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NEWS RELEASE

T. ROWE PRICE: HOME EXPENSES FIVE TIMES MORE LIKELY THAN HEALTH-CARE EXPENSES TO DRIVE SPENDING VOLATILITY IN RETIREMENT

BALTIMORE, September 12, 2023 – T. Rowe Price, a global investment management firm and a leader in retirement, today published a new white paper analyzing data about spending increases and decreases in retirement years. According to T. Rowe Price's analysis, for households with less than $150,000 in annual income, spending volatility is largely driven by nondiscretionary expenses[1]. Specifically, the paper finds that among them, home-related expenses are the largest contributor to spending volatility during retirement, and they are five times more likely to drive spending volatility than health-related expenses. Home-related expenses accounted for 25.1% of the variance in spending, while health-care expenses accounted for 5.3%.[2]

Further, despite households experiencing an average annual spending decline of approximately two percent during retirement, the spending decreases in retirement are typically not uniform, with retirees experiencing meaningful ups and downs over time rather than a continuous decline.

Additional key insights from the data analysis include:

- One in every two retirees experienced an annual spending increase of up to 25% at some point during retirement; one in four households experienced a 25-50% spending increase; and over one in five households experienced spending increases between 50-100%.[3]
- For retirees with annual incomes levels above $150,000, spending volatility was largely due to changes in discretionary spending.[4]
- Although the drivers of spending volatility can vary with household income levels, overall spending volatility was not correlated with investable assets or household income, suggesting that retirees of any level of investable assets or income could face a high level of fluctuation in spending.

In addition to the analysis, the white paper provides insights on managing and preparing for potential spending volatility, specifically noting the importance of generating cash flows and implementing retirement income solutions that incorporate liquidity and growth opportunities. In the case of home expenses, the paper also suggests that advisors can help retirees by recommending strategies that minimize unexpected home expenses in retirement, like completing extensive repairs before retiring or right-sizing to a newer home with fewer repair needs.

"The basic financial objectives of generating income for day-to-day expenses, maintaining liquidity, and growing assets remain true both before and during retirement," said Sudipto Banerjee, Ph.D., vice

[1] Source: ISR, CAMS, 2005–2019. Data analysis by T. Rowe Price.

[2] As of August 2021.Source: ISR, CAMS, 2005–2019. Data analysis by T. Rowe Price.

[3] Probabilities of retiree households experiencing different degrees of increase in spending between age 65 and 90. Source: ISR, CAMS, 2005–2019. Data analysis by T. Rowe Price. **Actual outcomes may differ materially.**

[4] Source: ISR, CAMS, 2005–2019. Data analysis by T. Rowe Price.

president, retirement thought leadership. "By planning for and being prepared to adjust to volatility in spending, retirees can increase their odds of success in retirement. And the retirement industry can play a key role in assisting with solutions that meet all these objectives and help retirees transition from the accumulation phase to the drawdown phase."

This study analyzed data from the Health and Retirement Study and its supplement, the Consumption and Activities Mail Survey, both from the Institute for Social Research at the University of Michigan[i]. The sample used in this study tracked a nationally representative set of 1,306 retired households over the 14-year span between 2005 and 2019. More details from T. Rowe Price's analysis can be found here.

ABOUT T. ROWE PRICE

Founded in 1937, T. Rowe Price (NASDAQ: TROW) helps people around the world achieve their long-term investment goals. As a large global asset management company known for investment excellence, retirement leadership, and independent proprietary research, the firm is built on a culture of integrity that puts client interests first. Investors rely on the award-winning firm for its retirement expertise and active management approach of equity, fixed income, alternatives, and multi-asset investment capabilities. T. Rowe Price manages USD$1.43 trillion in assets under management as of July 31, 2023, and serves millions of clients globally. News and other updates can be found on **Facebook**, **Instagram**, **LinkedIn**, **Twitter**, **YouTube**, and **troweprice.com/newsroom**.

CONTACT T. ROWE PRICE, PUBLIC RELATIONS

Kim Francois
410-557-4423
Kim.Francois@troweprice.com

Daniel Morris
443-804-8595
Daniel.Morris@troweprice.com

202308-3090490