Spending in Retirement

Spendthrift or thrifty spending: Choose wisely.

Average household spending declines with age, except for health care

Why Should You Care?

Most individuals believe that if they have not saved enough for retirement, they will just spend less. Certainly, some spending on discretionary items can be reduced if needed, as shown in the chart at left. But, essential expenses and contingency expenses may be larger than planned and may be difficult to postpone or reduce.

The timing of your essential, discretionary and contingency spending may impact both your ability to make assets last and to have the best possible retirement.

Even after four years of retirement, only 44.1% of households had spending levels below 80% of their pre-retirement spend levels.

Source: EBRI Issue Brief 420, November 2015.

What’s the Good News?

► For the average person today, spending in retirement does steadily decrease with age.

► In early retirement, medical advances and healthy practices may allow you to reduce or postpone some expenses, like prescription drugs, hospital stays and disability support.

Source: EBRI Issue Brief 420, November 2015.

In the first two years of retirement, 45.9% of households (across all income levels) spent more than what they had spent just before retirement with 28.0% of households spending more than 120% of their pre-retirement spending.

Think you’ll spend less in retirement? Nearly half of early retirees spend more!

Source: EBRI Issue Brief 420, November 2015.
Are you average?
Set a realistic spending target. Spending may decrease for the average retiree, but by only 15% from age 64 to 74. During the first 10 years of retirement, you could still be spending 85% of what you spent while working.

Create healthy practices
Health care costs and Medicare premiums are projected to increase much faster than inflation.* Choose your Medicare plan carefully and consider Medigap insurance.

Timing is everything
Even wealthier individuals will be impacted by the need for increased and perhaps unplanned-for spending.

Income inequality
Don’t overestimate what you can cut from your budget. Some expenses cannot be reduced, like Medicare premiums, which vastly increase with rising income.

Long-term care expenses can quickly destroy even the best retirement plans.
According to the Society of Actuaries: Expense reduction in retirement, combined with delayed retirement and increased saving, will improve the chances that retirement wealth lasts a lifetime, but does not mitigate the impact of shock risks such as needing long-term care.


* Inflation — A sustained increase in the general price level of goods and services in an economy over a period of time.

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