

Spending Patterns of Older Workers

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Introduction

Recent increase in the labor force participation of older individuals generates interest in their spending patterns. Is the budget share devoted to necessities larger for older working households as compared with retired households? If so, work may be a response to financial need. Do older workers spend differently than older retirees, after controlling for income level? If so, employment status becomes an important characteristic among older Americans for distinguishing between different consumer groups.

To address these questions, this study uses 2005 Consumer Expenditure Data to compare the budget shares and expenditure levels of respondents aged 55 to 74 in working and retired low, medium, and high income households. Factors associated with spending on necessities (defined herein as food, housing, transportation, and health care) for both groups are identified. Results are compared with prior studies.

Findings

Study results are consistent with prior research, suggesting stability in spending patterns of older working and not working households over time. All else equal, those who are relatively younger spend more than those who are older. Race and ethnicity influence spending of both working and not working older Americans.

Budget shares devoted to food, housing and health care are larger for not working households at every income level, implying that covering the cost of necessities might not be a primary motivation for older Americans to work. Study results also indicate that the income resources of the not working are typically lower than the income resources of the working across all income levels.

Spending patterns in older working households differ from those in older not working households, reflecting to some degree lifestyle differences between the two groups. The differences underscore the necessity to consider older Americans as a heterogeneous group, with working and not working serving as an important distinguishing characteristic.

Among low income households, working households allocate a larger budget share to transportation. Overall health care spending was higher for the not working households across all income levels. The largest difference was noted for the higher income group where the not working devoted 11% of their budget to health care whereas the working devoted 7%. Much of this difference came from out of pocket spending on health insurance. Across all income levels, working households allocated a larger share of their budget to personal insurance and pensions than nonworking households reflecting working households' contributions to retirement pensions and Social Security.

Research on the spending patterns of older works and non-workers should continue. Current trends in demography, financial and labor markets may foster changing spending patterns between workers and retirees in the future. For the large Baby Boom generation, the transition from work to retirement presents both choice and constraint. Smaller generations are following the Boomers. This fact coupled with concern about the solvency of Social Security as the dependency ratio (ratio of contributors to Social Security to recipients) rises gives Boomers greater opportunity to remain in the labor market. Increased longevity also provides opportunity for choices to work longer in a given occupation, move to a new career, to work part time, full time or not at all. In addition, Boomers face increased responsibility for determining their own financial future as employers shift from defined benefit to defined contribution plans. Financial market downturns such as that currently experienced in 2008 and 2009 can necessitate remaining in the labor market to finance retirement in later years. All of these factors create opportunity to continue to explore the spending patterns of older workers.

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