



# Planning for Spending Volatility in Retirement

Access to liquidity and a focus on growth could mitigate spending shocks.

## Spending can fluctuate for many retirees



**1 in 2** retirees experienced an annual spending increase of up to 25% at some point during retirement

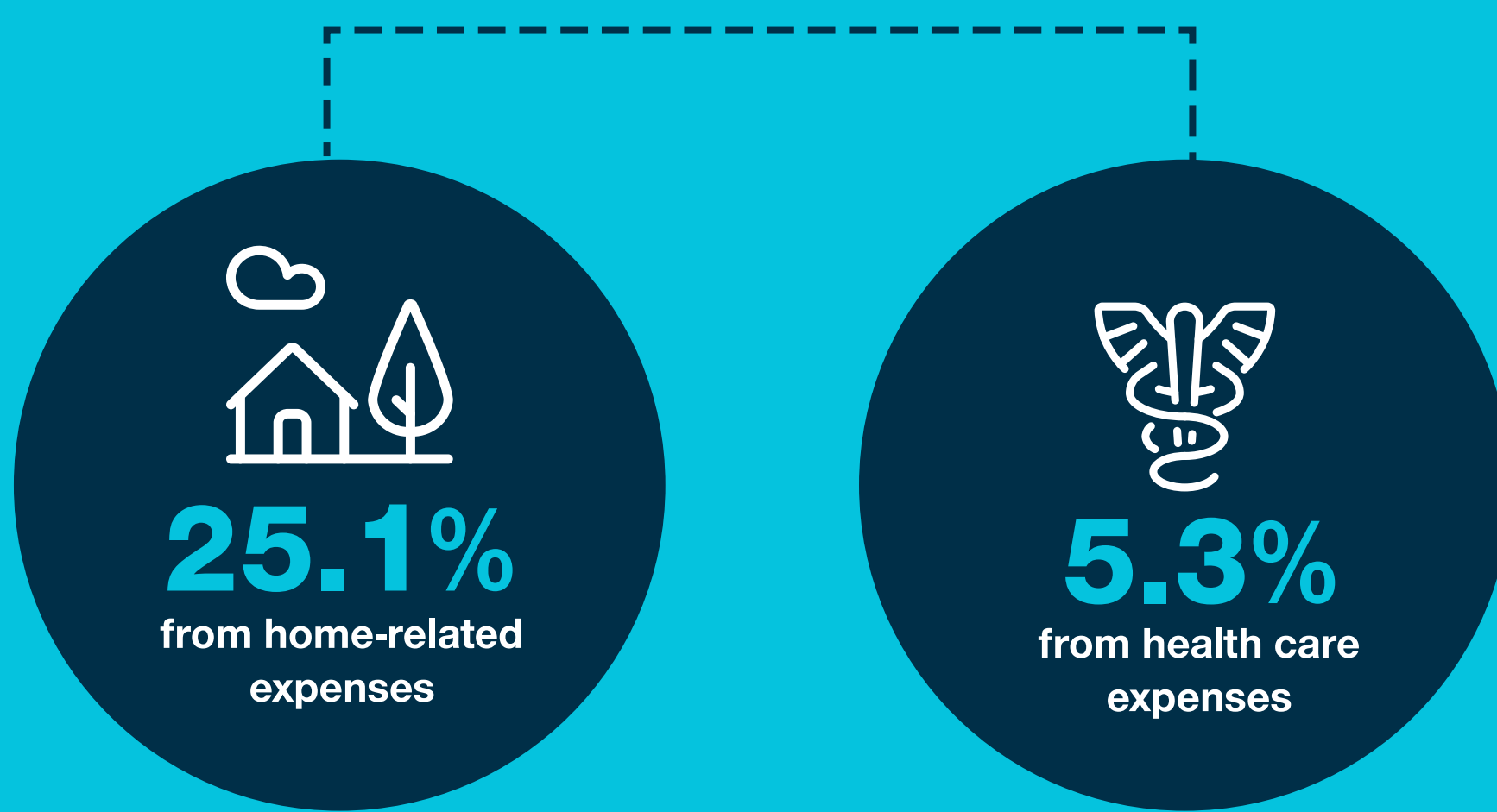


**1 in 4** retirees experienced an annual spending increase of at least 17%–20% over a two year period



For some retirees, these spending increases could last for years

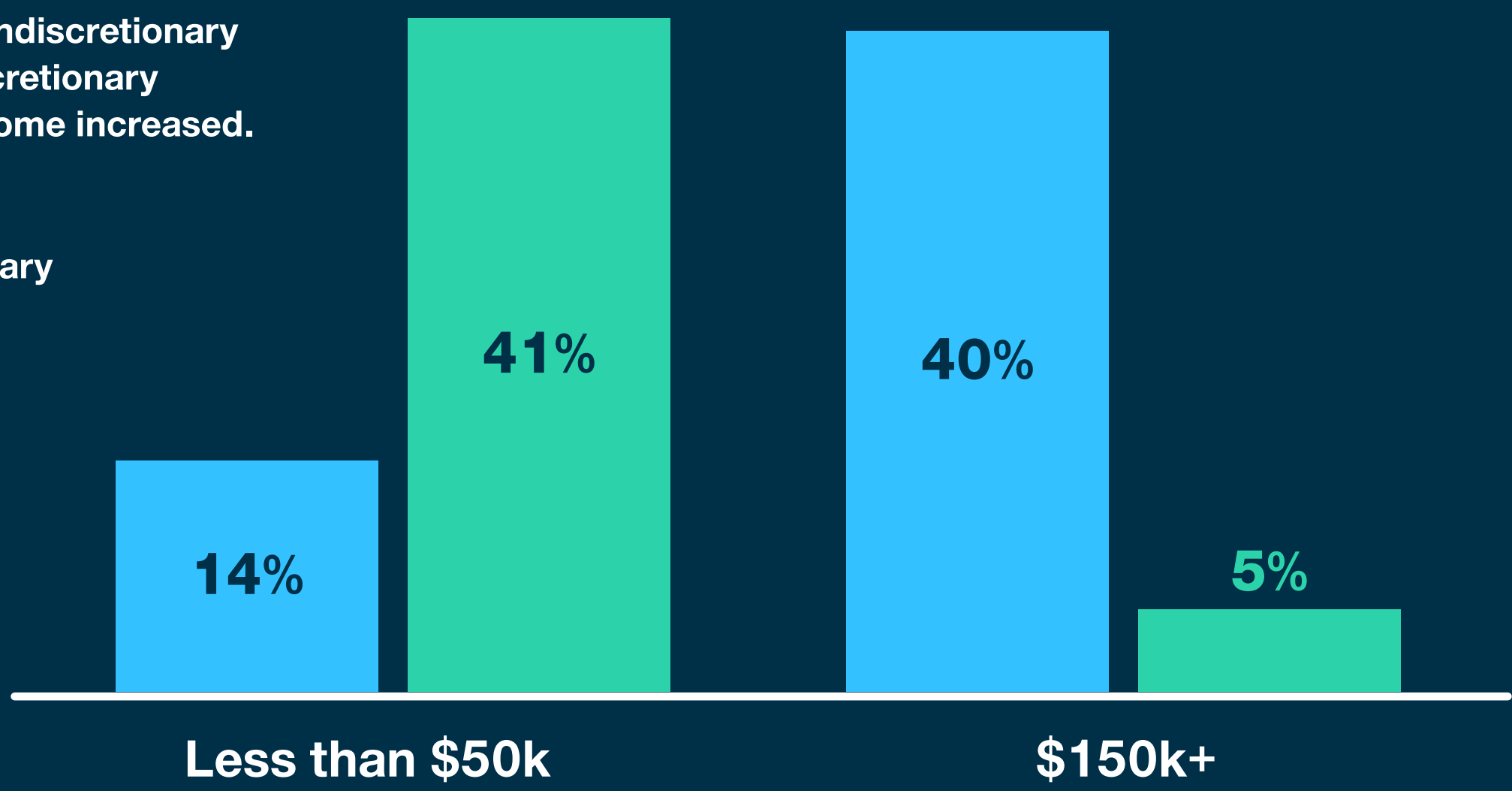
## Sources of annual spending volatility



## Sources of annual spending volatility changed with income

Flipped from nondiscretionary spending to discretionary spending as income increased.

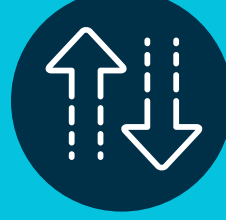
■ Discretionary  
■ Nondiscretionary





Sources of Data Shown: Institute for Social Research (ISR) at the University of Michigan, Consumption and Activities Mail Survey (CAMS), 2005–2019. Data analysis by T. Rowe Price. Please see additional information in end disclosures.

## Ways to help retirees manage spending volatility

### Considerations for plan sponsors and advisors:

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**Income solutions should address liquidity and growth**—Liquidity can help alleviate stress if spending spikes, while growth investments can boost income and spending.
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**Retirement journey is not a set and forget**—There could be surprises along the way, and retirees need strategies for both income generation and spending risk mitigation.
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**Housing is the largest contributor to spending volatility**—Help retirees minimize the impact of unexpected home expenses in retirement (complete major repairs before retirement, right size to a newer home, set aside a housing emergency fund).

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Both the Health and Retirement Study (HRS) and the Consumption and Activities Mail Survey (CAMS) are biennial studies conducted in even and odd years, respectively, by the Institute for Social Research (ISR) at the University of Michigan. Our sample followed a group of 1,306 households from 2005 to 2019 who were present in the 2005 CAMS, were between age 65 and 90, and have been surveyed in at least three consecutive waves of the CAMS. The most recent wave was released in August 2021, with 2019 data being the most recent available at the time of our analysis. Measurement or reporting error is a serious concern for studying volatility of spending, and we impose several restrictions on the sample to mitigate the effect of measurement error. See Insights content for additional detail.

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