

Insights on Economic Well-being at Older Ages from Analyses of Household Spending

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May 3, 2024

PRC 2024 Symposium



Social and Behavioral Policy Program

Consumption: Direct measure of economic well-being

Consumption ...

- Produces utility (well-being), dependent on health status
- Inputs:
 - market-purchased goods and services (spending) and/or
 - Home-produced goods and services (time)
- Not directly observed in surveys
- Closest proxy: household spending;
 - few surveys have complete, high-quality spending measure;
 - almost none have longitudinal data; exception: Health and Retirement Study

Household income or wealth often used instead

- But money saved does not produce utility today

Presentation in 4 Parts:

1. Consumption trajectories in context of **lifecycle model**
2. **Empirical evidence** on spending patterns of older households
3. **Applications** to study economic well-being of older households
4. **Future Research**

Spending Trajectory Implied by Lifecycle Model

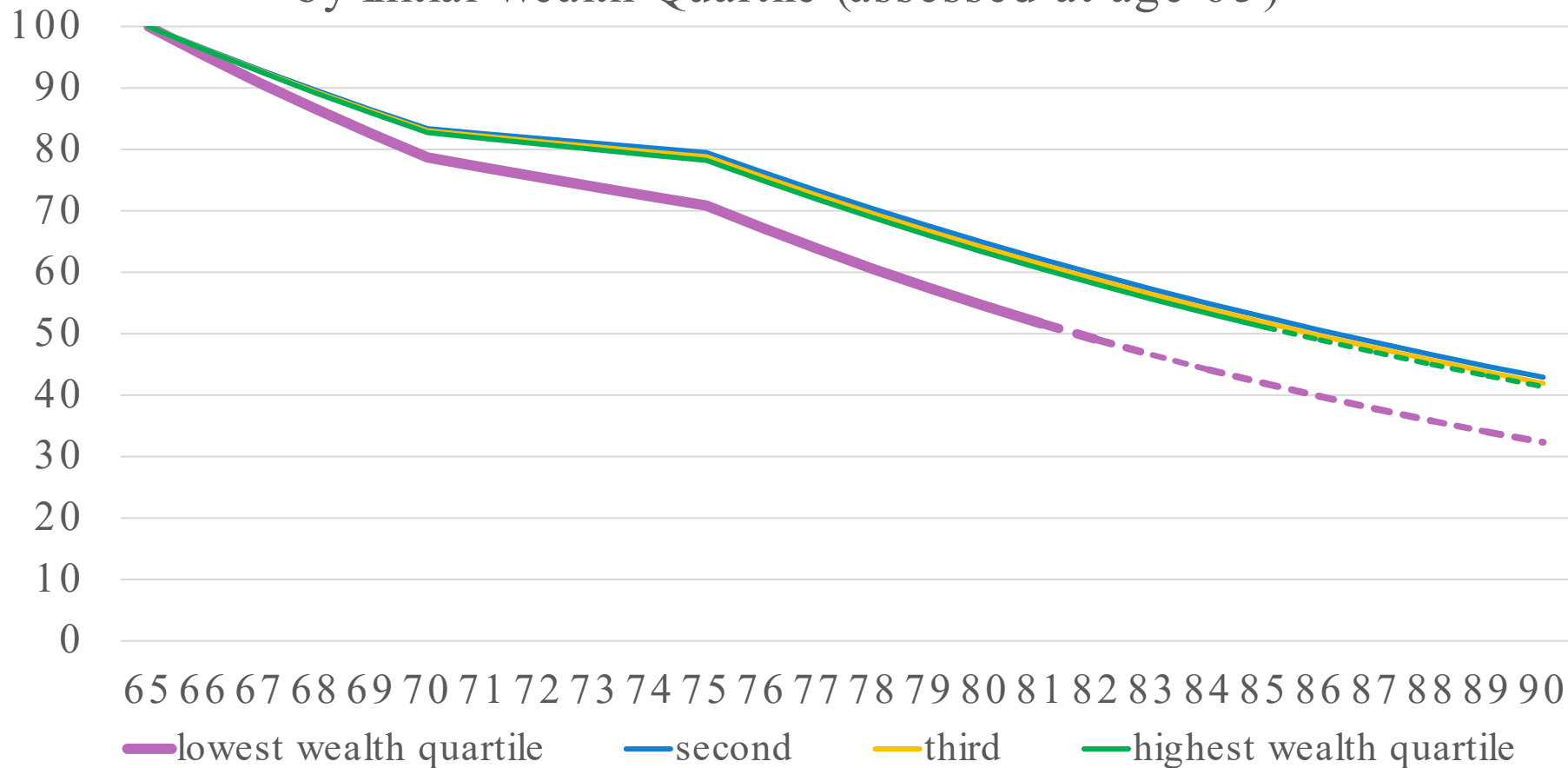
- **At retirement:** spending **changes** due to discontinuity in time input
 - **Reductions** in spending if retirement due to health shock and/or if low lifetime resources
 - **Increases** in spending if high lifetime resources, good health
- **During retirement: Spending declines** due to increasing mortality risk
 - Flatter path (smaller rate of decline conditional on age) if
 - higher life expectancy;
 - bequest motive
 - Widowing: one-time drop as single survivor spends less than the married household
- **Interaction with Health:**
 - If **health good, spend greater share on** goods & svcs **complementary to health**, less on health care; If health bad, reverse.
 - On average, health declines with age
 - spending composition changes with age, reduced enjoyment from spending.

Longitudinal Data on Total Household Spending

- Consumption and Activities Mail Survey (CAMS)
- Supplement to the Health and Retirement Study
- Biennial, from 2001 onward
- Representative of U.S. Population over Age 50
- Total Spending elicited in 39 categories
- Spending totals closely comparable to Consumer Expenditure Survey

Spending Declines across ALL Socioeconomic Groups

Spending Path: **Married Households**
by Initial Wealth Quartile (assessed at age 65)



Overall average annual rate of change: **-2.7%**

Largest rate of decline among lowest initial wealth group.

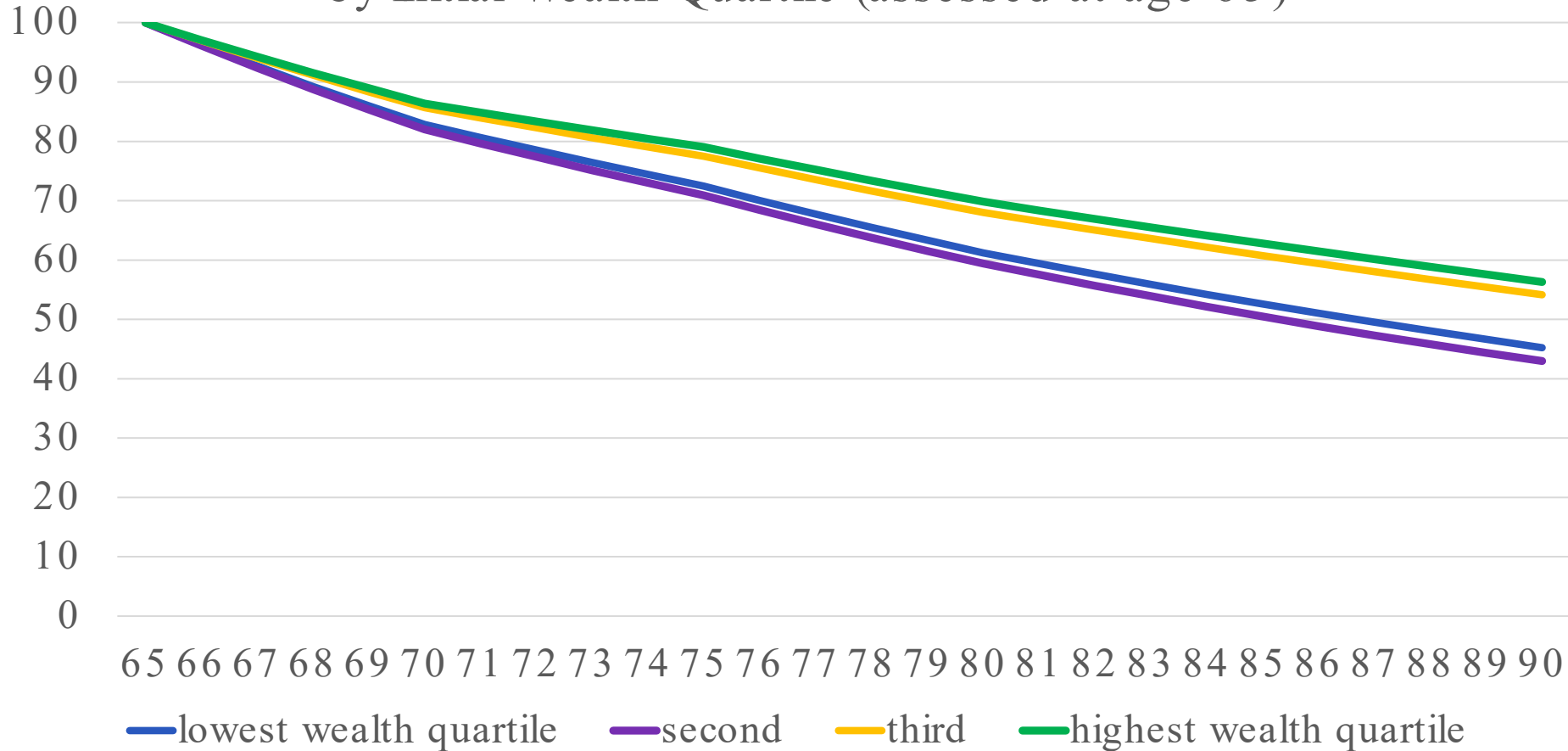
Flatter spending paths for all other groups with higher initial wealth; longer lived on average.

Similar patterns if stratifying by education.

Spending Declines ACROSS ALL Sociodemographic Groups

Spending Path: Single Households

by Initial Wealth Quartile (assessed at age 65)



Overall average annualized rate of change: **-2.0%**.

Largest rate of decline among lowest two initial wealth quartiles.

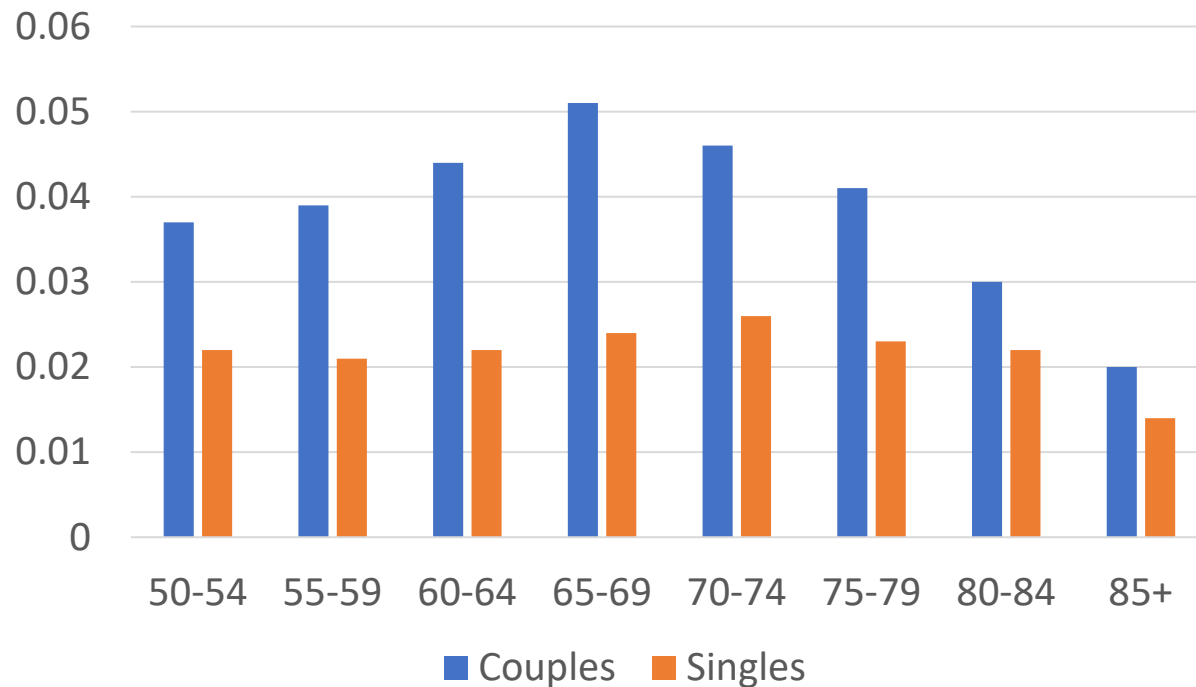
Flatter spending paths for highest two initial wealth quartiles; longer lived on average.

Similar patterns if stratifying by education.

Spending Composition Changes with Age, as Health Declines

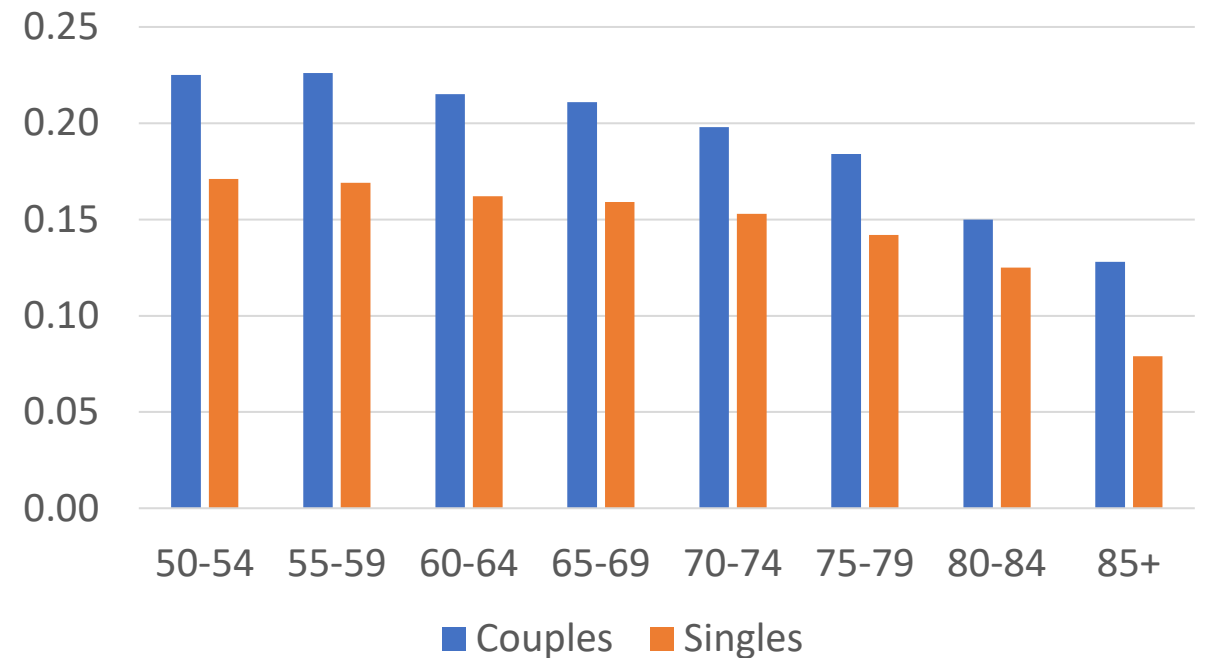
While health good, companionship:
Spend more on trips and vacations, leisure activities

Trips and vacations



As health declines, spend less on transportation, clothing, durables, trips and vacations, leisure ...

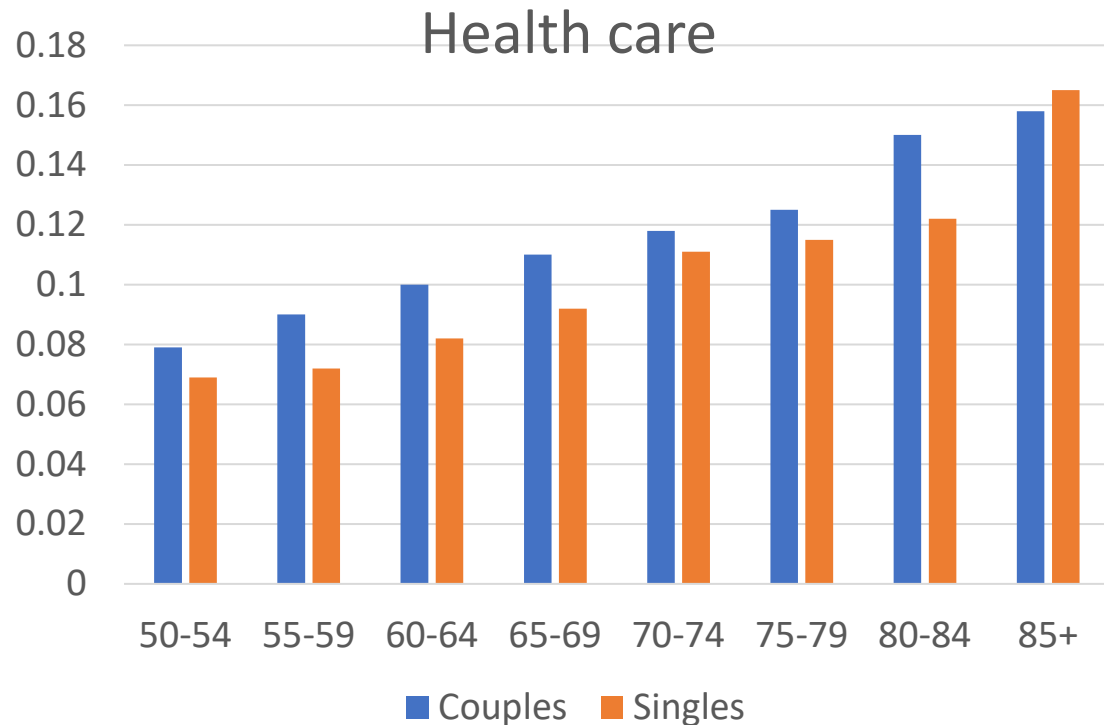
Transportation



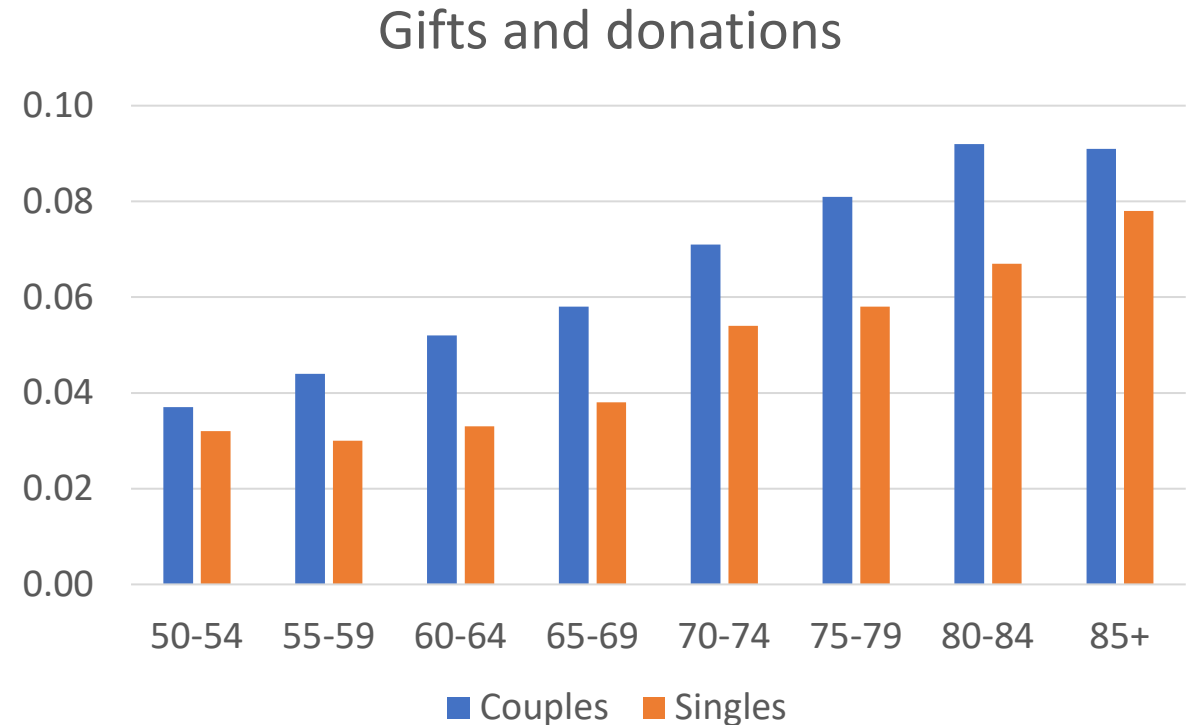
Spending Composition Changes with Age, as Health Declines

As health declines, spend higher fraction on health care.

Total spending still declines, except possibly in last year of life.



Gifts and donations: not health dependent
Increasing with age as household's time horizon shortens and mortality risk increases.



Using Consumption
Measures to Learn about
Economic Well-being
of Older Households

- 1. Poverty assessment**
- 2. Adequacy of
retirement resources**

Consumption-based Poverty Assessment

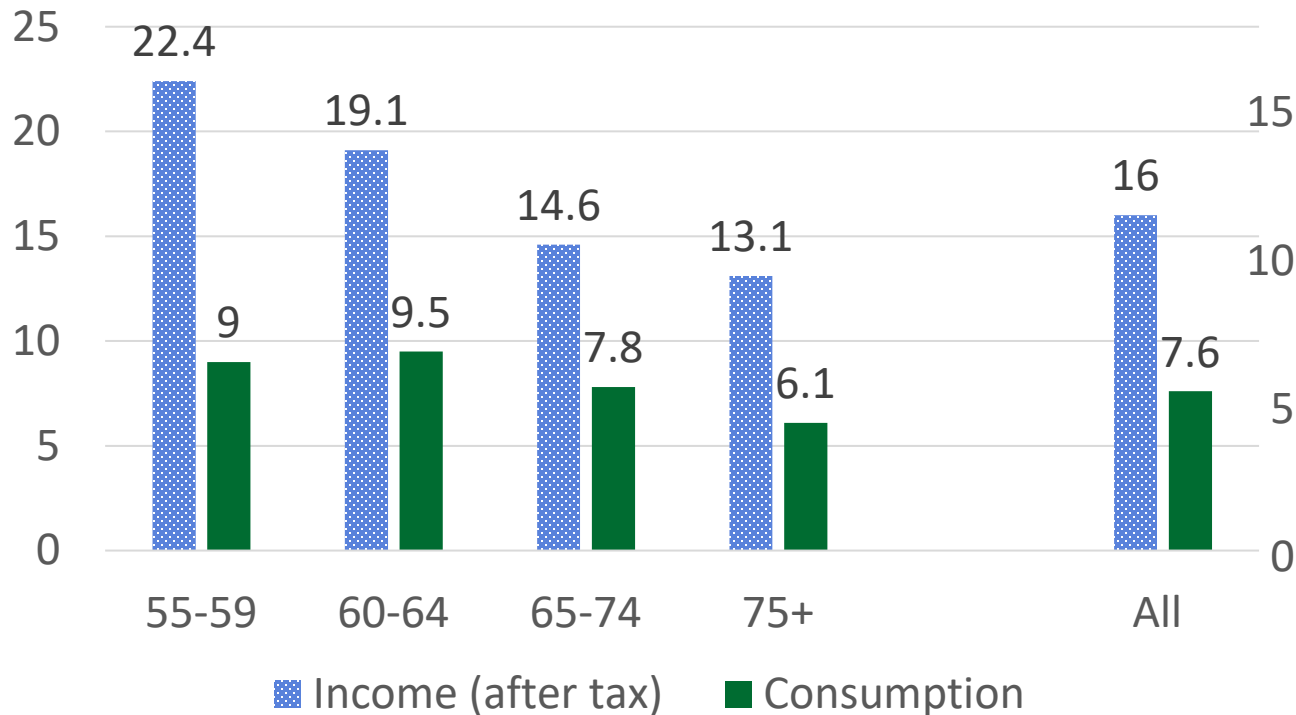
- Households save for retirement to finance spending when income is lower.
- Income-based poverty assessment can be misleading when consumption financed out of savings.
- Compare household's total consumption to applicable poverty threshold (instead of household income)

Consumption-based Poverty Rates Among Older Households

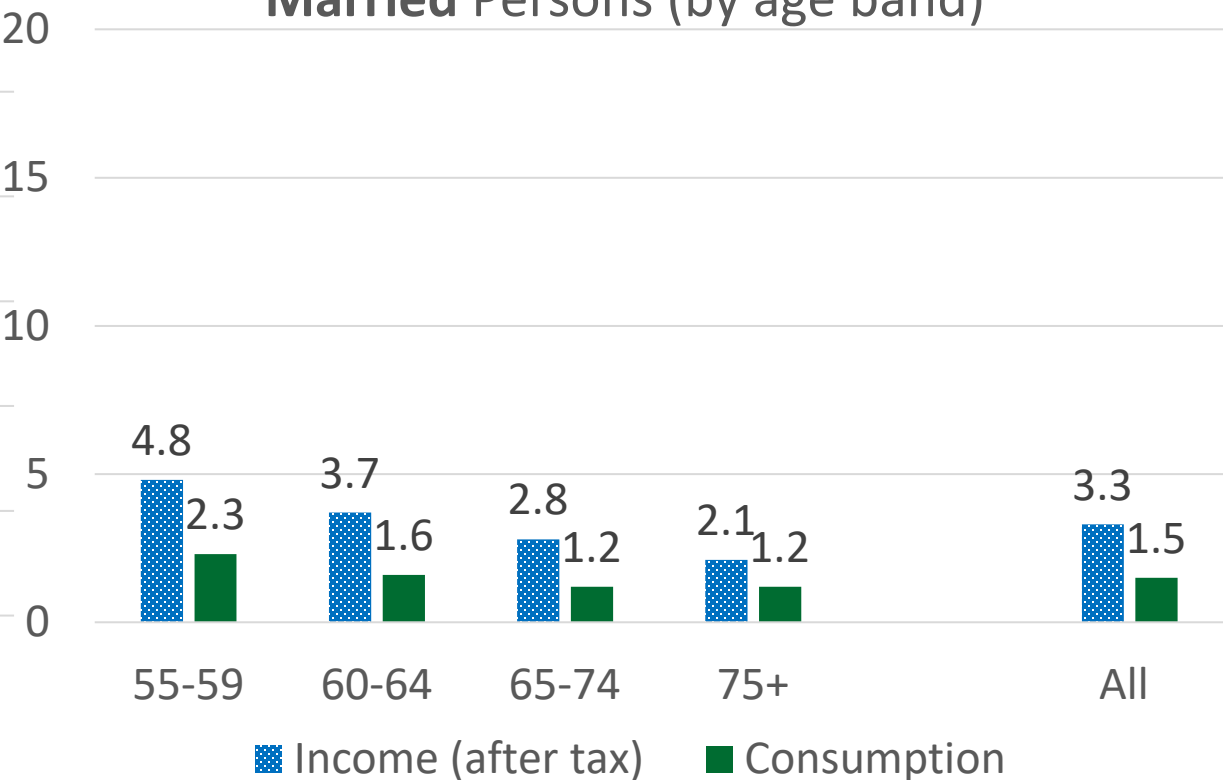
About Half of Income-based Poverty Rates

- Much lower poverty rates among married compared to single older adults.

Single Persons (by age band)



Married Persons (by age band)

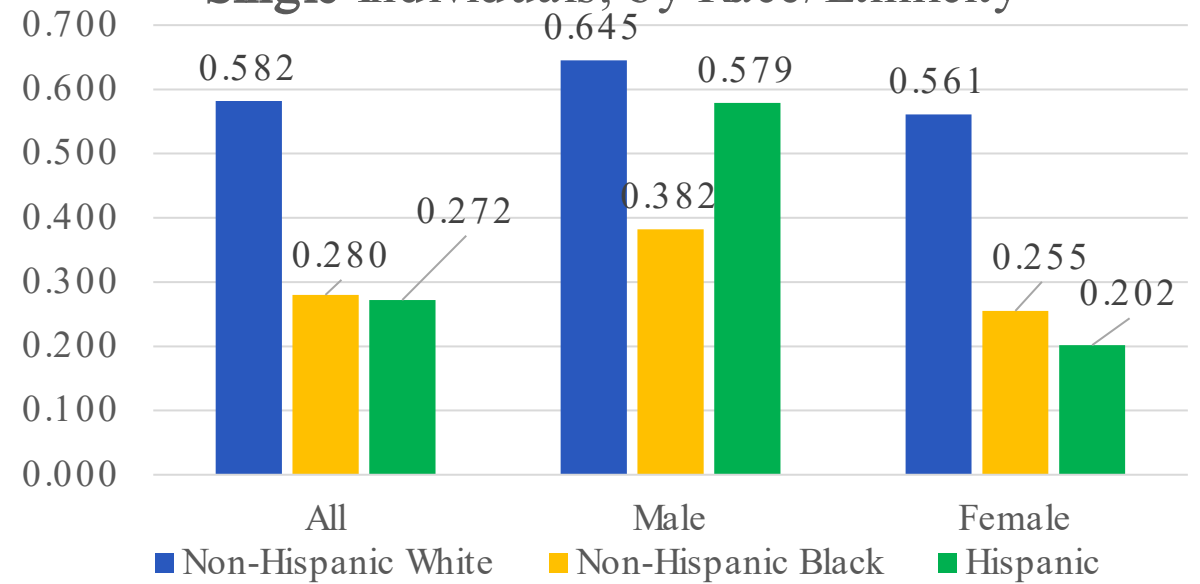


Adequacy of Retirement Resources

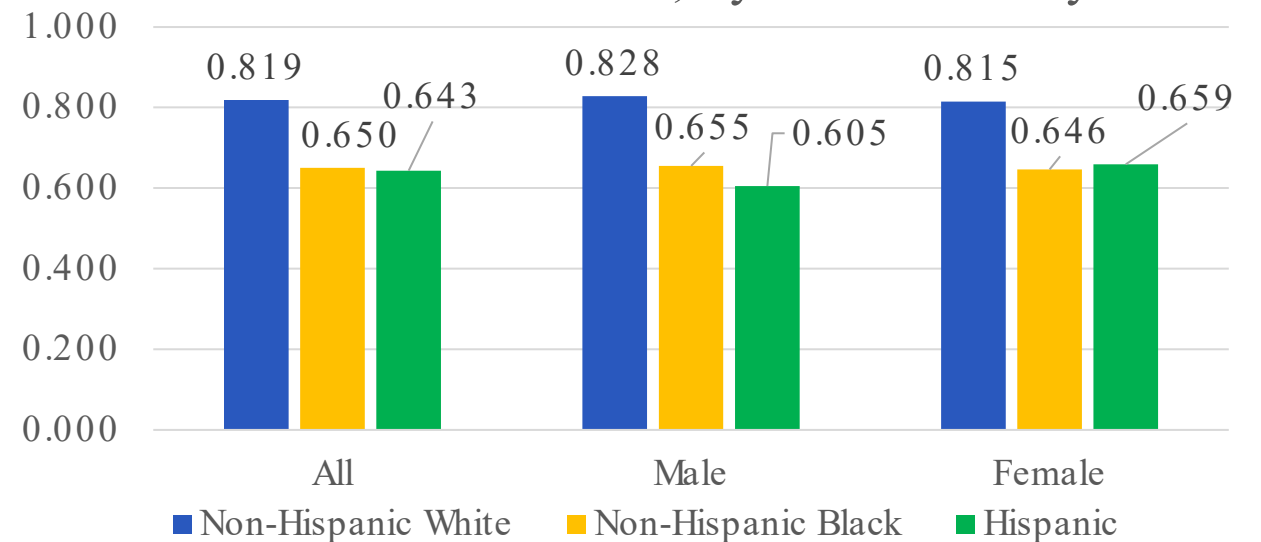
- **Microsimulation:** Do households have sufficient economic resources to finance – with high probability - consumption to the end of life without running out of wealth?
- Single and married individuals observed in HRS around age 65-69; reported level of household's spending, income and assets
- Simulate household's spending path, anchored to initial spending
- Account for taxes, asset portfolio allocation (different rates of return and order of decumulation)
- Stochastic length of life, OOP medical expenditure shocks, heterogeneity by marital status, sex, education.

Percent adequately prepared: 65.8%
 Lower among singles,
 persons of color

Single Individuals, by Race/Ethnicity



Married Persons, by Race/Ethnicity



Conclusions

- **Spending declines at older ages** (not flat or increasing)
 - Accords with predictions of lifecycle model.
 - Observed for all socioeconomic groups → for most, not driven by tightening budget constraint.
 - Declines in health, reductions in enjoyment
 - → Implications for resources needed in retirement
- **Consumption-based assessment of economic preparation for retirement on average better than income-based assessment**
- But there are vulnerable subpopulations.
Focus attention on causes and possible policy solutions.

Directions for Future Research

Use spending data to study:

- Home production (needs time use data)
- Interaction of health and spending
- Role of uncertainty/expectations
- Differences in spending trajectories by
 - Race/ethnicity, cultural differences
 - Household structure

Data innovations:

- Combine survey and transaction data
- Internet surveys, larger sample sizes, higher frequency ...

Thank you!



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