

# WORKING PAPER

## *Executive Summary*

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### UNDERSTANDING EXPENDITURE PATTERNS IN RETIREMENT

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Understanding expenditure patterns in later life is critical to assessing the retirement security of older Americans. Although previous studies have examined the determinants of retirement income and wealth and projected the level of resources that will likely be available to future cohorts of retirees, relatively little is known about consumption needs at older ages and how they vary across different subgroups of the population. Better information about how much income older Americans require to live comfortably in retirement is necessary before analysts can determine how well Social Security, employer-sponsored pensions, post-retirement earnings, and private savings meet the needs of the elderly population and before they can assess the possible impact of potential Social Security reforms on economic well-being.

This study uses data from the Health and Retirement Study (HRS), including a recently released supplemental survey, the Consumption and Activities Mail Survey (CAMS), to analyze expenditure patterns and consumption needs at older ages. The analysis examines the overall level, distribution, and composition of expenditures for adults ages 65 and older by key individual and household characteristics. It also measures the relationship between spending and household income. The study concludes by establishing a minimum threshold for the amount of income older people need to live comfortably in retirement and estimating the share of the aged population with insufficient resources to satisfy these consumption needs.

Key findings include the following:

- Typical married adults ages 65 and older devote 29 percent of their household expenditures to housing and another 20 percent to health care. For typical older nonmarried adults, housing expenses consume 39 percent of total spending and health care costs consume 16 percent. Given the attention paid to the burden of health care costs at older ages, it is somewhat surprising that health care is not the largest spending category among older people. One reason for relatively steep housing expenditures is that the aged are increasingly likely to hold mortgages on their homes, which tend to raise housing costs. Indeed, the HRS data show that 25 percent of married adults ages 65 and older are homeowners with mortgages.
- Typical married adults ages 65 and older spend 84 percent of after-tax household income, and nonmarried adults spend 92 percent of after-tax income. Household expenditures as a share of income increases with age. For example, nonmarried adults ages 75 and older spend 96 percent of after-tax income, compared with 86 percent for those ages 65 to 74. In general, economically vulnerable groups spend less in absolute terms than other groups, but spend larger shares of their income.

- Fully 8 percent of married adults report after-tax incomes that fall short of our estimated basic-needs threshold, consisting of housing, health care, food, and clothing. The share with insufficient income falls to 6 percent when we expand our definition of resources to include the potential stream of income that people could receive from their asset holdings. By comparison, only 3 percent of married adults have incomes below the official poverty level. About 19 percent of older nonmarried adults receive after-tax incomes less than the basic-needs threshold, similar to the share with incomes below the poverty threshold.
- Older adults who report being dissatisfied with retirement, who report lacking enough money to buy food, and who report that they would spend any extra income they received instead of saving it are especially likely to fall below our basic-needs thresholds.

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