NATIONAL CENTER FOR POLICY ANALYSIS

How Are Seniors Spending Their Money?

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Forty-two million seniors currently reside in the United States, and many of the baby boomers who are approaching retirement are not financially ready. Just 20 years ago, most seniors entered retirement debt-free. Now, experts wonder if retirees will able to make ends meet throughout the rest of their lives, much less not outlive their money. While fewer seniors have guaranteed incomes, such as company pensions, to provide security during retirement, more seniors are carrying debt.

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How have spending patterns changed for today's seniors compared to years past?

Using data from the Bureau of Labor Statistics' Consumer Expenditure Survey and the Federal Reserve Survey of Consumer Finances, one can compare the spending habits of today's seniors with the spending habits of those who retired 20 or more years ago. Expenditures for this age group have generally grown less than 1 percent per year. But the allocation of spending on goods and services has changed significantly.

More seniors carry mortgages, and spend a greater share of their expenditures on interest payments. The Survey of Consumer Finances shows that since 1989, the percentage of 65 to 74 year olds reporting a mortgage or home equity loan payment increased from 21 percent to nearly 37 percent in 2010. For seniors 75 years old and older, the percent of mortgage or home equity loan holders increased from just 6 percent to 21 percent during the same time [see Figure I].[2]

Moreover, a greater share of seniors' total expenditures are for mortgage or home equity loan interest. Consider:[3]

- In 2012, interest payments were 4.3 percent of overall expenditures for 65 to 74 year olds, up from 2.7 percent of expenditures in 1990.
- For those 75 years old and older, the increase was greater, from less than 0.7 percent of expenditures in 1990 to 2 percent in 2012.

This expenditure represents a small but troubling share, considering that mortgage interest rates have been at an all-time low. Clearly, seniors are taking on more principal mortgage debt for longer periods of time.

Overall housing expenses (including maintenance, property taxes, insurance and mortgage interest) are the largest category of expenditures for seniors, comprising 32.8 percent of expenditures for 54 to 74 year olds, and 36.7 percent for 75+ year olds.

Health care expenditures are substantial, but *not* one of the fastest-growing expenditure shares. Indeed, health care is the fourth largest category of spending for 65 to 74 year olds (11.4 percent of expenditures)

and the second largest category for those age 75 and older (14.7 percent of expenditures). These expenditures include out-of-pocket costs for physician visits, treatments and lab tests, medical equipment, prescription and over-the-counter drugs and supplemental insurance premiums, but exclude Medicare Part B premiums. However, the growth in health care expenditures is mixed depending on age and category. For 65 to 74 year olds:

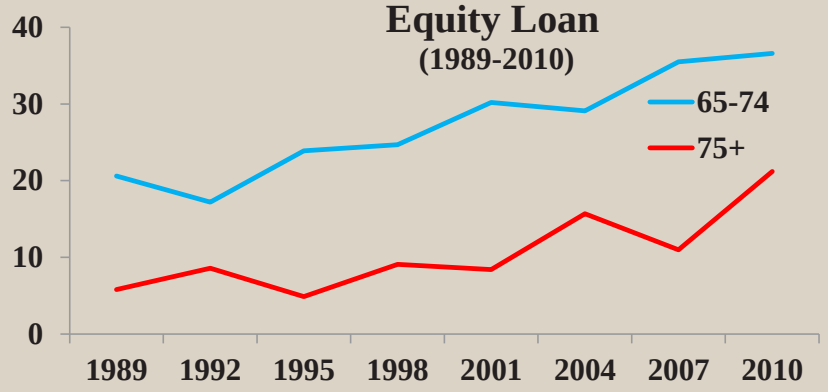
- Total health care expenditures slightly increased from 10.5 percent in 1990 to 11.4 percent of expenditures in 2012.
- Supplemental insurance premiums have almost doubled since 1990 and account for almost two-thirds of health care expenditures.
- But out-of-pocket expenditures associated with medical services (physician fees, lab tests, and so forth) have fallen slightly.

For seniors 75 years old and older:

- Total health care expenditures increased slightly, from 14.4 percent of expenditures in 1990 to 14.7 percent of expenditures in 2012.
- Supplemental insurance premiums have increased by about one-third since 1990 and now account for almost two-thirds of their health care expenditures.

Figure I

Percent of 65+ with Mortgage or Home Equity Loan (1989-2010)



Source: Survey of Consumer Finances, 1989-2010, U.S. Federal Reserve Bank.

Table I

Top Five Expenditure Growth Categories for 65 to 74 Year Olds

	Average Annual Growth since 1990	Share of Expenditures 2012
Education	14.3%	0.5%
Misc. Entertainment	9.8%	0.5%
New Cars and Trucks	5.8%	4.1%
Pets, Toys and Hobbies	5.2%	1.5%
Used Cars and Trucks	4.1%	1.4%

Source: Consumer Expenditure Surveys, 1990-2012, Bureau of Labor Statistics.

- However, costs fell for prescription and over-the-counter drugs, as well as medical services and medical equipment.

The slight drop in drug expenditures for 75+ year olds is not surprising. Since Congress passed legislation in 1984 making it easier for generic drugs to enter the marketplace, generic drugs have proliferated, bringing lower prices.[4] Furthermore, the Medicare Part D drug program, enacted under the Medicare Modernization Act of 2003, has been surprisingly competitive, keeping drug costs for seniors lower than expected.[5]

Seniors expenditures increasingly reflect their hobbies. Reflecting on how seniors spend their money might conjure up a picture of a wealthy couple traveling around the world or a low-income couple having to choose between medicine and groceries. But the truth lies somewhere in the middle. Seniors are spending more on hobbies and non-essentials than they did in 1990. For 65 to 74 year olds, for instance, two of the top five fastest-growing expenditure categories are [see Table I]:

- *Miscellaneous entertainment,* which has grown an average of 9.8 percent annually since 1990. This category includes exercise equipment, photography equipment, campers, boats and other motorized recreational vehicles, and electronic video games.
- *Pets and hobbies,* which has averaged 5.2 percent growth annually since 1990. This category not only includes expenses for pets and pet supplies, but also toys, games, tricycles and playground equipment.

For seniors older than 75 year olds, *pets and hobbies* as

a share of expenditures has averaged 5.9 percent growth annually since 1990 [see Table II].

Seniors are not giving up their cars. In fact, seniors are driving longer, according to the National Highway Transportation Safety Administration.[6] Both age groups report a growth in new car and truck expenditures. According to the Consumer Expenditure Survey, 79 percent of 75+ year olds own or lease at least one car, compared to 67 percent in 1990. In both age groups, *new and used cars and trucks* are in the top five fastest growing expenditure share categories. In addition, for 75+ year olds, *vehicle finance charges* are also in the top five [see Table II].

Younger seniors are paying for more education expenditures. The fastest-growing expenditure category for 65 to 74 year olds is education. [See Table I.] This spending includes costs associated with tuition, books and supplies for college, public or private nursery schools or elementary, middle and high schools. While the expenditure share for 2012 was still small (less than 1 percent) seniors are paying more of these expenses than in the past. Some seniors have established 529 college savings plans for their grandchildren (to pay tuition tax-free), while others struggle to pay student loans they co-signed themselves.[7]

Seniors have more credit card debt than ever before. Some of the growth in purchases is taking place with the use of credit cards. While the data do not show what purchases go on a card, seniors have increased their credit card debt dramatically since 1989. The Survey of Consumer Finances reports [see Figure II]:[8]

- The average credit card balance for 65 to 74 year olds in 2010 was $6,000, compared to just $2,100 in 1989.
- For those 75 years old or more, the average balance was not even measurable in 1989 but had ballooned to $4,600 by 2010.

But in terms of amount of net worth and the distribution of wealth, seniors do well compared to other age groups. In 2010, the average net worth (value of total assets minus liabilities) was $848,000 for 65 to 74 year olds and nearly $700,000 for 75+ year olds.[9] Of course, an average wealth statistic cited for these groups may not mean much, because there are outliers of very wealthy seniors as well as those with few assets, but the median net worth (the value where half of households are above and half of households are below) may provide a clearer picture:

- The median net worth is $206,000 for 65 to 74 year olds and $216,000 for those 75 years old and over.
- With the exception of the average net worth for 55 to 64 year olds, seniors 65 years old and older have a higher average and median net worth than any other age group.

Moreover, their net worth is distributed more equally among households based on the mean/median ratio. The

Table II

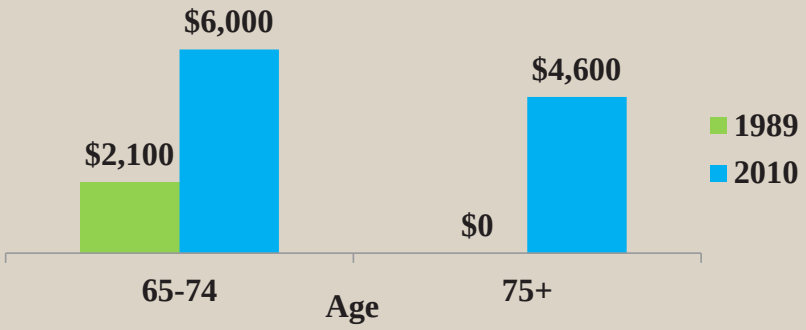
Top Five Expenditure Growth Categories for 75+ Year Olds

	Average Annual Growth Since 1990	Share of Expenditures 2012
New cars and trucks	6.5%	2.6%
Vehicle finance charges	6.0%	0.1%
Used cars and trucks	5.9%	1.4%
Pets, Toys and Hobbies	5.9%	1.1%
Mortgage Interest and charges	4.6%	2.0%

Source: Consumer Expenditure Surveys, 1990-2012, Bureau of Labor Statistics.

Figure II

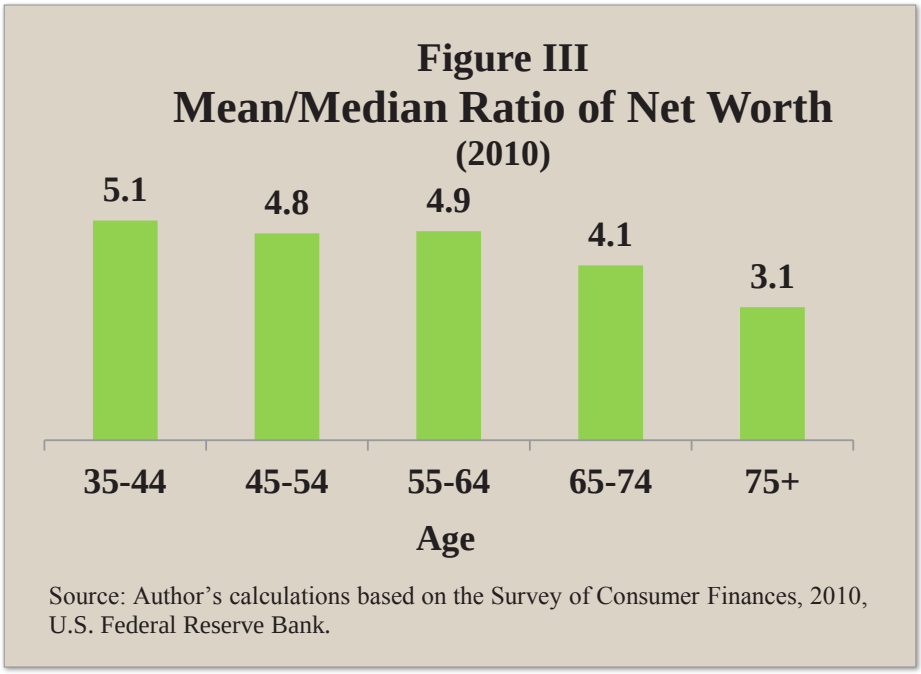
Mean Value of Credit Card Balances (2010 dollars)



Source: Survey of Consumer Finances, 1989-2010, U.S. Federal Reserve Bank.

mean/median ratio takes the average net worth and divides it by the median. The smaller the resulting number, the less the wealth distribution varies among survey respondents. As shown in Figure III:[10]

- The mean/median ratio is 4.10 for 65 to 74 year olds, and 3.13 for 75+ year olds.
- Compare this statistic to much higher mean/median ratios for 55 to 64 year olds (4.91), 45 to 54 year olds (4.86) and 35 to 44 year olds (5.16).



Conclusion. Today's seniors have a mixed bag of spending habits. Although discretionary and recreational purchases have increased, today's seniors are taking on debt in the form of mortgages and credit cards. Moreover, with abysmally low interest rates on savings and a tax policy that subsidizes consumption over saving, seniors do not have much incentive to save. Those who are early into retirement should rethink conventional wisdom about saving by considering a variety of investments besides just bonds. Also, they should avoid incurring debt through a home equity loan or any type or mortgage.

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Endnotes

1. Dinah Wisenberg Brin, "Retirement Bliss May Turn to Blues for Some Boomers," CNBC, April 13, 2012. Available at http://www.cnbc.com/id/46795867.

2. Survey of Consumer Finances 1989-2010, U.S. Federal Reserve Bank.

3. Consumer Expenditure Surveys, 1990-2012, Bureau of Labor Statistics.

4. See the Drug Price Competition and Patent Term Restoration Act 1984, available at http://www.fda.gov/NewsEvents/Testimony/ucm115033.htm.

5. See Medicare Modernization Act, available at https://www.govtrack.us/congress/bills/108/hr1/text.

6. "NHTSA Announces New 5-Year Traffic Safety Plan and Guidelines for Older Drivers and Passengers," NHTSA, December 5, 2013.

7. "More Seniors Trapped in Children's Student Debt," *Columbus Dispatch*, December 12, 2013.

8 Survey of Consumer Finances 1989-2010, U.S. Federal Reserve Bank.

9. Ibid.

10. Author's calculations based on Survey of Consumer Finances.

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