

## The Retirement Consumption Puzzle

A study conducted by RAND research challenges traditional notions that retirement investors need only replace 80% to 90% of their pre-retirement income to maintain current standards of living in retirement.

“The Retirement Consumption Puzzle” found that spending in retirement decreases by only 1% to 6%, not the assumed 20%. In fact, spending was found to increase by 7% to 18% among those with high net worth.<sup>1</sup>

Small decreases in spending were attributed to the following:

- > The end of work-related expenses
- > Using leisure time to produce goods or purchase them more effectively
- > Involuntary or early retirement due to an unexpected health event or unemployment, which led to decreased earnings

Rather than rely on a decrease in spending after retirement, carefully consider likely decreases in income as well as the activities you are likely to pursue in retirement—you may want to count on having 100% of the same expenses. Otherwise, you may be setting yourself up for a shortfall.

<sup>1</sup> RAND Working Paper, “The Retirement Consumption Puzzle: Actual Spending Change in Panel Data” by Michael D. Hurd and Susann Rohwedder, April 2008.