Three new spending surprises

Additional insights into retirement spending behaviors

Author

Sharon Carson
Retirement Strategist
Retirement Insights Strategy

In brief

- We recently leveraged anonymized data from more than 280,000 Chase households to expand our 2019 research on "three spending surprises," which include a lifetime **spending curve**, a retirement **spending surge** and **spending volatility** throughout retirement.
- We uncovered a surprising new finding: More than half of American households do not retire all at once, if you count individuals working in retirement and spouses retiring at different times.
- Partially retired households tend to spend more in the years preceding retirement and continue to spend more post-retirement than their fully retired peers.
- Retirement spending patterns can vary significantly, with households that have pre-retirement income of less than $150,000 experiencing a spending surge post-retirement.
- In light of these findings, plan sponsors can help participants prepare to retire on their desired timeline, balance the risks associated with longevity and spending volatility, and gauge whether flexible retirement income options might help them meet their stable expenses.

Preparing for a financially successful retirement requires careful planning. Knowing what to expect at different life stages can help. Most Americans are encouraged to save as much as they can during their working lives—but what happens when they enter a new stage by retiring, and their focus shifts from saving to spending?

To answer that question, we took a closer look at the spending patterns of American households by leveraging de-identified data from more than 280,000 Chase households.[1] The results let us expand on our previously published research, which revealed a lifetime *spending curve*, a retirement *spending surge,* and volatility at—and throughout—retirement.[2]

Our latest findings deepen our understanding of these key "retirement spending surprises." Our unique data set also enables us to look at household-level spending patterns, which are important since an individual's financial life may be intertwined with a partner's. With this enhanced view, we can better understand how the "three surprises" impact U.S. households.[3]

[1] Household metrics are based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase"), including select Chase check, credit and debit card and electronic payment transactions from 2017–2024. Information that would have allowed identification of specific customers was removed prior to the analysis.
[2] "Three Retirement Spending Surprises," January 2019, J.P. Morgan Asset Management.
[3] We define "partially retired" households as those in which at least 20% of income is retirement income and labor income is less than 95% of the household's total pre-retirement income.

Broadly, we have found that plan sponsors and financial professionals need to recognize and prepare for:

- **A spending curve:** Overall spending does not remain constant—it peaks at midlife and declines with age, but spending categories shift in relative importance over time.
- **A spending surge:** On average, post-retirement spending temporarily *increases* for partially retired households with pre-retirement income of less than $150,000.
- **Spending volatility:** Spending in retirement varies from year to year and is far from stable and predictable for the majority of retirees.

Here, we explore each of these patterns and their implications for plan sponsors and financial professionals dedicated to helping pre-retirees prepare for—and retirees maintain—a secure lifestyle in retirement.

Adjusting for a retirement spending curve

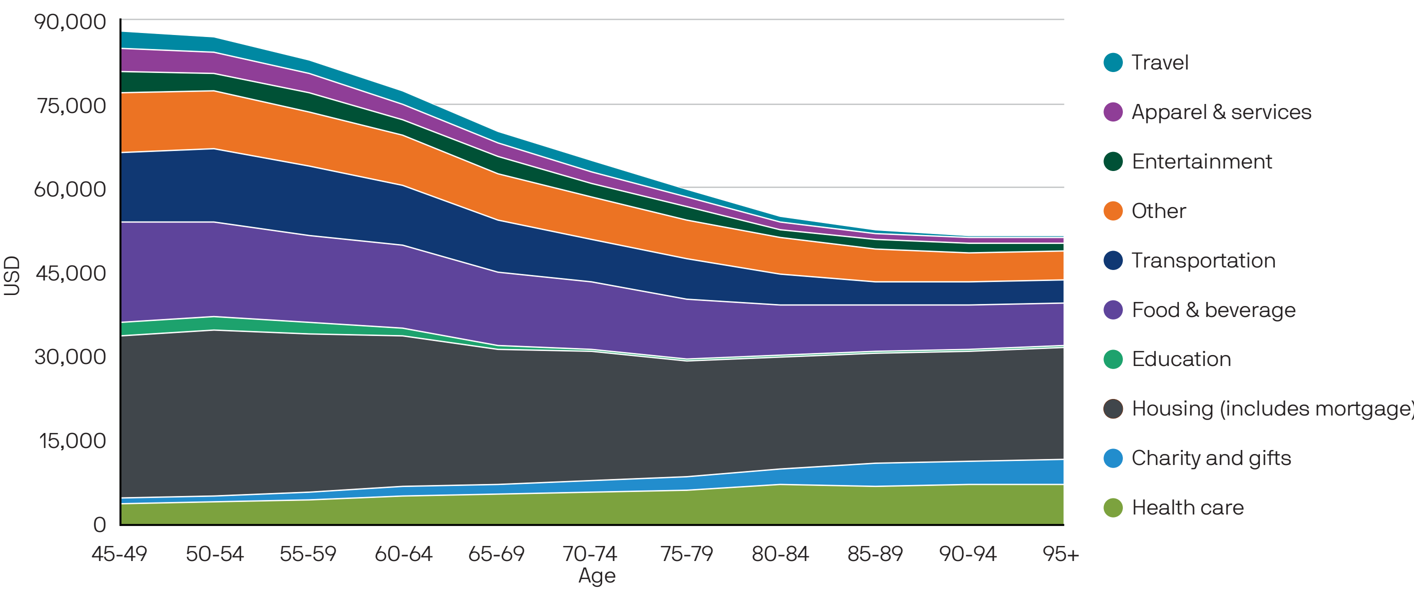
It's not conventional wisdom, but our latest research finds spending patterns change significantly with advancing age—and do not uniformly rise with inflation. Instead, we observe a gradual *decline* in total retirement spending over time (**Exhibit 1**), although the costs associated with specific categories, such as health care, may rise later in life. This shift is important to understand, because older households (aged 65-plus) tend to spend more on health care and charitable gifts than younger households—but significantly less on everything else.

We analyzed households at various asset levels, and they had similar patterns. Exhibit 1 shows the results for households with $250,000–$750,000 in investable assets. To create an accurate picture, spending projections need to account for the inflation rate of each individual expense category, as well as the changing mix of spending with advancing age.

Some categories, such as projected spending on health care, deserve particular attention. Health care costs typically rise faster than broad inflation—and individuals tend to spend more as they get older—creating a need for careful planning.

Heightened spending tends to peak at mid-life

Exhibit 1: Annual average household spending by age with estimated assets of $250,000–$750,000 (2017–2024)



Source: J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase"), including select Chase check, credit and debit card, and electronic payment transactions (January 1, 2017–November 30, 2024). Check and cash distribution: 2021 Consumer Expenditure Survey; J.P. Morgan Asset Management. Information that would have allowed identification of specific customers was removed prior to analysis. "Other" includes: tax payments, insurance, gambling, personal care and uncategorized items. Asset estimates for de-identified and aggregated households supplied by IXI Network, an Equifax company; estimates include all financial assets except employer-sponsored plans and do not include home equity.

Accounting for spending changes with age

Exhibit 2A: Spending by age

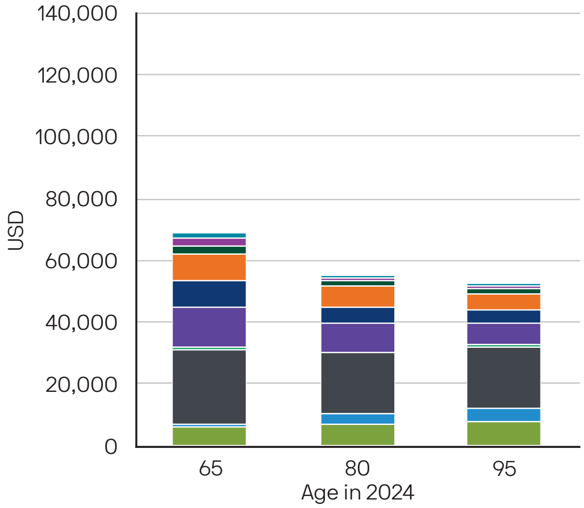
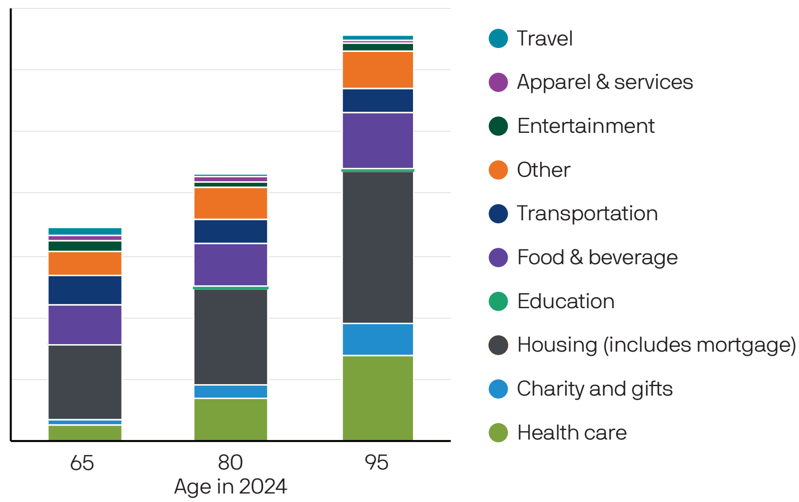


Exhibit 2B: Spending with added historical inflation by category



Source: J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase") including select Chase check, credit and debit card and electronic payment transactions from January 1, 2017–November 30, 2024. Check and cash distribution: the U.S. Bureau of Labor Statistics' 2021 Consumer Expenditure Survey; J.P. Morgan Asset Management analysis. Information that would have allowed identification of specific customers was removed prior to the analysis. Asset estimates for de-identified and aggregated households supplied by IXI Network; estimates include all financial assets except employer-sponsored plans and do not include home equity. Inflation data from the Bureau of Labor Statistics' Consumer Price Index (CPI). Data represent annual percentage increases from December 1981–December 2024 except for entertainment and education, which date back to 1993. The CPI for All Urban Consumers was used for Travel, Other and Charitable contributions categories.

Looking across the range of households in our data set, our key finding is that people generally spend less than expected. In fact, for partially and fully retired households with investable assets of $250,000–$750,000, the annualized inflation-adjusted change in spending—is just 1.8%. That shift may be as much as one percentage point *lower* for retirees than the overall inflation rate—even after taking into account the increased inflation rate for health care and increased use of health care at older ages (**Exhibits 2A** and **2B**).

How can plan sponsors make use of this observation? When selecting a qualified default investment alternative (QDIA),[4] such as a target date fund, they will need to consider participants' lifelong spending patterns and factor in the possibility that individuals may wish to take loans, make withdrawals and use some savings for purposes other than retirement.

Looking at the spending curve, plan sponsors ought to take care not to overweight the risk of inflation compared to other risks, such as "sequence of return" risk (when early and unexpected withdrawals combined with bad returns early in retirement can increase the likelihood of running out of money).

Sponsors also need to consider the possibility that retirees may opt to liquidate market holdings at the wrong time if they are invested too aggressively just prior to retirement.

Health care budgeting requires particular attention because it increases with age. For planning purposes, financial professionals may want to use an estimated 6% annual cost increase for Medicare-related expenses (approximately $6,860 per year, per person), for the most comprehensive Medicare coverage available and consider decreasing the assumed inflation rate on other categories by one percentage point.

It's important to note, however, that the spending curve does not completely reflect the potential impact of long-term care costs, which may need to be addressed via a separate planning process (see sidebar, "Long-term care: Planning beyond the spending curve").

[4] A "qualified default investment alternative" (QDIA) is an investment fund or model portfolio that seeks both long-term appreciation and capital preservation through a mix of equity and fixed income investments.

Long-term care: Planning beyond the spending curve

Planning for a possible long-term care need is an important part of retirement readiness. Roughly three-quarters of women and two-thirds of men age 65 and older are projected to need long-term care during their lifetimes. Many rely on family, and those with very low incomes and few assets may qualify for Medicaid (the requirements vary by state), so not everyone who needs care funds it themselves.

For those who do use paid care, the amount they spend varies widely. More than one quarter spend less than $30,000 and slightly less than one-third spend more than $300,000.* Not surprisingly, families with higher incomes tend to spend more on long-term care. In our spending curves for estimated wealth levels of $1 million or more, we see an uptick in spending toward the end of life, which is likely related to care expenses.

Given the variability of care needs and possible costs, we recommend evaluating several options as noted in our 2025 *Guide to Retirement*.

*Richard Johnson and Judith Dey, "Long-term Services and Supports for Older Americans, Risks and Financing, 2022," U.S. Department of Health and Human Services, APSE Research Brief, August 2022. Adjusted for inflation.

Bracing for a spending surge

For our updated spending surge analysis, we conducted longitudinal analysis of a subset of households—more than 55,000[5]—with various levels of pre-retirement income. Crucially, to deepen our understanding of what we previously reported, we also analyzed the surge for fully retired and partially retired households.

Which households experience a surge at retirement? Our key takeaway is that the spending surge does not affect all households uniformly. A distinct subset of households within that cohort, the partially retired, is likely to experience a spending surge at retirement (**Exhibit 3**).

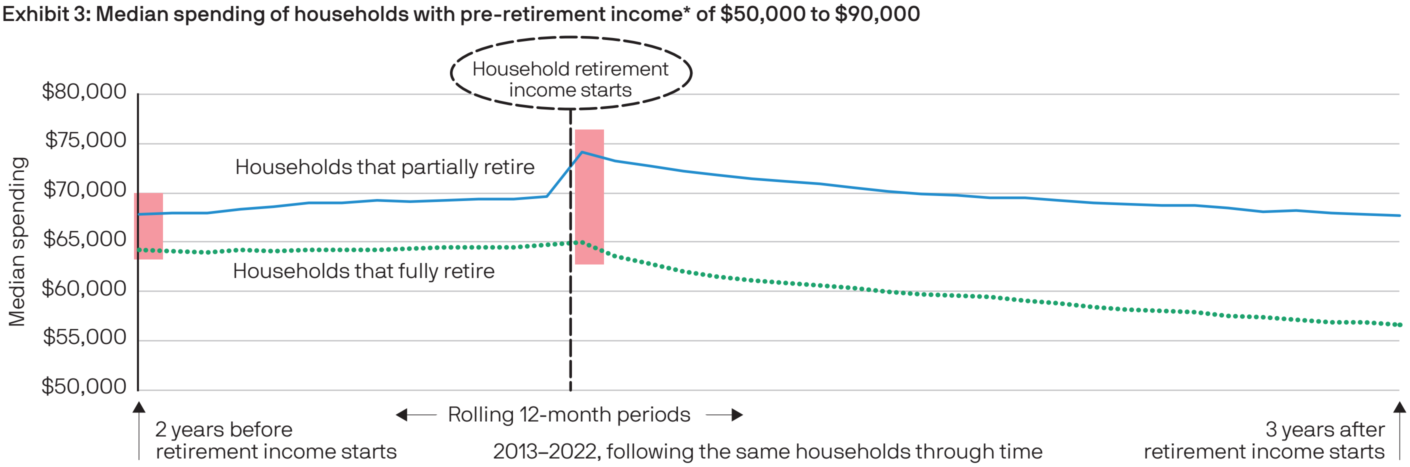
Our data does not depend on individuals self-selecting their retirement status. Instead, we observed work and retirement income streams. From the outset, our longitudinal sample included households that started to draw retirement income between the ages of 60–69. Our fully retired households then transitioned from work-related income to complete reliance on retirement income. Our partially retired households, however, continued to receive some income from employment while drawing 20% or more of their household income from Social Security, pensions or annuities.

To eliminate those households that continued to work full time—while simultaneously claiming retirement

[5] We analyzed a subset of our original 280,000 households which provided continuous data over several years.

Partially retired households are driving the post-retirement spending surge

Exhibit 3: Median spending of households with pre-retirement income* of $50,000 to $90,000

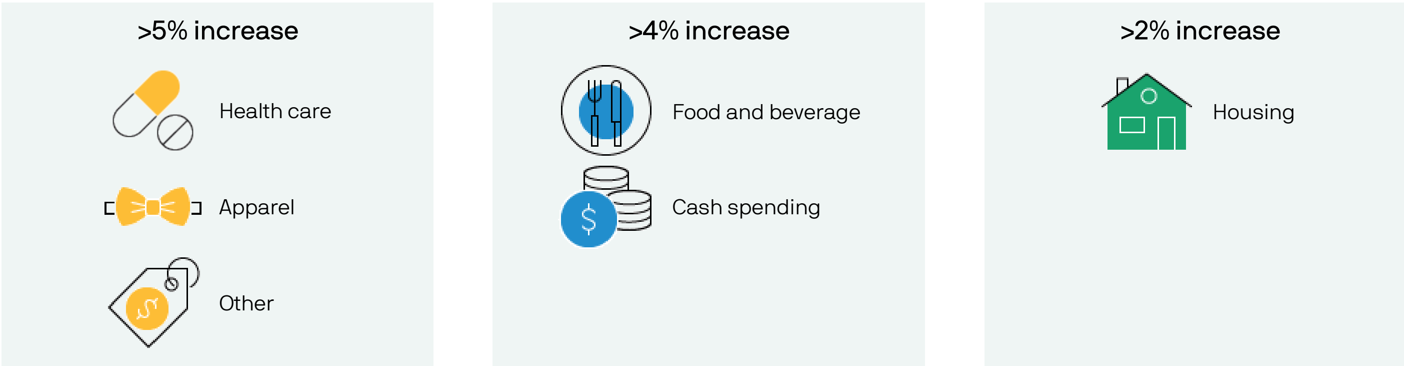


Source: J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase") including select Chase check, credit and debit card and electronic payment transactions from 2013–2022. Inflation adjusted to April 2023 dollars. Information that would have allowed identification of specific customers was removed prior to the analysis.

*Defined as retirement income starting from age 60–69. The rolling 12-month periods that span before and after retirement are not included, so as not to mix pre- and post-retirement results.

Partially retired households increase their spending after receipt of retirement income

Exhibit 4: In the year following partial retirement, what are households with pre-retirement income* of $50k to $90k buying more of?



Source: J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase") including select Chase check, credit and debit card and electronic payment transactions from 2013–2022. Inflation-adjusted to April 2023. Information that would have allowed identification of specific customers was removed prior to the analysis.

*Defined as retirement income starting at ages 60–69. The rolling 12-month periods that span before and after retirement are not included, so as not to mix pre- and post-retirement results.

benefits—we only classified households as partially retired if their labor-related income was less than 95% of their pre-retirement income. Applying these parameters, we found that 53% of households did not retire all at once.

These partially retired households spent more in the years preceding retirement —and they have more credit card debt and lower savings balances— potentially leading to inadequate retirement savings and highlighting a need for earlier planning assistance. They continued to spend more post-retirement than their fully retired peers.

These partially retired households also accessed retirement income later than those who fully retired. About 59% of fully retired households made the transition from work to retirement between the ages of 60–64; the remaining 41% transitioned later, between the ages of 65–69. Conversely, just 49% of all partially retired households began to access retirement income between the ages of 60–64; the majority (51%) began to draw down their retirement savings a few years later, between the ages of 65–69.[6] This indicates those who partially retired may have put off their retirement because they needed to do so.

Although Exhibit 3 shows households with pre-retirement income of $50,000–$90,000, we did notice a few differences by income that are not illustrated here. For example, we found that the spending surge was even stronger for lower income households with pre-retirement income of less than $50,000. At pre-retirement income of more than $150,000, the spending surge completely disappeared.

How do we explain that disappearance? For starters, higher income households may not be as constrained in their spending as lower income households at any point in time. For lower income households, the addition of "extra" retirement income may make a bigger difference to their overall spending behavior, especially if they still have some income coming in from work.

For those households most likely to experience the surge, the increased spending was largely on health care, apparel and food and beverages (**Exhibit 4**). These households were also more likely to have credit card debt and lower cash balances than households that fully retired with the same pre-retirement income.

The implications of these spending patterns are far-reaching for solutions providers. Our research suggests that some households—specifically the partially retired, who tend to spend more and retire later—may be working longer due to financial considerations. With this in mind, it is important to help participants manage their debt and spending earlier to foster greater retirement readiness.

[6] Household metrics are based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase"), including select Chase check, credit and debit card and electronic payment transactions from January 1, 2013–November 30, 2022. Information that would have allowed identification of specific customers was removed prior to the analysis.

Partial retirement also suggests the need for flexibility in *timing* of any guaranteed income options that plan sponsors may be considering. Partially retired households have different retirement income needs than fully retired households, so income *flexibility* can be critical to their planning. These reasons can vary widely by household. Partially retired individuals may want to delay their use of retirement income due to factors the plan sponsor cannot see, such as a spouse continuing to work after the participant has retired. But, irrespective of the exact timing, these households need to choose when they start drawing upon their 401(k) plan for living expenses.

Preparing for spending volatility

While there is an observable spending surge at retirement, wide variation exists among individual households—especially in the first few years after retirement. Comparing average spending in the 12 months prior to retirement (the "benchmark" year) to annual spending in each of the three years after revealed notable differences among retirees. The variation highlights the need for careful financial planning and preparation.

For the purposes of this analysis, we looked at the percentage of households that experienced an annual change of 20% or more—either higher or lower—compared to the benchmark. Although many retirees experienced substantial changes in spending, we only categorized groups as "volatile" spenders if their spending levels temporarily rose and/or fell by 20% or more in the years just after retirement.

Based on our findings, we grouped households into six categories, three of which experienced volatile spending (**Exhibit 5**).

Our data showed that six in 10 households experience some form of spending volatility in the first few years of retirement (**Exhibit 6**). While volatility lessens somewhat as households move deeper into retirement, it does not disappear. Volatile spending patterns may linger, even for a fully retired cohort (aged 75–80), in the years before most long-term care expenses start (often after the age of 80).

A majority of retirees experience significant changes in their spending patterns over time; about half experience ongoing volatility

Exhibit 5: Three groups met our definition for spending volatility in retirement

Category name	Spending pattern	Volatile spenders?
Steady Eddies	Remained within 20% of benchmark for each of the following three years.	No
Upshifters	Increased more than 20% all three years following the benchmark year.	No, despite significant change
Downshifters	Decreased more than 20% all three years following the benchmark year.	No, despite significant change
Temporary upshifters	Rose by more than 20% in one or two of the years following the benchmark year.	**Yes**
Temporary downshifters	Declined by more than 20% in one or two of the years following the benchmark year.	**Yes**
Rollercoasters	Rose *and* fell by more than 20% in one or two of the years following the benchmark year.	**Yes**

Source: J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase") including select Chase check, credit and debit card and electronic payment transactions from 2013–2022. Data has been inflation-adjusted to April 2023. Information that would have allowed identification of specific customers was removed prior to the analysis.

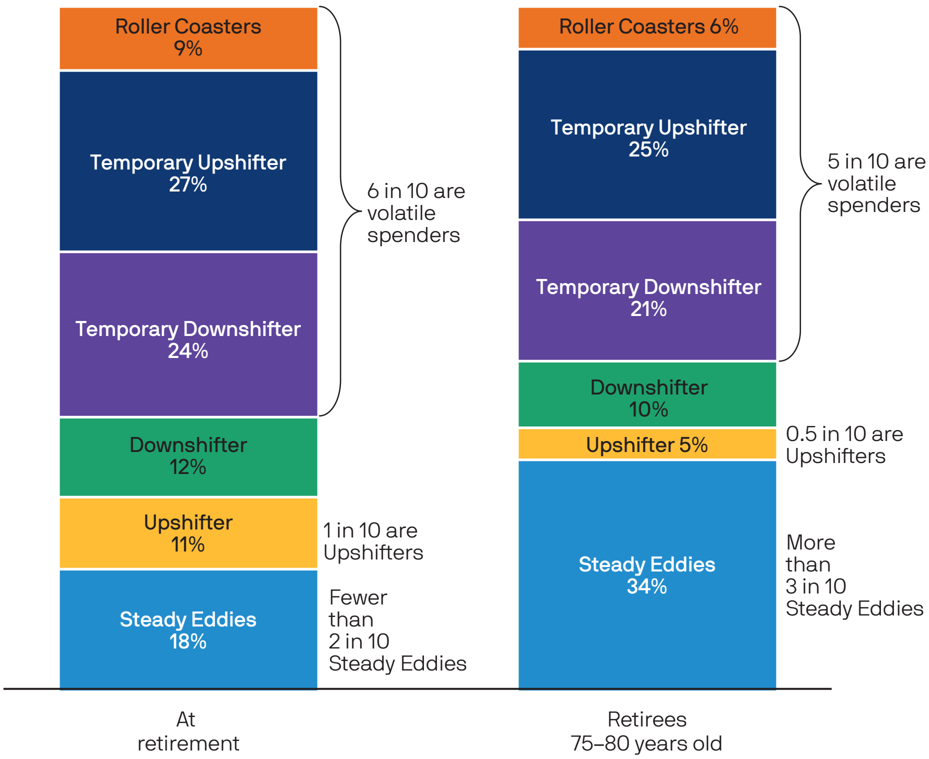
The persistence of this volatile spending pattern over time—even prior to the onset of COVID—surprised us. Spending volatility certainly rose slightly during the global pandemic, but when we analyzed household spending in the pre-pandemic period, the results were markedly similar.[7] Even before COVID struck, spending patterns were variable: More than half of the recently retired group and older retirees age 75–80 qualified as volatile spenders.

Spending volatility does not discriminate between partially and fully retired households, either—both experience spending volatility at (and around) retirement. But there is one notable difference: Partially retired households tend to have more upshifters at the beginning of the retirement period than the fully retired.

[7] For our analysis, we defined the pre-COVID period as the years spanning 2013–2019.

Spending volatility tends to be high at retirement and persists

Exhibit 6: Spending volatility for new retirees* (at retirement) vs. volatility for retirees aged 75–80



2013–22: Longitudinal analysis (following the same households through time)

- **At retirement:** Each of the first three years following the start of retirement income compared to the year before retirement
- **Retirees 75–80 years old:** All retirement years analyzed; compared earliest year they are in the dataset to each of the following three years.

*For retirement income starting at ages 60–69.

Source: J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase") including select Chase check, credit and debit card and electronic payment transactions from 2013–2022. Data has been inflation-adjusted to April 2023. Information that would have allowed identification of specific customers was removed prior to the analysis.

The implications for retirement planning are clear: Volatile spending patterns can create short-term liquidity needs and exacerbate long-term funding risks.

Spending fluctuations at the beginning of retirement are known to heighten sequence of return risk, when early and unexpected withdrawals can damage overall long-term returns.

In light of these findings, plan sponsors may want to:

- Offer solutions that help participants manage risk at the beginning of retirement, when balances are typically highest and sequence of return risk is greatest.
- Consider target date funds which explicitly factor participant behavior and household cash flow volatility in their glide path and portfolio construction.
- Provide a flexible guaranteed income solution to help fund stable, ongoing expenses.
- Consider that participants may need sufficient liquidity to adjust to changing circumstances in retirement—and take this into account when offering a guaranteed income solution.

Conclusion: Adapt to more dynamic, variable spending behavior

In delivering effective retirement income solutions, plan sponsors and financial professionals need to carefully consider the probability that spending behaviors may be more dynamic and variable than expected. Our research suggests that participant behavior matters—and plan sponsors need to take this into account and document how this impacts their decision-making process when choosing a QDIA and guaranteed income solutions.

Plan sponsors and advisors may also want to consider how they can help households manage their finances so they can retire on time with sufficient resources. Understanding the spending curve and how volatile spending may increase long-term risk (especially if plan participants retire in a down market) is critical when designing a successful retirement. Plan sponsors may also want to help participants determine whether flexible retirement income options can help meet their stable spending needs in retirement. While life may be full of uncertainty, the stress of managing ongoing expenses can be reduced with careful, data-driven retirement planning.

Next steps

For more information, please contact your J.P. Morgan Client Advisor.

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