

Spending Decisions in Retirement—What Choices Can People Make?

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Abstract

This paper looks at the spending decisions that are made during retirement and some of the options and choices available. It builds on spending data by age, the Focus Group research undertaken by the Society of Actuaries (SOA) as well as the SOA's surveys on postretirement risks. It sets up the dilemma of "enjoying things while I can" vs. longer term planning. It is based on experience and anecdotal stories based on conversations with retirees as well as evidence from the literature. It incorporates an anecdotal story the author used previously (*The Story of Joan*) to show how people move through various stages of health and expands that story to discuss needs and spending issues.

There are varying opinions that can be found among experts about how much money one needs to retire. Many Americans retire very successfully and others struggle. This paper looks at some of the decisions that are made during retirement, and looks at options and choices that are available. It attempts to provide insight into the range of choices that can be made. It builds heavily on discussions with a number of retirees as well as research, and it is heavily influenced by anecdotal information.

Research Results and What They Tell Us

Demographic profiles provide information on average income, average spending and sources of spending of boomers and aged Americans. We can reach several conclusions from this data:

- Income and spending are considerably lower for those aged 65-74 when compared to boomers, and for those age 75 and over when compared to those aged 65-74. This is not household total and not adjusted for changes in household size between age groups.
- The percentage of income spent increases with age. At ages 75 and up, spending on average is very close to income. By income level, spending exceeds income at lower income levels.
- There has long been a puzzle about whether reduced spending is a result of reduced income or adjustment in needs. It would appear likely that much of the reduction is due to a reduction in what is available. However, at higher ages and lower income levels, spending continues at levels well above current income, indicating use of assets, help from others, and/or going into debt.

- Spending patterns vary by age. Medical spending rises as a percentage of the total.
- Housing is the largest amount of spending. Housing is also very important as it involves choice of location as well as specific dwelling. Location drives access to a variety of other options for recreation, support, being near friends and family, etc.

Table 1
Average Annual Expenditures

	Annual Amount Spent		Percentage of Total	
	Age 65-74	Age 75+	Age 65-74	Age 75+
Food & Alcohol	\$4,803	\$3,446	14.9%	14.5%
Housing	\$10,052	\$8,257	31.2%	34.8%
Apparel and Services	\$1,252	\$674	3.9%	2.8%
Transportation	\$5,731	\$3,178	17.8%	13.4%
Health Care	\$3,588	\$3,584	11.1%	15.1%
Entertainment	\$1,371	\$896	4.3%	3.8%
Miscellaneous	\$1,973	\$1,288	6.1%	5.4%
Cash Contributions	\$1,620	\$1,740	5.0%	7.3%
Personal Insurance	\$1,853	\$696	5.7%	2.9%
Average Annual Total	\$32,243	\$23,759	100.0%	100.0%

Source: Mature Market Institute Demographic Profile, Americans 65+, 2006

Table 2
Percentage of Total Expenditures by Age Group

	Age 45-54	Age 55-64	Age 65-74	Age 75+
Food & Alcohol	13.7%	13.4%	14.9%	14.5%
Housing	31.2%	31.0%	31.2%	34.8%
Apparel and Services	5.1%	4.7%	3.9%	2.8%
Transportation	19.5%	19.6%	17.8%	13.4%
Health Care	4.9%	6.9%	11.1%	15.1%
Entertainment	4.8%	5.5%	4.3%	3.8%
Reading and Education	3.0%	2.1%		
Miscellaneous	2.5%	2.4%	6.1%	5.4%
Cash Contributions	3.3%	3.5%	5.0%	7.3%
Personal Insurance*	12.0%	10.9%	5.7%	2.9%
Average Annual Total	100.0%	100.0%	100.0%	100.0%

Sources: Mature Market Institute Demographic Profiles, Americans 65+, 2006 and American Baby Boomers 2006

Note: Categories in two issue briefs did not match exactly and miscellaneous for the Baby Boomers is adjusted to bring total to 100 percent.

*Includes Pensions for ages under 65

Table 3
Average Annual Spending per Household

	Annual Income	Annual Spending	Percentage
Younger Boomers (Born 1956-64)	\$56,500	\$45,149	79.9%
Older Boomers (Born 1946-55)	\$58,889	\$46,160	78.4%
Americans Aged 65-74	\$35,118	\$32,243	91.8%
Americans Aged 75+	\$23,890	\$23,759	99.5%

Sources: Mature Market Institute Demographic Profiles, Americans 65+, 2006 and American Baby Boomers 2006

Table 4
Median Net Worth

	Total Net Worth	Excluding Home Equity	Percentage
Age 65-69	\$114,050	\$27,588	24.2%
Age 70-74	\$120,000	\$31,400	26.2%
75 and older	\$100,100	\$19,025	19.0%

Source: Mature Market Institute Demographic Profile, Americans 65+, 2006

Table 5
Income and Spending for Consumer Units with Reference Person Over Age 65
Selected Brackets of Before Tax Income

	\$10,000 to \$14,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$50,000 to \$69,999	\$70,000 and more
Before-tax Income	\$12,500	\$24,733	\$34,669	\$58,794	\$122,499
After-tax Income	\$12,392	\$23,798	\$34,357	\$57,815	\$117,867
Age of reference person	77.7	75.4	74.2	72.7	71.9

Sex distribution of reference person

% Male	27%	45%	52%	59%	65%
% Female	73%	55%	48%	41%	35%

% Owning Homes	70%	85%	87%	93%	96%
Est. Market Value of Owned Home	\$97,427	\$142,531	\$179,432	\$222,578	\$330,129

Average Annual Expenditures

Food & Alcohol	\$2,596	\$3,929	\$4,392	\$6,392	\$9,133
Housing	\$7,096	\$9,780	\$10,660	\$13,760	\$21,471
Apparel and Services	\$392	\$675	\$771	\$1,630	\$2,360
Transportation	\$1,645	\$4,616	\$5,293	\$8,953	\$11,686
Health Care	\$2,801	\$3,994	\$4,694	\$5,383	\$6,589
Entertainment	\$666	\$1,037	\$1,396	\$2,310	\$3,933
Miscellaneous	\$844	\$1,394	\$1,878	\$2,626	\$4,546
Cash Contributions	\$767	\$1,435	\$1,760	\$2,444	\$6,407
Personal Insurance	\$242	\$629	\$1,242	\$2,995	\$8,139
Average Annual Total	\$17,049	\$27,489	\$32,086	\$46,493	\$74,264

Percentage Distribution of Expenditures

Food & Alcohol	15.2%	14.3%	13.7%	13.7%	12.3%
Housing	41.6%	35.6%	33.2%	29.6%	28.9%
Apparel and Services	2.3%	2.5%	2.4%	3.5%	3.2%
Transportation	9.6%	16.8%	16.5%	19.3%	15.7%
Health Care	16.4%	14.5%	14.6%	11.6%	8.9%
Entertainment	3.9%	3.8%	4.4%	5.0%	5.3%
Miscellaneous	5.0%	5.1%	5.9%	5.6%	6.1%

Cash Contributions	4.5%	5.2%	5.5%	5.3%	8.6%
Personal Insurance	1.4%	2.3%	3.9%	6.4%	11.0%
Average Annual Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Data extracted from Table 30, 2004-2005 Consumer Expenditure Survey, U.S. Dept of Labor, Bureau of Labor Statistics

Focus groups conducted for the Society of Actuaries provide insights into the decision making process around spending (Source: *Spending and Investing in Retirement: Is There a Strategy?* LIMRA and the Society of Actuaries, 2006). It should be noted that the members of these focus groups were a few years beyond retirement and were generally in their late 50s or 60s. The retirees in the study were relatively affluent as they had to have significant lump sums from 401(k) plans to be included in the focus groups. Some of the key findings included the following:

- Some of the retirees are spending more in retirement as they have more time for entertainment. Others are spending less.
- There is little long-term analysis of needed spending and the impact of inflation that enters their decision making.
- Individual comments indicated that some of the retirees decide to buy things if they want them without consideration of the bigger impact.
- The financial planning by the focus group members was quite intuitive.

The Society of Actuaries has completed three surveys in 2001, 2003 and 2005 focusing on how the public manages post-retirement risk. Repeatedly, in these surveys, reducing spending was a key method of managing risk. Eliminating credit card debt and paying off your mortgage are also important.

The 2005 Survey focused on whether retirees had looked into using housing wealth to help finance retirement and very few of them had. 87 percent of the retirees reported that they had not used home equity to finance retirement whereas 10 percent said they had. Of the 10 percent who said that they had used their home equity, 46 percent reported that they had sold their homes, 36 percent had obtained a home equity loan, 15 percent got a new mortgage and 3 percent a reverse mortgage. 11 percent of retirees currently owning their home plan to use the value to help fund retirement in the future.

The 2003 survey also asked retirees and workers which spending reductions would be the most likely and acceptable. In response to the question, which

reduction in spending would you be likely to make first, the most likely reduction was for both retirees and workers was eating out less in restaurants. Pre-retirees' second and third choice was spending less on gifts and taking fewer vacations. Retirees' second and third choices were taking fewer vacations and spending less on gifts. Both groups said that they were much more likely to move to a smaller house or apartment than to relocate to a less expensive area. One of the challenges in interpreting these results is that different people start with very different spending levels and allocations.[†]

Retirement is often a period of change: *The Story of Joan*

People who retire at ages 60 to 65 may live to 95, 100 or even longer. For many people, there is a lot of change during their retirement. *The Story of Joan* (developed by the author and previously published in 2002 in a background paper by the Actuarial Foundation) provides an anecdotal story used in a number of speeches to focus on periods of change.

Table 6 provides The Story of Joan with expansion, more detail, and updating:

[†] Source: Questions R27 and Q44 from the 2003 Risks and Process of Retirement Survey.

Table 6
The Story of Joan

Joan's age	Joan's situation	Spending issues and help required
67	Joan and her husband, Robert, age 72, are both retired and enjoying life. They are active and walk almost every day. They have many friends and contacts. They have family and friends in many locations and have not seen some of the more distant family and childhood friends for many years. They set up trips over several years to visit these people and are very involved in putting together family history and attend two study groups. Both of them are involved with volunteer work and community service. They live in their own home with a yard in a suburb of a major northern city where they have lived for more than 20 years. Robert and Joan have four children who are located in different cities in the United States. None of them are in the same location where they live.	There is extra spending for meeting retirement dreams
70	Joan and Robert, now age 75, continue to walk almost every day, but they are phasing down some activities. Robert's heart disease is controlled by medication. They still live in their home, have stopped traveling, but continue to participate in volunteer activities and study groups. Robert's former employer provides very good health insurance so there are no problems with health care costs.	There is no special extra spending at this point

73	<p>Joan and Robert find it difficult to care for their home, and particularly the yard, and feel trapped in the winter. It's hard to get help with snow removal and in any case, they do not like to drive if there is significant snow. They are exploring other types of housing and living options. This activity is being conducted with one of the study groups they belong to. They put their name on the waiting list of the senior housing they like best, but decide to postpone the decision about whether they will move until their name comes up. On the one hand they love their home, but Joan is becoming more concerned about the challenges it presents. They walk regularly in good weather and continue to go to study groups, but their participation in volunteer activities is less. Joan is in good health but very concerned about the demands placed on her.</p>	<p>Help is needed with some household tasks, snow removal, yard work, etc.</p>
75	<p>Robert dies. Joan sells her house and relocates to an independent living senior apartment complex about fifteen minutes from her prior home in a suburb of the city where they lived. It offers dinner everyday, weekly apartment cleaning, transportation for shopping, and a wide ranging program of activities. Joan is able to move to the senior housing where they applied two years earlier as her name comes up on the waiting list. Joan is still able to see her friends and participate in the study group she went to with Robert. Joan drives but does not go downtown.</p>	<p>Joan's cost of the apartment (more costly than a regular apartment because of services provided). The incremental cost is the difference between the cost of her home and the cost of the new apartment.</p>

77	<p>Joan is diagnosed with Parkinson's disease. With medication, she can function well and handle most of her needs. She needs five separate medications taken in different combinations four times per day. Joan continues to see her prior friends but not as often. She stops driving. Members of the study group she participates in pick her up so she can continue to participate. Joan makes new friends in the senior complex, and plays bridge two nights a week, and attends exercise class three days a week. She is a member of the resident council. She is fortunate that Robert's former employer provides generous health benefits so she had good coverage for the medication.</p>	
79	<p>Joan needs help paying her bills and managing her finances, plus help with shopping and errands. A good friend is helping her twice a week for a minimum of six hours per week with bill paying, errands, and doctor's appointments. She can answer the phone and make calls only to pre-programmed numbers. She is still able to take short walks on her own. She sees her old friends infrequently but still plays bridge two nights a week and attends the exercise classes.</p>	
80	<p>Joan can no longer manage her own medication even if someone else sorts it out by time of day for her. She can no longer use her answering machine. A paid helper comes in for about three hours a day in addition to the friend who comes twice a week. (The paid helper also works with other people in the senior housing so she is able to come twice a day, and that works out fine for a while.) She rarely sees old friends and has stopped attending the bridge games. Her hands are crippled from the Parkinson's disease and she can no longer write.</p>	<p>Cost of senior housing apartment plus cost of the helper</p>

81	Joan can no longer manage bathing, dressing and medication without help. She moves to an assisted living facility which offers help with these functions and three meals a day plus activities. The new facility is in the city where two of her children live. A family member helps her two to three times a week. She is able to go outside on her own and take very short walks next to the facility without venturing onto regular streets. She no longer has access to her old friends, but she is fortunate to be near two of her children and several grand-children. She especially enjoys the grandchildren.	Cost of assisted living; higher cost than former senior housing
83	Joan has a walker and is much less mobile. She is often in a wheel chair and is often confused. She has a lot of difficulty speaking. She is transferred to the higher level of assisted living where she has regular supervision. The assisted living facility insisted on the transfer because she needed more care.	Cost of higher level assisted living
84	Joan is no longer able to walk and is in a wheel chair. She is not able to feed herself. She has a great deal of difficulty speaking and can't be understood. She moves to a nursing home. The nursing home is another location, near one of her children who can provide regular support. Her son comes several times a week, brings her anything she needs, and often feeds her at lunchtime. Another family member attends to all of her business matters.	Cost of nursing home

One of the interesting aspects of discussions using *The Story of Joan* is that commonly people who heard the story would ask the question: "How did you know about _____?" The story matched the situation of someone they knew, and it is based on the actual experience of people the author knew.

It should be noted that *The Story of Joan* does not cover one of the major areas of change during retirement, work. Many people work during some part of their retirement, at different levels of work and pay. Work can be driven by interest or economic need. It is an increasingly important part of retirement.

Decisions People Make

Overview

The Council for Jewish Elderly in Chicago led a community effort to develop a set of decisions for retirement and elder living. This document called "Mapping Your Future" is available on the Internet, and offers a comprehensive look at decisions and issues to be dealt with by individuals as they plan their retirement years. To view this document, please visit http://www.cje.net/lifestyle/your_future.html

There are five categories in "Mapping Your Future."

- Health
- Work & Leisure
- Finances
- Housing
- Relationship

These areas can be inter-related. For example, if you are in poor health, it may limit your housing options based on mobility and ability to care for housing. It may further push you to housing that includes support services. Finances may help to define desired housing options. If you have children, you may wish to live near them. You may also wish to be near your friends.

A Hierarchy of Decisions

Older Americans, particularly those who are retired have various decisions to make. Some are very short-term and others are much longer-term. Short-term decisions often involve immediate spending without any longer-term impact on life style. Examples are eating fewer meals out, buying less clothing or spending less on these items, etc. Another such decision might be whether to take a vacation or not. Longer-term decisions include whether to move to a less expensive home in the same area or to a lower cost area. The Society of Actuaries' research shows that shorter-term spending decisions are easier, and are probably what is done first. More people seem willing to move to a lower cost home in the same area than to a lower cost area. This is very logical since most people have a support system and regular activities in the area where they live.

There is another set of decisions that fits with spending decisions. If spending exceeds income on a current basis, then the retiree needs to decide whether to go to work to earn more money, go into debt, or use assets. People may try to go to work but not be able to find suitable work.

In addition to planned spending decisions, many people also experience unplanned spending such as home or car repairs, or unexpected medical expenses.

Trade-offs and Dilemmas

No one knows how long they will live. Society of Actuaries' research and other information shows that overall people are more likely to underestimate rather than overestimate life expectancy. Many people are also not good long-term planners.

Many people (including the author) are very influenced by personal experience, i.e. what happens to our family, friends and those around us. We are aware of people who are sick in their 60s and 70s and of people who die. In many respects, this leads us to want to do the things we care about and to meet our dreams earlier rather than later. This is rational from the author's perspective. For a married couple, meeting their dreams together often requires that they both be alive and healthy. For those with adequate financial resources, there is usually no downside in doing things earlier rather than waiting. For those with limited resources, there may be a trade-off between more enjoyment now and more difficult circumstances later.

There is no clear right answer to this matter, and people will choose differently based on their priorities. Data shows a clear decline in economic status at widowhood and the choices that couples make often leave the surviving spouse in less desirable circumstances.

Housing and Location

In the case study above, Joan made decisions about housing several times during her retirement. She chose to remain in her long-term home at the time of retirement and age in place. She investigated moving several years later as it became difficult to care for her home, but wanted to stay near her friends. She moved to senior housing after her husband died, and then again to assisted

living and long-term care. The first move was near her home, prior activities and friends, but the second and third moves were to new geographic areas where her children lived. At the time of the first move, the friends and activities were important in her life, but by the time of the second move, they had ceased to be important.

The data on spending shows that housing is by far the biggest expense that most people have. For many people, it also offers the biggest potential for change. However, as people age and need special housing, that can be very expensive. Location is also very important as it provides links to transportation, activities and a support system.

The Council for Jewish Elderly Mapping Your Future project provides an overview of the issues with the following advice about housing:

“Your housing means much more than a roof over your head. Home is your community, your friends, often a lifetime of memories. As you grow older, you may stay in the home you have lived in for years, or you may relocate closer to family or friends, to a warmer climate, to a smaller home, a home without stairs, or a senior-friendly community. Being close to shops, public transportation, community centers, and public libraries may also be important. You may even have two homes. As your physical frailties increase you may become more dependent on others for assistance. You may make adaptations to your home and have a caregiver stay with you. Whatever your housing choice, you’ll want to consider whether it meets your requirements for privacy, community, safety, and comfort.”[‡]

The choice of where we will live is critical to the other options open to us. Housing choices may also be a critical factor in our level of retirement spending. Individuals who live in higher cost neighborhoods and larger homes can cut costs considerably by downsizing. Individuals who live in higher cost communities can cut costs by moving to lower cost communities, but the trade-offs may be too difficult.

Some of the questions to be considered as housing decisions are made include:

[‡] From the Council for Jewish Elderly Web site
<http://68.252.157.240/future/default.php?OrgID=0&ClassOrgID=1&PageID=7&Preferences=4e8a95d08d16ad9e57aa40a3953f96e2&Preferences=211e592fd3981a3b9250e9cdc963fb0d>

- Where do I want to live—in the same area where I lived earlier, or do I want to move?
- How much can I afford and how much am I willing to spend?
- Is the type and size of housing most important to me? How important is location and what are the limits on location given my transportation needs? Will the location work if I am no longer able to drive?
- What if any physical limitations should be considered? Can your home be adapted if necessary in the future?
- Is your community friendly to older people?
- Do I want to move into a different type of housing?
- Is moving to a lower cost area acceptable?
- How do taxes and insurance costs compare in different areas and how can I manage these costs well?
- How much am I willing to downsize? What trade-offs work best in terms of the size and type of housing vs. different locations?
- Am I near friends and/or family, and how important is that to me?
- Would I prefer to live in an RV, and travel and change locations during the year?

Travel

Many people enter retirement dreaming of travel. Those with significant resources may travel a lot for a few years, going all over the world. After a few years, some people get tired of traveling, but others do not. A lot of travel means increased spending in retirement and it can be considerable.

There are ways that retirees can travel for less than top-dollar. Here are some of the things that they can think about:

- Participate in elder hostels. These are special travel programs usually at moderate cost. Some are connected to universities or museums, and they offer guided travel with classes for part of the time, planned tours, modest accommodations and meals, etc.
- Travel at off peak times and use cheap air fares. Retirees have flexibility about when they travel and it is possible to find much lower priced transportation and lower priced hotel rooms by timing travel to off-peak times.
- Take advantage of last minute specials. Cruises and airlines may offer special deals when they have considerable unsold space. These come at random times, and one never knows to what destinations. Some retirees watch for these deals, and sometimes groups of friends watch together and stay prepared to go on short notice. That offers a way to get a cruise at a very low price.
- Stay with friends or family rather than in hotels. Many friends travel and stay with each other, effectively taking turns hosting their friends.
- Go cross country in a camper. Some people will buy a camper or RV and travel in it for weeks or months. RV's can be expensive and include a lot of luxury. However, as an alternative, sometimes people will buy a used camper and travel in it for several months and sell it at the end of the journey. As another alternative, some people will move into a motor home or other RV full-time and in that way combine housing and travel.

These are examples of the strategies that are used by some elders who want to travel without spending a great deal of money. Many elders are able to do this by being flexible about when, exactly where, and how they travel. Some people choose to work to finance their travel. One retiree I talked to specifically said his retirement income covered regular expenses and his seasonal job financed his travel. People who become full time residents of RVs may choose to do this for a few years, and then move on to another choice.

Health Care

The best way to reduce long term health spending is to stay healthy. While health management strategies are beyond this paper, this is a very important part of a successful retirement.

Health spending increases with age, but the average amounts spent for health care mask the fact that there is a huge variation in the amount spent depending on health status.

Table 7
Concentration of Health Spending in the United States - 2003

Part of population ranked by health spending	Percentage of total spending	Average amount spent by this group as multiple of average for all
Top 1%	22.3%	22.3 X
Top 5%	48.7%	9.7 X
Top 10%	63.7%	6.4 X
Bottom 50%	3.4%	.1 X
Bottom 90%	36.3%	.4 X

Source: Kaiser Family Foundation, Trends and Indicators in the Changing Health Marketplace, Exhibit 1.11, updated 4/11/2005 with added calculations by author.

Nearly 2/3 of all health dollars are spent by the 10 percent of the population with the highest spending. People with chronic conditions have regularly greater health care needs. The choices made about health care can have a large impact on access to care, cost and quality and the trade-offs are often not easy to understand. Elective surgery, such as knee and hip replacement can greatly enhance quality of life. Some treatments are controversial and opinions differ about how effective they are. Additionally, a serious illness can have a very severe impact effect on an average family if they do not have adequate insurance. For many people, a significant proportion of lifetime health spending occurs in the last year of life. Some of the questions to be asked include:

- How can I maintain my health?
- Can I choose a cost effective provider?
- For people eligible for Medicare –
 1. Should I select a Medicare Advantage plan? Such a plan will offer more generous coverage in most cases, but with a limited group of providers. It may require a higher premium. For those with chronic conditions, it can make a huge difference both in cost and treatment options.

2. Should I buy supplemental insurance?
 3. Should I buy a Medicare Part D plan?
 4. Can I find a more cost effective way to buy drugs? A mail-order plan more be more cost effective than the local pharmacy. Generics are a cost-effective substitute for some drugs. Some people buy drugs from Canada or on the Internet.
- Should I have care or not have care? What type of care do I want? How do I understand the options? When should I forgo care?
 - What is the best place for me to have care? Is there a community health center that offers care on a less costly basis?
 - Under what circumstances can I qualify for special benefits under Medicaid or a Veteran's program?

Long-Term Care

For people requiring long-term care, there is another set of serious issues and decisions. That discussion is largely beyond the scope of this paper, but some data is presented here. The cost of a private pay nursing home and many assisted living facilities is far beyond the means of the average family. For individuals without assets, Medicaid benefits may be available. Medicaid is a major payor for long-term care.

The average costs in the United States (in 2006) are:

- \$171/day for a semi-private room in a nursing home
- \$194/day for a private room in a nursing home
- \$2,691/month for care in an Assisted Living Facility (for a one-bedroom unit)
- \$25/hour for a Home Health Aide
- \$17/hour for a Homemaker services
- \$56/day for care in an Adult Day Health Care Center

Even modest amounts of care are expensive. A visit from a home health aide three times a week would cost about \$16,000 per year.

Long-term care includes a variety of different types of care. Table 8 from the National Clearinghouse on Long-Term Care Information shows how different types of care can be paid for.[§]

[§] To learn more about a variety of private financing options to help you pay for your long-term care needs. See private finance options at:
http://www.longtermcare.gov/LTC/Main_Site/Paying_LTC/Private_Programs/Private%20Financing/index.aspx

**Table 8
Who Pays for Long-Term Care**

Long-Term Care Service	Medicare	Private Medigap Insurance	Medicaid	You Pay on Your Own*
Nursing Home Care	Pays in full for days 0-20 if you are in a Skilled Nursing Facility following a recent hospital stay. If your need for skilled care continues, may pay for days 21 through 100 after you pay a \$119/day copayment	May cover the \$119/day copayment if your nursing home stay meets all other Medicare requirements.	May pay for care in a Medicaid-certified nursing home if you meet functional and financial eligibility criteria.	If you need only personal or supervisory care in a nursing home and/or have not had a prior hospital stay, or if you choose a nursing home that does not participate in Medicaid or is not Medicare-certified.
Assisted Living Facility (and similar facility options)	Does not pay	Does not pay	In some states, may pay care-related costs, but not room and board	You pay on your own except as noted under Medicaid if eligible.
Continuing Care Retirement Community	Does not pay	Does not pay	Does not pay	You pay on your own
Adult Day Services	Not covered	Not Covered	Varies by state, financial and functional eligibility required	You pay on your own [except as noted under Medicaid if eligible.]
Home Health Care	Limited to reasonable, necessary part-time or intermittent skilled nursing care and home health aide services, and some therapies that are ordered by your doctor and provided by Medicare-certified home health agency. Does not pay for on-going personal care or custodial care needs only (help with activities of daily living).	Not covered	Pay for, but states have option to limit some services, such as therapy	You pay on your own for personal or custodial care, except as noted under Medicaid, if you are eligible.

Source: U.S. Department of Health and Human Services, National Clearinghouse on Long-Term Care Information,
http://www.longtermcare.gov/LTC/Main_Site/Paying_LTC/Costs_Of_Care/Costs_Of_Care.aspx#National.

Advice for Consumers

The retirement and financial planning literature often includes information for consumers on how to save money as well as planning for retirement. An interesting source for looking at ideas to reduce spending and downsize is Ellen Hoffman's, "*The Retirement Catch-Up Guide.*" (Newmarket Press, 2002) In this book, she looks at 54 lessons based on real strategies focused on making up for lost time. A number of them are focused on spending.

Conclusion and Summary

This paper looks at spending in retirement based on average data and provides some discussion of decisions and choices people make. It is based on anecdotal information and discussions with retirees as well as research. The author believes that there are a lot of choices that people make in retirement, and that things change over time for many retirees. More work is needed to understand how needs change over time and how this is linked to spending.