

# How Do Seniors in the Northeast Spend Their Money?

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*Over the past 25 years, the spending patterns of retirees (age 65 and over) have moved in response to increases (and falls) in the costs of goods and services, changes in retirement income and shifts in priorities. More seniors carry mortgage and credit card debt than in the past, but generally the economic well-being of seniors has improved, particularly in the area of discretionary spending. How have their spending habits changed?*



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Using the Bureau of Labor Statistics Consumer Expenditure Survey (CES), I look at the past 25 years' worth of expenditures for a particular group of seniors: those in the northeastern region of the United States. This region, as defined by the BLS, includes nine states: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont. Why the Northeast? This region has the highest median age in the United States. The median age in the United States is 37.3 years old, but according to the America Community Survey, seven of the nine states in the Northeast region are in the top 10 states with the highest median age. Maine tops the rest of the country with a median age of 43.2 years.

Many retirees flock to warmer climates to live, but in some states seniors are "aging in place," while younger generations leave to look for job opportunities and lower costs of living outside of the states in which they grew up. Does this mean that these states will face an economic burden? Not necessarily; but policymakers and those in the health care and long-term care industries face tough decisions on the cost of providing care for those choosing to age in place.

What is the point of caring how seniors spend their money? In and of itself, there is not an immediately obvious policy point here. However, public policy is often shaped by perceptions policymakers have about the economic condition of communities and groups of people that may differ from the reality.

## How Things Have Changed for Seniors

Seniors are often portrayed as either enjoying a life of retirement ease or, on the other end of the spectrum, having to choose between medicine and groceries. But the reality is somewhere in the middle. In 1959, the rate of poverty among seniors was 35 percent, but it is now less than 9 percent, the lowest among all age groups.<sup>1</sup> Furthermore, northeastern seniors are more mobile, independent and educated than ever before. According to the Consumer Expenditure Survey:<sup>2</sup>

- In 2015, 79 percent of northeastern seniors owned or leased at least one vehicle, compared to 70 percent in 1990;
- Some 76 percent of seniors owned a home in 2015, compared to 70 percent in 1990; and
- Half (50 percent) of seniors have at least some college attendance or have a college degree in 2015, compared to just 24 percent in 1990.

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**Consumer Expenditure Survey Data.** The Consumer Expenditure Survey, published by the Bureau of Labor Statistics, tracks the spending habits of over 100,000 households. It is then tabulated according to region, age group, income level and other demographic characteristics. The Northeast region data for seniors age 65 and over includes approximately 4,900 representative households:<sup>3</sup>

- Since 1990, seniors' expenditures have grown in real terms (inflation-adjusted) an average of 1.32 percent annually.
- In 2015 dollars, average expenditures were \$34,477 in 1990 and \$46,573 in 2015.

### More northeastern seniors carry mortgage debt into retirement or use home equity loans during retirement.

More seniors report owning a home than they did 25 years ago [see Figure I], but more of them also carry mortgage, home equity loan or line of credit debt:

- In 1990, only 10 percent of seniors had mortgage debt, whereas in 2015, 19 percent of seniors reported mortgage debt. (However, this is the lowest rate among the four regions into which the United States is divided in the Consumer Expenditure Survey.)
- Moreover, housing costs (property taxes, insurance, maintenance and mortgage interest, but not including principal payments) now account for about 23 percent of their total annual expenditures, up from 20 percent in 1990.
- Some of the increase is due to the growth in mortgage interest as a share of their housing expenditures, from 5.4 percent in 1990 to 7.1 percent in 2015.

It is telling that mortgage interest has increased, particularly at a time when interest rates are at an all-time low. Demographic trends, home costs and the availability and cost of long-term loans are likely to blame. According to real estate website Zillow:<sup>4</sup>

- The median age of the first-time homebuyer increased from 30.4 years in 1989 to 32.5 years in 2013. The longer a family waits to purchase a home, the more likely they will still be making payments as they enter retirement.
- The price-to-income ratio for the average home buyer increased from 1.9 in 1989 to 2.6 in 2013, meaning

that people are buying higher-priced homes in relation to their earnings.<sup>5</sup>

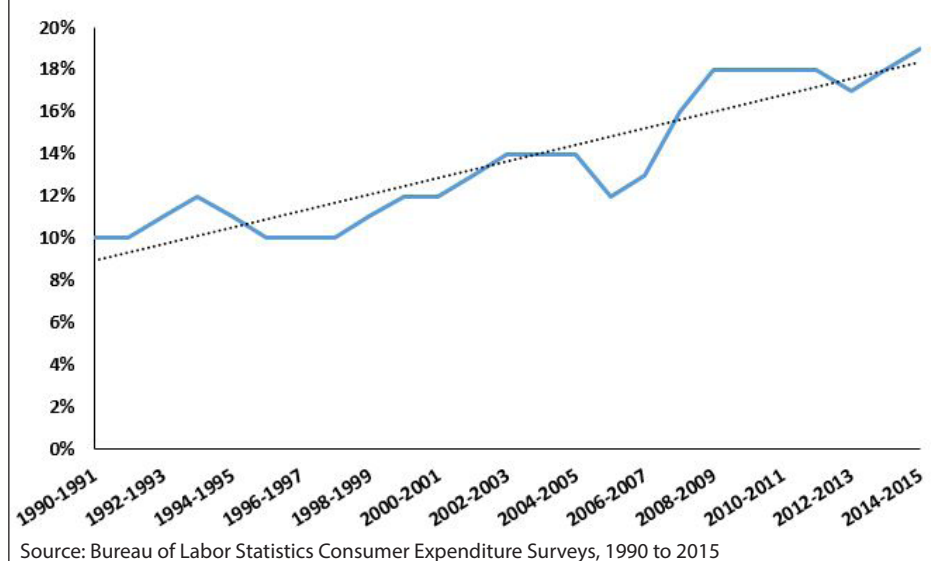
Furthermore, 30-year home loans, which used to be the exception, are now the norm. This may account for a higher share of housing expenditures paid toward mortgage interest.

**Utilities have remained stable.** Despite occasional stories of seniors struggling to pay the rising cost of utilities, the CES survey shows that for seniors in the Northeast, utilities as a share of their total expenditures have remained stable with no indication of a substantial increase. In 1990, utilities (including natural gas, electricity, heating oil, telephone and water/sewer) were 9.3 percent of their total expenditures; that share dropped slightly to 8.9 percent in 2015. This is attributable to decreases in the cost of energy:

- Electricity fell from 3.2 percent of total expenditures in 1990 to 2.7 percent in 2015.
- Heating oil, which is popular in the Northeast, fell from 1.6 percent of expenditures in 1990 to 1.2 percent in 2015.
- Natural gas fell from 1.5 percent of expenditures in 1990 to 1.3 percent in 2015.

Furthermore, telephone expenditures remained fairly flat (2.2 percent in 1990 compared to 2.3 percent in 2015), but seniors are increasingly shifting from land-lines to cell phones, which will likely reduce their telephone expenditures in the future. In fact, 40 percent of the 2.2 percent telephone expenditure share in 2015 was cell phone costs.

**Figure I**  
Percentage of Homeowners with Mortgage, Home Equity Loans or Home Equity Lines of Credit (age 65+)



**Health care costs as a share of expenditures has changed significantly.** Health care costs as a share of expenditures peaked at 12.2 percent during the 2005 to 2006 survey period and fell after that, but have increased dramatically since 2012. Now at 12.6 percent of total expenditures, the components of health care expenditures have changed, likely as a result of changing health care policies (Obamacare) and health insurance coverage mandates [see Figures II and III]:

- In 1990, health insurance premium costs as a percentage of seniors' total health care expenses were less than half of total health care expenses (not including Medicare Part B premiums that are deducted from Social Security checks).
- Out-of-pocket medical expenses were about 37 percent, drug expenses were about 16 percent and medical equipment was less than 4 percent.
- By 2015, however, health insurance premiums accounted for almost 70 percent of the health care expense pie, although out-of-pocket medical expenses fell by more than half (15.5 percent).
- Drug costs fell to less than 12 percent and medical equipment remained stable.

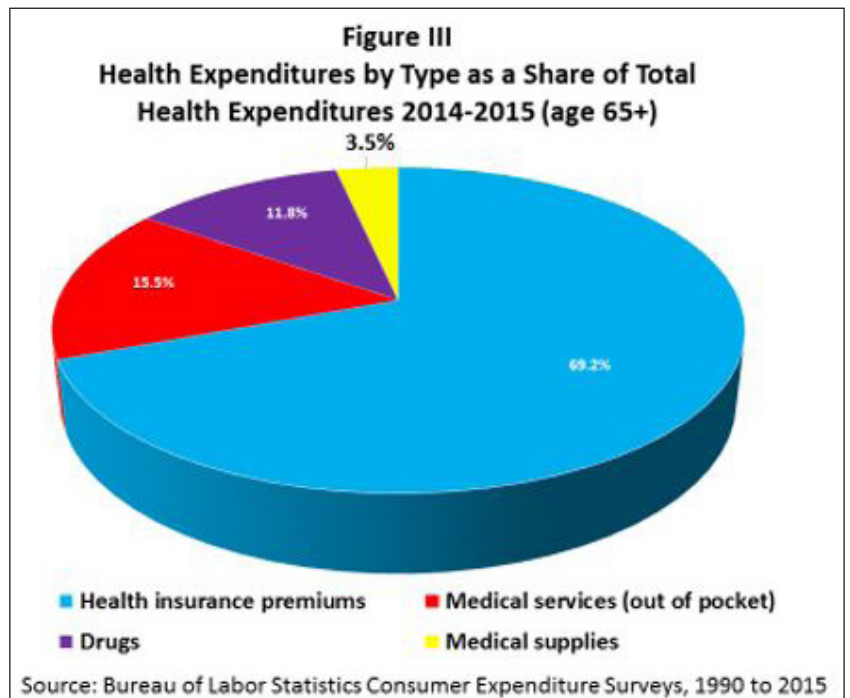
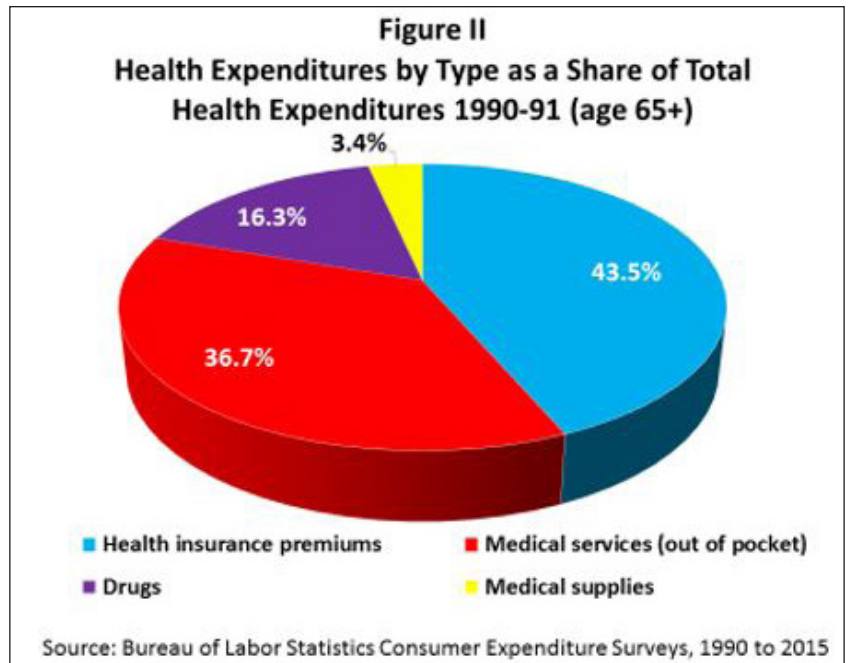
This is not at all surprising. Health care reforms have required insurers to cover more services, thereby increasing premiums and covering the total cost of more services that used to require out-of-pocket payments, such as wellness exams. And the addition of the Medicare Part D drug program and the expansion of generic drugs have helped to reduce out-of-pocket drug expenditures for seniors.

**Seniors are spending more in some discretionary categories, including hobbies.** Despite the spending increases in necessities, such as housing and health care, seniors in the Northeast are making more room for discretionary spending. In this report, discretionary spending includes any items not pertaining to taxes, savings or house payments and insurance. For example [see Table I]:

- Education is the fastest growing expenditure category, averaging 11.5 percent annually over the past 25 years, though it is still a miniscule part of seniors' spending. The growth is likely due to spending on children and grandchildren's college expenses rather than their own.
- Surprisingly, hobbies — including pets, toys and playground equipment — are the second-fastest

growing expenditure at 8.6 percent annually. In fact, pets and pet care now comprise about 75 percent of expenditure growth and have their own CES category.

- Entertainment expenses, which includes outdoor and recreational equipment, have grown an average of 7 percent per year.
- Finally, household expenses not directly related to mortgage payments, taxes or insurance, or structural maintenance is the fourth-fastest growing category, at 4.3 percent annually. (This category includes



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**Table I**  
Discretionary Categories with the Most Annual Growth

Category	1990-1991	2014-2015	Average annual change
Education (includes tuition, fees, textbooks, supplies for college, primary and secondary school)	0.4%	0.5% (peaked in 2007-2009 at 1.8%)	11.5%
Pets, Toys and Playground Equipment	0.7%	1.3% (75% pets)	8.6%
Entertainment (RV and boat rentals, camping, sports equipment, etc.)	0.3%	0.2%	7.0%
Other households expenses (lawn & garden services, pest control, furniture upholstery, repair of appliances, computer purchase and repair)	1.4%	2.1%	4.3%

Source: Bureau of Labor Statistics Consumer Expenditure Surveys, 1990 to 2015

landscaping and lawn care, housekeeping and cleaning services, furniture upholstery, appliances and home appliance repair.)

**What discretionary spending categories are declining?** Several categories of expenditures comprise a smaller share of seniors' budgets than in the past:

- Apparel, which was 5 percent of seniors' expenditures in 1990, is now half that (2.5 percent), declining more than 2 percent annually.
- Food purchases, which were previously 16 percent of senior expenditures 25 years ago, have fallen to 11.6 percent.
- Tobacco purchases fell 1.6 percent annually, on average, due to fewer seniors consuming tobacco products.
- Reading materials (including electronic materials), which constitutes less than half a percent of seniors' total expenditures, fell 1.4 percent per year.

The declines in food and apparel are consistent across all regions and age groups. These are two categories where real prices have fallen dramatically for decades due to improved production technologies and expanded trade with other countries.

According to the Federal Reserve's Survey of Consumer Finances, seniors across the United States also have the smallest disparities in terms of net worth. This is measured by the mean/median ratio, which is the average household net worth of all seniors divided by their median net worth. The smaller the number is, the smaller disparities

(inequalities) exist in net worth among seniors. The calculation of the mean/median ratio shows that those over 75 years of age have the least amount of wealth inequality of all age groups with a ratio of 3.31 to 1. Seniors ages 65 to 74 rank second with a ratio of 4.55 to 1.

**Conclusion.** The financial health of today's northeastern seniors is a mixed bag. They are carrying more mortgage or home equity debt than past generations. Health care expenditures have increased slightly each year (about 1 percent), but some significant expenditure categories — food, utilities and clothing — are also on the decline.

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**Table II**  
Discretionary Categories with the Largest Decline

Category	1990-1991	2014-2015	Average annual change
Apparel and related services (dry cleaning, tailor, etc.)	5.0%	2.7%	-2.2%
Tobacco products	0.78%	0.44%	-1.6%
Reading materials (includes digital reading material)	0.81%	0.43%	-1.4%
Food	16.4%	11.6%	-1.4%

Source: Bureau of Labor Statistics Consumer Expenditure Surveys, 1990 to 2015

### Notes

1. U.S. Census Bureau.
2. Bureau of Labor Statistics Consumer Expenditure Survey tables, 1990-91 to 2014-15.
3. Reported income in the Consumer Expenditure Survey is not the most reliable. Survey respondents tend to underreport income or not disclose income at all. Also, expenditures may actually exceed income since government transfer benefits (cash payments, food stamps and so forth), loans and gifts of money that can be spent on goods and services are not necessarily reflected in income reporting. For these reasons, I focus only on expenditure growth.
4. "Zillow: Average first-Time Homebuyer 33 Years of Age," *National Mortgage Professional Magazine*, August 20, 2015.
5. The price to income ratio is simply the cost of the home divided by household income.