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Interview with
Sudipto Banerjee, Ph.D.

Sudipto Banerjee is the researcher responsible for the Employee Benefit Research Institute (EBRI) research on spending in retirement discussed in the article "Thinking About Spending in Retirement: Findings From SOA and EBRI Research."

TELL US A LITTLE ABOUT YOURSELF.

I am a part of the EBRI retirement research team. My research interests are centered around the economic issues people face in retirement. These include studying how and why household income and spending change in retirement, understanding annuitization preferences, documenting effects of nursing home stays on household portfolios, etc. I finished my Ph.D. in economics from The Ohio State University in 2011 and have been with EBRI since then. In 2015, I was honored as one of the 50 Influencers in Aging by Next Avenue (PBS).

WHAT IS THE BACKGROUND OF THE EBRI RESEARCH ON SPENDING IN RETIREMENT?

When I started working on these issues, I found a lot of great research and advice for workers who are saving for retirement. For example, at EBRI, we do a lot of research using our own individual retirement account (IRA) and 401(k) databases on topics such as contribution behavior, asset allocation, etc. But I found that research on retirees is relatively scarce, and as a result of that, most studies just assume how people are going to behave in retirement. For example, the retirement adequacy studies, which use income replacement rates, assume that replacing a certain percentage of pre-retirement income throughout retirement will lead to a successful retirement. Does this mean post-retirement spending will also be a certain percentage of pre-retirement spending throughout retirement? What if people make lifestyle changes as they age and their health deteriorates? Does their spending still remain unchanged? How about different subpopulations of retirees? Do singles and couples need to replace the same percentage of income? Is it the same for those entering retirement with or without a mortgage? Of course, to answer these questions we need a deep understanding of spending in retirement. So, we started working on retirement spending as a part of the greater issue of retirement adequacy.

WHAT DATA SOURCES DID YOU CHOOSE AND WHY?

For all our work on retirement spending we used data from Consumption and Activities Mail Survey (CAMS), which is a supplement of the more well-known Health and Retirement Study (HRS). HRS is the most comprehensive national survey of older (50 and above) Americans and is often referred to as the "gold standard" for data on retirement research. It is an incredibly rich data source that includes very detailed information on income, assets, health, labor force participation, etc. CAMS collects data on 36 spending categories. The most important advantage of using CAMS is its link with HRS. Because all CAMS households are part of HRS too, spending data can be analyzed together with income, health and labor force behavior data. The other advantage of both HRS and CAMS is that both are longitudinal surveys, which means the same groups of people can be studied over long periods.

WHAT SURPRISED YOU THE MOST ABOUT THE FINDINGS?

I am not sure if I was surprised, but there were definitely some findings that stood out. First, nearly half (45.9 percent) of households spent more in the first two years of retirement than they did before retirement. More importantly, these households were almost evenly distributed across different income groups. Even after five to six years of retirement, almost a quarter (23.4 percent) of households spent 20 percent or more than they did before retirement. This gives us an idea about the highly individual and flexible nature of post-retirement spending. The other finding that stood out to me is how stable some types of out-of-pocket medical expenditures (doctor visits, prescription drugs and dentist visits) are throughout retirement. On average, they don't really change with age.

WHAT DO YOU THINK IS APPROPRIATE FOR INDIVIDUALS TO EXPECT AND PLAN FOR?

I think the most important thing is to have an individual plan based on the needs and desires of the individual household. The data shows that there is a lot of variation in spending after retirement, so following any rule of thumb may not work out for many. More precisely, for someone planning to retire in a year or two, it might be a good idea to track their monthly and annual expenses in detail. Then figure out how and which expenses they anticipate to change following retirement. Of course this doesn't have to be accurate down to a penny, but this will give them a good idea about how much income they will need to support their regular expenses. This information, combined with their expected Social Security benefits, will help them to figure out a safe withdrawal strategy. I think going through a process like this will help future retirees understand where they stand in terms of retirement preparedness and consequently help them adjust their income or spending or both so they can have a confident retirement. ■