Household Expenditures over the Life Cycle: What Drives Spending Declines in Retirement?

"Household spending steadily declines throughout retirement without increasing financial distress, suggesting that changing needs and preferences rather than insufficient pension income drive the pattern."

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What is the focus of the paper?

This study examines how household expenditures evolve over the life cycle, with a particular focus on retirement years. The authors use longitudinal Dutch data from the LISS panel covering 2009–2021, allowing them to follow the same households over time. This makes it possible to distinguish age effects from cohort differences and other fixed household characteristics. The analyses control for factors including income, labor market status, health, household composition, and homeownership. Expenditures are also analyzed by spending category to better understand the drivers of changes in total spending. The study is conducted in the context of the Dutch Future Pensions Act and ongoing discussions about retirement payout design.

What are the key findings?

Household expenditures follow a pronounced hump-shaped pattern: spending rises until middle age and then starts to decline from around age 55 onward. The decline continues throughout retirement and remains substantial after controlling for income, retirement status, health, household structure, and other factors. The overall reduction amounts to approximately €1,500 per month between young adulthood and advanced age. The pattern is observed across all income and education groups and is not accompanied by greater financial hardship. Much of the decline is driven by lower mortgage payments and reduced spending on holidays, clothing, transportation, and food. Some services, such as cleaning and gardening, increase modestly. Medical care expenditures do not increase significantly.

What are the implications?

- A strictly flat pension payout profile may not match actual spending needs during retirement.
- Greater flexibility during the payout phase, such as a high-low payout structure or a limited lump-sum withdrawal at retirement, may better reflect observed spending patterns.
- Pension adequacy debates should account not only for maintaining purchasing power at older ages but also for changing consumption needs throughout retirement.
- Further research is needed to quantify the welfare effects of alternative retirement payout structures within the pension system.

Want to know more? Read the paper:

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Created with AI assistance; content and final editing by the authors.