109	13	6,603	2,814	19
Transport	6,847	5,484	16	5,169	4,025	14	3,666	2,794	11	1,972	1,241	7
Clothing	1,429	869	3	1,311	724	3	950	569	3	888	434	5
Entertainment	4,608	2,534	9	4,300	2,380	9	3,277	1,655	9	1,609	714	6
Other	2,708	776	5	3,583	1,148	7	3,565	1,034	8	3,188	734	8
Total Spending	47,829	38,642	0	42,805	34,036		35,315	29,884		30,610	22,263	

Source: Employee Benefit Research Institute estimates from Consumption Activities and Mail Survey (CAMS).

Figure 3
Mean and Median 2011 Spending in 2013 \$s in Each Category, and Mean Percentage Share of Each Category in Total Spending for a Fixed Group of Households (Odd Years Only), by Age Groups as of 2005

	2005			2007			2009			2011		
	Mean	Median	% of Total Expenses	Mean	Median	% of Total Expenses	Mean	Median	% of Total Expenses	Mean	Median	% of Total Expenses
50-59												
Home	\$24,462	\$18,771	45%	\$23,063	\$17,255	45%	\$22,051	\$16,587	47%	\$21,722	\$15,887	46%
Food	4,997	4,290	11	4,895	4,085	12	4,857	4,231	13	4,480	4,036	12
Health	4,619	2,717	9	3,945	2,435	8	4,526	2,451	9	4,274	2,504	9
Transport	8,518	6,779	17	7,953	5,836	16	6,490	4,950	14	6,535	5,277	15
Clothing	2,188	1,215	4	1,836	1,122	4	1,508	911	3	1,398	869	4
Entertainment	5,075	3,580	9	4,948	3,120	9	4,566	2,782	9	4,427	2,659	10
Other	3,319	1,191	5	3,181	1,010	5	2,761	976	5	2,494	776	5
Total Spending	53,284	45,534		51,090	43,612		46,406	39,807		45,234	38,209	
60-64												
Home	19,755	14,618	42%	20,132	15,440	42%	18,604	14,366	43%	18,506	13,115	42%
Food	4,716	4,231	13	5,071	4,040	12	4,428	3,781	12	4,454	3,738	13
Health	4,775	2,789	10	5,376	3,266	11	4,400	3,208	11	4,244	2,908	11
Transport	7,015	5,233	15	6,989	4,831	15	5,536	4,458	14	5,418	4,437	13
Clothing	1,558	953	4	1,579	923	3	1,254	813	3	1,297	745	3
Entertainment	5,120	2,860	10	5,648	3,048	10	4,524	2,821	10	4,278	2,359	9
Other	3,227	1,430	6	3,144	1,366	6	3,274	1,302	7	4,043	1,138	8
Total Spending	48,209	43,374		48,641	41,501		43,867	36,479		43,362	36,105	
65-74												
Home	17,983	11,937	41%	16,527	12,549	42%	15,006	11,713	42%	15,759	11,460	43%
Food	4,163	3,575	12	4,238	3,367	13	3,993	3,385	12	4,261	3,497	13
Health	4,686	3,337	12	4,495	3,030	11	4,489	3,277	13	4,536	3,104	13
Transport	6,035	3,901	14	5,595	3,916	14	4,281	3,298	13	4,218	3,270	12
Clothing	1,546	851	4	1,394	740	4	1,134	651	3	1,103	620	3
Entertainment	4,816	2,562	10	4,440	2,467	10	3,581	1,974	9	3,591	1,782	9
Other	3,950	1,430	8	4,486	1,122	7	3,418	1,193	8	3,072	1,034	7
Total Spending	41,800	34,439		40,737	33,553		36,354	31,349		37,514	30,333	
75+												
Home	12,662	10,035	39%	15,095	10,128	42%	12,920	9,764	41%	13,287	9,437	43%
Food	3,664	3,098	13	3,880	2,918	13	3,642	2,821	12	3,126	2,690	12
Health	5,140	3,723	16	4,428	3,461	14	5,298	3,262	16	5,463	2,983	16
Transport	3,481	2,619	10	3,212	2,333	10	2,851	2,081	9	2,340	1,883	8
Clothing	1,124	715	3	1,109	673	4	926	542	4	793	465	4
Entertainment	3,719	1,632	8	3,008	1,607	8	2,445	1,144	8	1,991	939	7
Other	5,057	1,549	10	3,738	1,346	10	4,002	1,299	10	3,544	1,034	10
Total Spending	33,530	27,314		35,803	29,710		33,075	26,801		31,761	25,527	

Source: Employee Benefit Research Institute estimates from Consumption Activities and Mail Survey (CAMS).

Data from 2003 to 2011 are used for Figures 5 and 6. First, Figure 5 shows how the dollar amounts (in 2013 \$s) spent in different categories change with every single year of age. It is clear that home-related expenditures are by far the largest spending category, and even if the dollar amount spent on homes is significantly smaller for those who are older, it remains the largest spending category through the oldest ages. Second, for working-age households, transportation remains the second-largest spending category, only to be replaced by health care expenses around age 75. Not surprisingly, health care expenditures are the only category in which the dollar amount spent is larger for those who are older. Finally, the average amount spent for entertainment purposes does not show any significant increase around the traditional retirement ages, and, in fact, clearly trends downward with age.

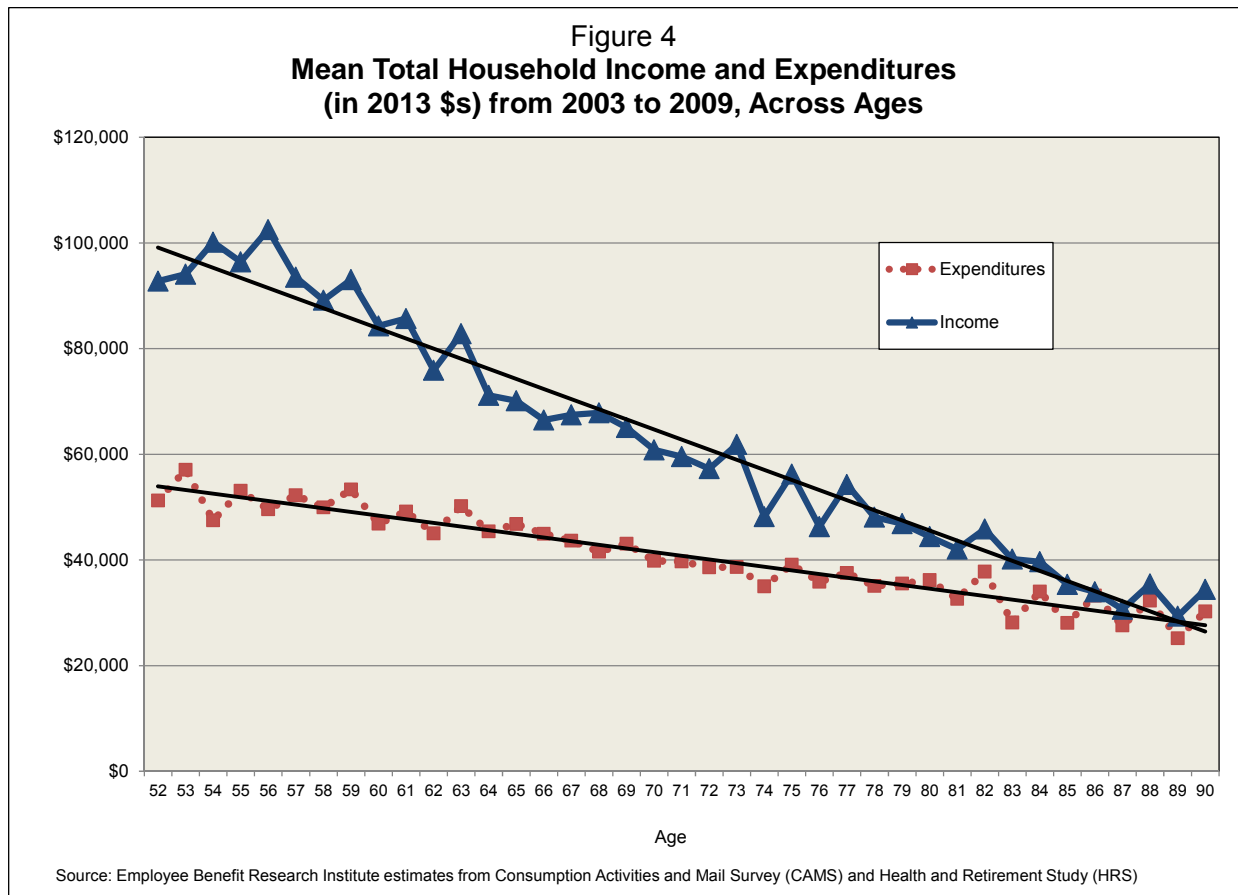


Figure 6 shows how the share of each spending category changes with age. There are a few things to note. First, although the dollar amount spent on home expenditures are lower for those that are older (as shown in Figure 5), its share in total household spending does not change much. It remains between 40 and 45 percent for most households across all ages considered. Second, just like the dollar amounts shown in Figure 5, transportation captures the second-largest share of working-age households' budgets. But around age 75, health care expenses become the second-largest spending item for older households. By age 90, health care expenses account for more than 20 percent of the households' entire budgets.

How Does Overall Distribution of Household Expenditure Change With Age?

The mean and median results are useful statistics and most widely used to summarize the distribution of different factors, but they give only an idea about the middle of the distribution. Understanding the entire distribution is very important for multiple reasons: First, it gives household members an idea of where they are in the spending distribution and can help them evaluate if they are spending more or less relative to their age group. Second, in terms of retirement planning, it can also give household members an idea of how much people in similar positions at older ages spend. For example, consider the members of a 60-year-old household that is in the 90th percentile of its age-specific spending distribution who want to know what the household's expenses might be at age 85. Knowing the median spending at age 85 is less informative for members of this household, as they might expect to be toward the top of the distribution at age 85.

Figure 7 addresses this by breaking down the distribution of overall household spending, combining data from 2003 to 2011. Households are divided into four age groups: 50–64, 65–79, 80–89 and 90 and above. For each age group, the 25th, 50th (median), 75th, 90th, and 95th percentiles are reported. Worth noting: First, it shows that spending

doesn't fall uniformly across the distribution with age. For example, the median drops from \$43,580 (for those between ages 50–64) to \$19,681 (for those age 90 or older), a 55 percent drop. For the same age groups, the 90th percentile drops from \$100,400 to \$65,289, a 35 percent drop. Second, until age 90, all the reported percentiles show a decline, and the distribution narrows as well. But for those 90 and above,² the 90th and 95th percentiles show an increase. To figure out the reason for this, similar breakdowns were calculated for all the spending components separately. Health care spending stands out to be the biggest contributor to this increase.

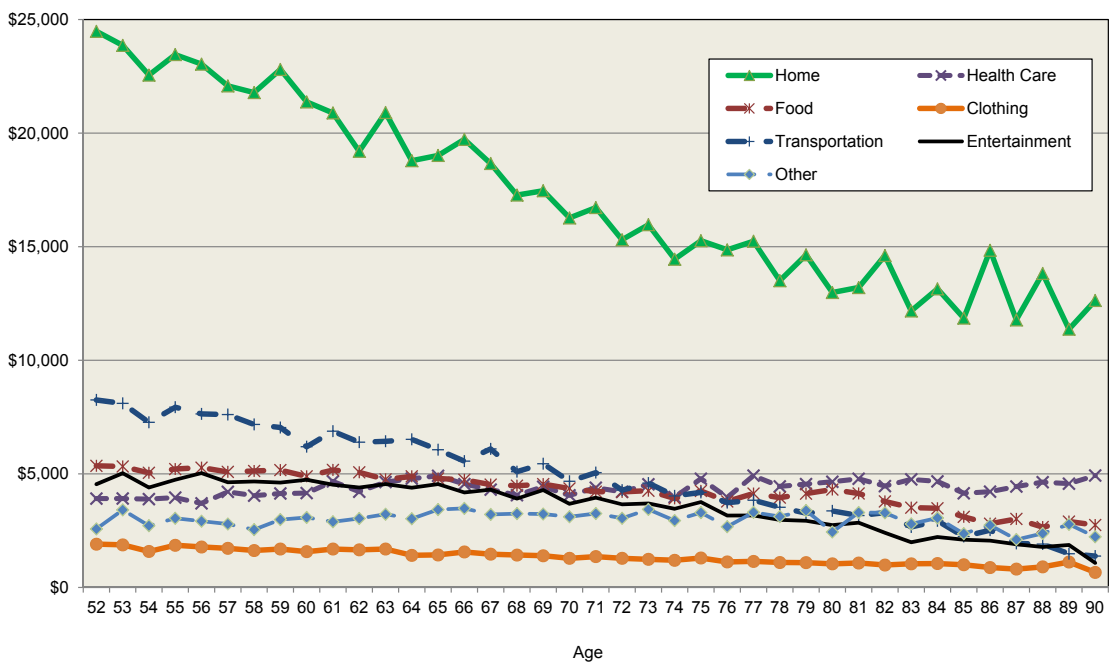
Figure 8 shows the detailed distribution of health care expenditure across these age groups. Until age 90, the distribution looks very stable with little change in the percentiles across age groups—but at age 90 and older, the 90th and 95th percentiles of health care expenses show abrupt increases. This shows that for some people, end-of-life health care spending can be very high.

Conclusion

This study attempts to show how household spending along with its different components changes with age. Household spending data is used from a nationally representative survey of Americans 50 years or older. The key findings include:

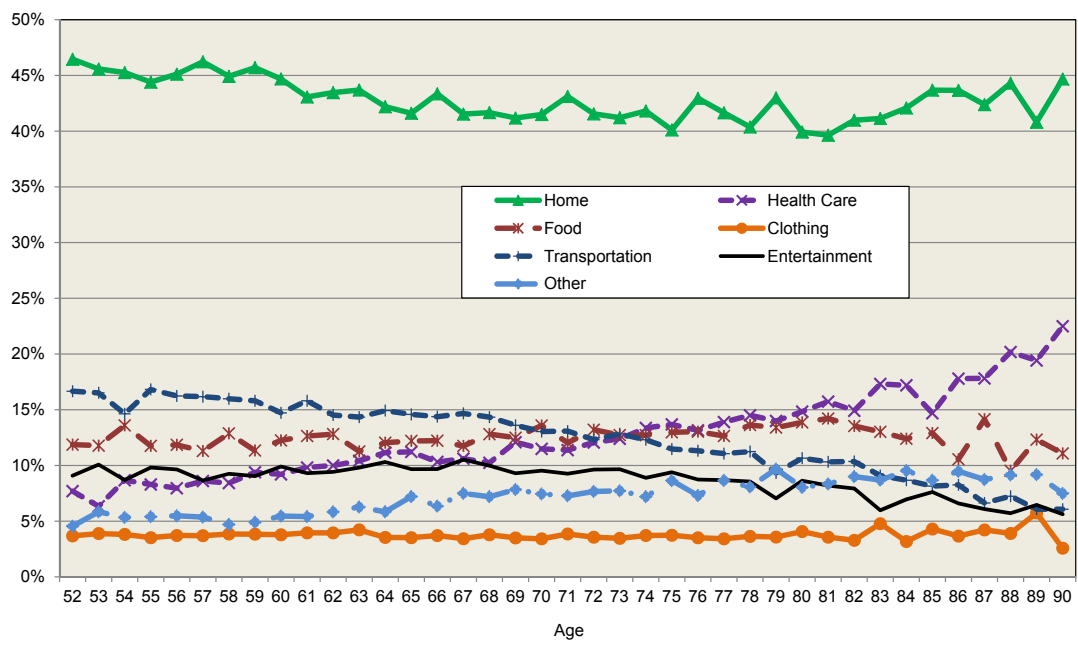
- Household spending is lower for older households, but the decrease is not uniform across the spending distribution. Between age groups 50–64 and 90 or older, the median drops nearly 55 percent, but the 90th percentile drops only 35 percent.
- There is a large increase in spending at the 95th percentile for those ages 90 or older, which can be attributed to very high health care expenses.
- Home and home-related expenses are the largest spending items in the household budget across all ages. For almost all ages 50 or older, they capture 40–45 percent of household budget.
- Health care spending is the only item that is larger for older households. This is in both dollar terms and as a percentage of total household spending.

Figure 5
Mean Household Expenditures in Different Categories,
2003–2011, Across Different Ages, in 2013 \$s



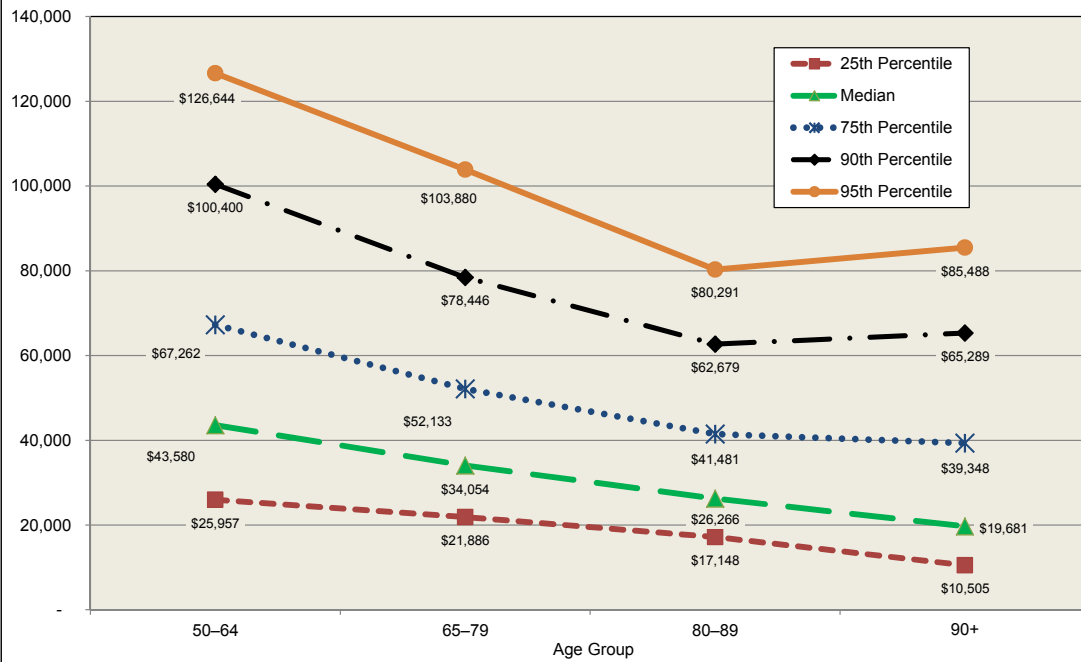
Source: Employee Benefit Research Institute estimates from Consumption Activities and Mail Survey (CAMS).

Figure 6
Average Share of Different Categories in Total Household
Expenditures, 2003–2011, Across Different Ages



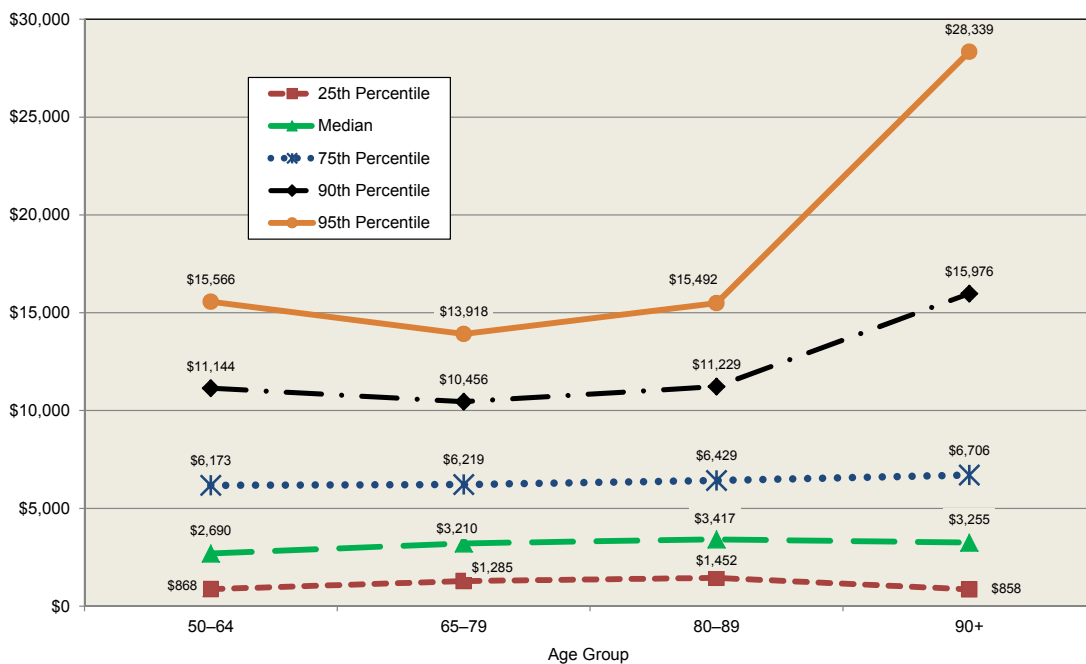
Source: Employee Benefit Research Institute estimates from Consumption Activities and Mail Survey (CAMS).

Figure 7
**Distribution of Household Expenditures,
 2003–2011, for Different Age Groups (in 2013 \$s)**



Source: Employee Benefit Research Institute Estimates from Consumption Activities and Mail Survey (CAMS).

Figure 8
**Distribution of Health Care Expenditures,
 2003–2011, for Different Age Groups (in 2013 \$s)**



Source: Employee Benefit Research Institute estimates from Consumption Activities and Mail Survey (CAMS).

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Endnotes

¹ RAND provides an easy-to-use version of HRS that includes some very important household-level information derived from the raw HRS files. This includes variables like total household income, household net worth etc. Although many of the survey questions regarding these variables have changed over the years, the RAND variable definitions are consistent across years.

² The 90-and-above age group had 421 observations.



Notes

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