Consumption patterns and economic status of older households in the United States

This article holistically maps the consumption patterns of older Americans and compares the economic status of different groups (clusters) of elderly U.S. consumers. Using data from the 2010–2011 Consumer Expenditure Survey, the analysis focuses on the consumption patterns of households whose heads or spouses were age 65 and over. Our factor and cluster analyses revealed six consumption clusters (listed in order of cluster size): “basic-need-meeters,” “housing burdened,” “healthcare burdened,” “transportation burdened,” “happy retirees,” and “balanced budgeters.” We found that substantial financial vulnerabilities exist for the first three groups, which represent approximately 74 percent of older Americans, and that these vulnerabilities are due to expenses for housing, healthcare, and everyday necessities. These results demonstrate the need for more effective provision and targeting of healthcare services for the vulnerable consumption groups and highlight the importance of timely retirement planning.

The U.S. population is aging rapidly. The number of Americans age 65 and over was 40.4 million in 2010 and is expected to reach 72.1 million by 2030. This age group accounted for 12.8 percent of the U.S. population in 2011 and is projected to account for 20.4 percent in 2040. The growing size of the elderly population has attracted considerable research and policy interest, raising questions about the economic well-being of retired and older Americans. A household is considered to be adequately prepared for retirement if its accumulated wealth is sufficient for the maintenance of a preretirement level of consumption. By examining household net worth or capital accumulation levels, previous studies have employed various methods for assessing the adequacy of
a retirement resource and concluded that most households are not adequately prepared for retirement and thus require additional savings. What is not clear, however, is whether households use their savings or wealth to maintain preretirement consumption levels.

Many empirical studies of expenditure patterns do not consistently confirm life-cycle or permanent-income theories, which assert that consumers attempt to maintain their lifetime consumption levels by saving during periods of high income and by dissaving when incomes are low. Contrary to the life-cycle hypothesis, several studies have found that older Americans maintain their wealth by reducing consumption, and that this reduction is attributable to uncertainties regarding health, life expectancy, and ability to maintain household independence. These findings imply that income or assets may not fully represent the actual economic well-being of older Americans.

The purpose of this article is to examine the variation in the economic status of older U.S. households—a variation conditioned upon what these households consume, how much they spend, and the types and quantity of financial resources they have. The older population is often viewed as vulnerable; however, some statistics indicate that the current generation is better educated, more productive, and wealthier than past generations. Further, previous research has revealed large differences in the economic well-being of older Americans, differences due to the variety of income sources and the existing stratification of wealth levels. Considering the possible heterogeneity in socioeconomic characteristics, life experiences, tastes and preferences, and financial needs and resources, a more careful investigation is needed to understand that diversity.

Rather than focusing on a specific target group or consumption item, this article attempts to map the demographics of older households on the basis of their consumption patterns, income needs, and expenditure measures. We expect that an approach that combines both expenditure and resource analyses will provide more complete and detailed information about the variation in consumer demands and economic status of older households. Thus, the results of this article may be useful for financial planners and policymakers interested in identifying a target group of elderly Americans with more urgent economic needs.