

SPENDING IN RETIREMENT

DIFFERENCES BY HOUSEHOLD TYPE AND GENDER

PAUL REDMOND AND SEAMUS MCGUINNESS



Spending in retirement: Differences by household type and gender¹

*Paul Redmond (ESRI), Seamus McGuinness (ESRI)

ESRI Research Bulletins provide short summaries of work published by ESRI researchers and overviews of thematic areas covered by ESRI programmes of research. Bulletins are designed to be easily accessible to a wide readership.

BACKGROUND

A policy priority of the Irish Government's 2018 Roadmap for Pension Reform is to ensure that people can maintain a reasonable standard of living in retirement. In addition to Ireland, concerns exist in many other countries that retirees may not possess adequate income to achieve this, leading to a large body of international research in this area. Economic theory suggests that because people know they will retire at around 65 years of age, they will plan accordingly to ensure that their spending on goods and services does not suddenly drop at retirement. However, there is a significant amount of evidence showing that spending often declines sharply when people retire.

We examine whether spending on goods and services declines among Irish retirees. Unlike most of the existing research, which usually focuses only on food expenditure, we examine a large range of spending categories. In particular, we examine spending on leisure activities. This is important as it may be closely linked to potential social isolation in retirement, which has been shown to increase mortality risk among older people. Our work is also different to most of the existing research as we examine whether changes in spending patterns differ by household type (namely single retirees, couples where one person is working and couples where neither person is working) and by gender.

DATA AND METHODS

We use data from the Irish Household Budget Survey (HBS) to examine spending changes in retirement. We look at the spending patterns of working individuals

¹ This Bulletin summaries the findings from: Redmond, P. and McGuinness, S., "Consumption in retirement: Heterogeneous effects by household type and gender", Journal of Population Ageing, DOI: <https://doi.org/10.1007/s12062-020-09311-5>

Funding for this project was received by the Pensions Authority.

aged 55-64 years. We then compare this to the spending of individuals who are ten years older (aged 65-74 years) and who have transitioned from work to retirement.

An advantage of the HBS data is that it has very detailed information on expenditure, with almost 600 separate items of spending in the 2015 data. We categorise spending into the following seven groups: meals at home; meals outside the home; clothes and shoes; leisure; alcohol; tobacco and holidays. Leisure includes items such as admission to cinemas, theatres, concerts, sporting events, etc., as well as subscriptions to sporting and leisure clubs. It also includes reading material and costs associated with keeping pets. The other spending categories are self-explanatory. We examine changes to overall spending, as well as each category individually.

RESULTS AND DISCUSSION

We find that overall spending declines in retirement by 13% for two-adult households where the other (non-retiring) adult is not working. There is no significant effect in two-adult households where the other adult is working. Spending for single retirees declines by considerably more, by approximately 30%. This is due to lower spending on meals outside the home, leisure and holidays. Our analysis reveals gender differences, with declines in leisure and holiday spending only apparent among single male retirees. These two categories alone account for approximately 65% of the overall reduction in spending among male retirees. This is potentially concerning as it may point towards social isolation in retirement.

While all household types experience lower spending on meals outside the home, expenditure on food consumed at home is unaffected. Retired households appear to maintain their overall food consumption by devoting a greater percentage of income to home food consumption.

Our results highlight the fact that certain groups of retirees may experience significant changes to their spending patterns. Some of this spending, such as meals outside the home and clothing, may be attributable to a reduction in work-related expenses and therefore is not cause for concern. However, single male retirees spend significantly less on leisure, holidays and meals outside the home when they retire. This may be of concern, as it appears consistent with a separate strand of literature showing men are particularly at risk of social isolation in retirement. Policies to maintain adequate social support and to encourage social participation in retirement could help mitigate such effects, as could programmes to better prepare retirees for the transition from employment to retirement.

Whitaker Square,
Sir John Rogerson's Quay,
Dublin 2
Telephone **+353 1 863 2000**
Email **admin@esri.ie**
Web **www.esri.ie**
Twitter **[@ESRIDublin](https://twitter.com/ESRIDublin)**