

Spending in Retirement: By the Numbers (2022)

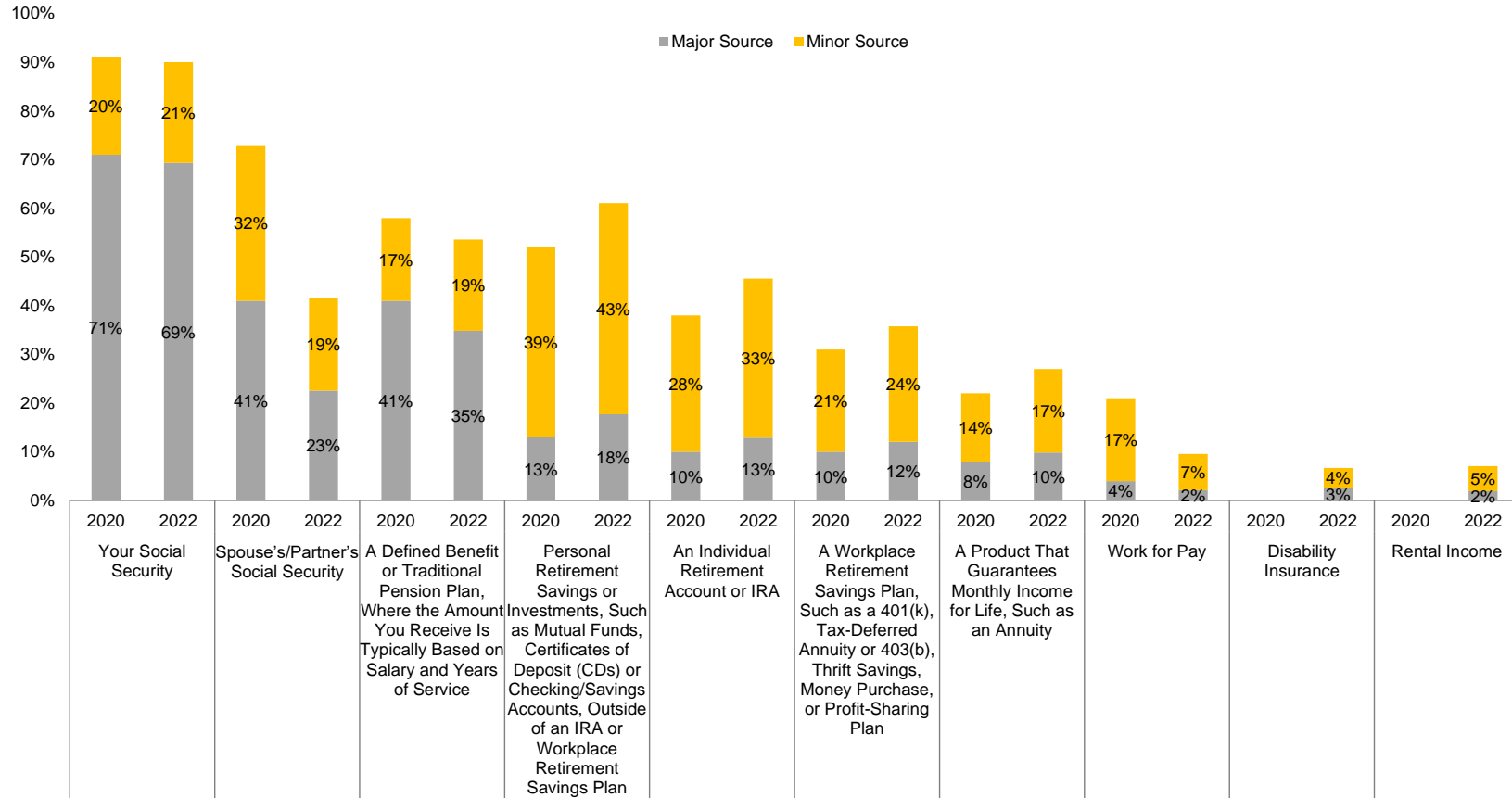
Summary Statistics

- The Employee Benefit Research Institute's (EBRI's) Retirement Security Projection Model® (RSPM) has determined that the *aggregate* retirement savings shortfall for all U.S. households ages 35–64 as of January 1, 2020, was \$3.68 trillion.¹ (If all the retirement savings are exhausted and the Social Security and defined benefit payments are not sufficient to pay expenses, the individual is designated as having run short of money.)
- Savings are needed to pay for premiums for Medicare Parts B and D, the Part B deductible, premiums for Medigap Plan G, and out-of-pocket spending for outpatient prescription drugs. For a couple retiring in 2021 with drug expenditures at the median throughout retirement, the amount of necessary savings would have been \$296,000 in order to achieve a 90 percent chance of having sufficient money to cover health care expenses in retirement.²
- Seventy percent of workers think they will work for pay in retirement, while only 27 percent of retirees report doing so.³
- Overall, more than half (55 percent) retired earlier than expected, while 40 percent say they retired about when than expected and 4 percent later than expected. Black retirees (62 percent), those with 2021 household incomes below \$30,000 (69 percent), and those with a poor self-reported health status (78 percent) are more likely to report they retired earlier than expected.⁴

Sources of Retirement Income

- Similar to 2020, 7 in 10 in 2022 say Social Security is a major source of their income. Annual household income is inversely related to reliance on Social Security as a major income source, where 82 percent of retirees with less \$30,000 in annual household income say Social Security is a major income source as opposed to 45 percent of retirees with greater than \$100,000 in annual household income.⁵
- Regarding employer-sponsored retirement plans, 54 percent of retirees say defined benefit plans are a minor or major source of income, and 36 percent said defined contribution plans are a minor or major source of income.⁶
- The occurrence of protected income (pensions and annuities, excluding Social Security) in retirement, both realized and projected, is declining across and within birth cohorts. There are differences in receipt of protected income by age, gender, marital status, race/ethnicity, income, and wealth.⁷
- At time of transition to retirement, over half (57 percent) of retirees were aware of annuities, yet only 3 percent overall said they had plans to convert any current income sources into a guaranteed income stream.⁸
- When asked to order seven features in a retirement income strategy by importance, retirees ranked "provides access to money" and "guarantees an income stream for life" as the top two features. The bottom two features ranked were "preserves money for an inheritance" and "provides an opportunity for growth."⁹

Sources of Retirement Income



Source: Employee Benefit Research Institute Spending in Retirement Survey, 2022.

Spending in Retirement

- Approximately half of retirees say they spend less than \$2,000 each month, while 1 in 3 spend between \$2,000 and \$3,999 each month. Sixteen percent spend between \$4,000 and \$6,999, with only 3 percent spending \$7,000 or more each month.¹⁰
- On average, retirees report the following monthly spending allocation: 30 percent on housing, 26 percent on food, and 13 percent on health and medical.¹¹
- More retirees in 2022 say spending is higher than they can afford (17 percent in 2020 vs. 29 percent in 2022); Black and Hispanic retirees, as well as those in the lower annual household income brackets and poor self-reported health status, indicate their spending is higher than they can afford.¹²
- Twelve percent of retirees have increased their discretionary spending (vs. 8 percent in 2020); 27 percent have increased their essential spending (vs. 23 percent in 2020).¹³
- However, 36 percent of retirees say their overall spending and expenses are higher than expected — an increase from last year. Also up from last year is the share reporting that housing and travel expenses, specifically, are higher than expected.¹⁴
- Among those who decreased either their essential or discretionary spending since the pandemic, the most common reason cited by roughly 9 out of 10 retirees was concern about inflation.¹⁵
- Total spending declines as retirees age, and allocations to spending areas such as transportation become proportionately smaller over time as well. However, there are considerable variations in older Americans' spending patterns.¹⁶
- The share of American families with heads ages 55 or older with debt increased continuously from 1998 through 2019. The 2019 level of 68.4 percent was nearly 15 percentage points higher than the 1992 level of 53.8 percent and 5.4 percentage points higher than the level in 2007. This increase in the incidence of debt has been driven in recent years by the families with heads ages 75 or older.¹⁷
- Housing debt among older American families continued to drive the level of debt payments in 2019. However, the incidence of credit card debt increased for families with heads ages both 55–64 and 75 or older in 2019, and each age group of family heads experienced an upturn in the median credit card debt held in 2019.¹⁸
- Older American families with Black/African American or Hispanic heads had much higher debt-to-asset ratios than families with white, non-Hispanic heads. The debt of the families with minority heads is more likely the result of consumer debt, not housing debt.¹⁹
- On average, households taking an individual retirement account (IRA) withdrawal prior to reaching the age for required minimum distributions appear to need the additional income to support their current consumption levels. However, that may not be the case for households taking more than the required minimum distribution after age 70-½. Across retirement wealth quartiles, there is more spending at almost all ages for households who have at least some annuities and/or pensions.²⁰

Preretirement Spending and Saving Behavior

Public-Sector Defined Contribution Plan Participants

- Households with public-sector DC plan participants who have a primary DB plan feel more comfortable spending than those without a primary DB plan. This comfort level may be short-sighted for the households with newly hired public-sector DC plan participants, as the benefits from the primary plan are likely to be less than those of longer-tenured or retired cohorts. As a result, the households with new hires may not be as prepared for retirement as they expect.²¹
- Public-sector households are, at the median, spending at or above their net income. Savings rates in DC plans are correlated with the type of primary employer-sponsored plan (e.g., defined benefit, defined contribution, or hybrid).²²
- Households with employees with a primary employer-sponsored DB plan are less likely to contribute to a DC plan.²³
- The presence or absence of Social Security coverage appears not to have an impact on spending behavior.²⁴

All Workers

- In addition, 70 percent of workers think they will work for pay in retirement, while only 27 percent of retirees report doing so.²⁵
- About 8 in 10 workers report being satisfied with the tools and resources available through their plan for both determining how much to save and determining how to generate income from their retirement savings. Six in ten plan participants say they have received information estimating how much monthly income their plan savings might be able to generate.²⁶
- Seven in ten (72 percent) workers feel somewhat or very confident in knowing how much to withdraw from their retirement savings and investments in retirement. This is not statistically different by age.²⁷
- Seventy percent of workers say that income stability is more important to them than maintaining wealth when asked to compare these options.²⁸
- Thirty-seven percent of workers say they are likely to manage their own savings, 28 percent say they are likely to purchase a product that guarantees a set amount of monthly income for life, and another 26 percent would take a combination of these approaches. Workers ages 55 or older are less likely to say they would purchase a product that provides guaranteed income for life than workers younger than age 55. In addition, workers with incomes of \$75,000 or more are more likely to say that they will manage their savings vs. those with incomes below \$35,000.²⁹

Endnotes

¹ VanDerhei, Jack, "Impact of Various Legislative Proposals and Industry Innovations on Retirement Income Adequacy," EBRI Issue Brief, no. 550 (Employee Benefit Research Institute, January 20, 2022).

² Fronstin, Paul, and Jack VanDerhei, "Projected Savings Medicare Beneficiaries Need for Health Expenses Spike in 2021," EBRI Issue Brief, no. 549 (January 13, 2022)

³ Copeland, Craig, and Lisa Greenwald. "2022 Summary Retirement Confidence Survey." (Employee Benefit Research Institute, May 14, 2021)

⁴ Bearden, Bridget, "2022 Spending in Retirement Survey: Understanding the Pandemic's Impact," *EBRI Issue Brief*, no.

572 (Employee Benefit Research Institute, October 6, 2022).

⁵ Ibid.

⁶ Ibid.

⁷ Sabelhaus, John, "The Changing Nature of Protected Income in Retirement." (Retirement Income Institute, Alliance for Lifetime Income, July 2022).

⁸ Bearden, Bridget, "2022 Spending in Retirement Survey: Understanding the Pandemic's Impact," *EBRI Issue Brief*, no. 572 (Employee Benefit Research Institute, October 6, 2022).

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Copeland, Craig, and Lisa Greenwald. "2022 Summary Retirement Confidence Survey." (Employee Benefit Research Institute, May 14, 2021)

¹⁵ Bearden, Bridget, "2022 Spending in Retirement Survey: Understanding the Pandemic's Impact," *EBRI Issue Brief*, no. 572 (Employee Benefit Research Institute, October 6, 2022).

¹⁶ Zahra Ebrahimi, "Older Americans' Spending Profiles: One Size Does Not Fit All," *EBRI Issue Brief*, no. 520 (December 10, 2020).

¹⁷ Craig Copeland, "Who Is Most Vulnerable to the Ticking Debt Time Bomb in Retirement: Families With the Oldest, Black/African American, and Hispanic Family Heads," *EBRI Issue Brief*, no. 521 (December 17, 2020).

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ VanDerhei, Jack, Kelly Hahn, and Katherine Roy, "In Data There Is Truth: Understanding How Households Actually Support Spending in Retirement," *EBRI Issue Brief*, no. 531 (Employee Benefit Research Institute, June 24, 2021).

²¹ Copeland, Craig, Kelly Hahn, and Matt Petersen, "Spending and Saving Behavior of Public-Sector Defined Contribution Plan Participants," *EBRI Issue Brief*, no. 570 (September 19, 2022).

²² Ibid.

²³ Ibid.

²⁴ Ibid.

²⁵ Copeland, Craig, and Lisa Greenwald. "2022 Summary Retirement Confidence Survey." (Employee Benefit Research Institute, May 14, 2021).

²⁶ Ibid.

²⁷ Copeland, Craig, "Income Stability vs Maintaining Assets and Choices for Income in Retirement," RCS Fact Sheet no. 8, EBRI/Greenwald Research 2022 Retirement Confidence Survey.

²⁸ Ibid.

²⁹ Ibid.