

RETIREMENT SAVINGS

A lecture for the inauguration of the
"Healthwise" Research Center

by

Mariacristina De Nardi

Federal Reserve Bank of Chicago and NBER

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Potential drivers of retirement savings

- Medical expenses.
- Uncertain lifetimes/heterogeneity.
- Public insurance programs.
- Bequest motives.
- Family structure.
- Housing/home ownership.

Medical expenses

- Papers:
 - Kotlikoff (1988)
 - Hubbard, Skinner, and Zeldes (1994)
 - Palumbo (1999)
 - Feenberg and Skinner (2004)
 - French and Jones (2004)
 - De Nardi, French, and Jones (2010)
- Previous work: Small effects of medical expenses.
- Our work: Large effects of medical expenses (rich data set).

Lifespan uncertainty/heterogeneity

- Papers:
 - Hurd, McFadden, Merrill (2001)
 - Attanasio and Emmerson (2005)
 - De Nardi, French, and Jones (2009)
- Findings: Heterogeneity in mortality is large and is important to understand savings. So is lifespan uncertainty. Important interactions with OOP medical expenses.

Government insurance programs

- Papers:
 - Hubbard, Skinner, Zeldes (1995)
 - Scholz, Seshadri, and Khitatrakun (2006)
 - De Nardi, French, and Jones (2010)
- Previous work: Means-tested insurance programs provide strong incentives for low-income individuals not to save, but have little effect on college graduates.
- Our work: OOP medical expenses rise with age and income. Hence government insurance also affects the savings of initially well-off individuals.

Bequests

- Papers:
 - Hurd (1989)
 - De Nardi (2004)
 - Kopczuk and Lupton (2007)
 - Ameriks et al.(2011)
 - De Nardi, French, and Jones (2010)
 - Lockwood (2012)

- Conclusion: Mixed evidence, more work is needed. Model couples/singles.

Family structure

- Retirement:
 - Blau and Gilleskie (2008)
 - Casanova (2012)
 - Gallipoli and Turner (2010)
- Nakajima and Telyukova (2013)
- De Nardi, French, and Jones, in progress.

Housing/home ownership

- Papers:
 - Yang (2009)
 - Nakajima and Telyuokova (2013)
- Findings: Housing/homeownership play a potentially important role that needs to be more fully understood.

Talk roadmap: work with French and Jones

- “Why do the elderly save? The role of medical expenses”, JPE 2010.
- “Life expectancy and old age savings”, AER 2009.
- Work in progress on Medicaid.
- Work in progress on couple’s savings during retirement.

Retirement savings facts in the US

- Many elderly individuals keep lots of assets.
- High income individuals deplete their assets more slowly than low income individuals.

Median Assets by Cohort and Income: Data

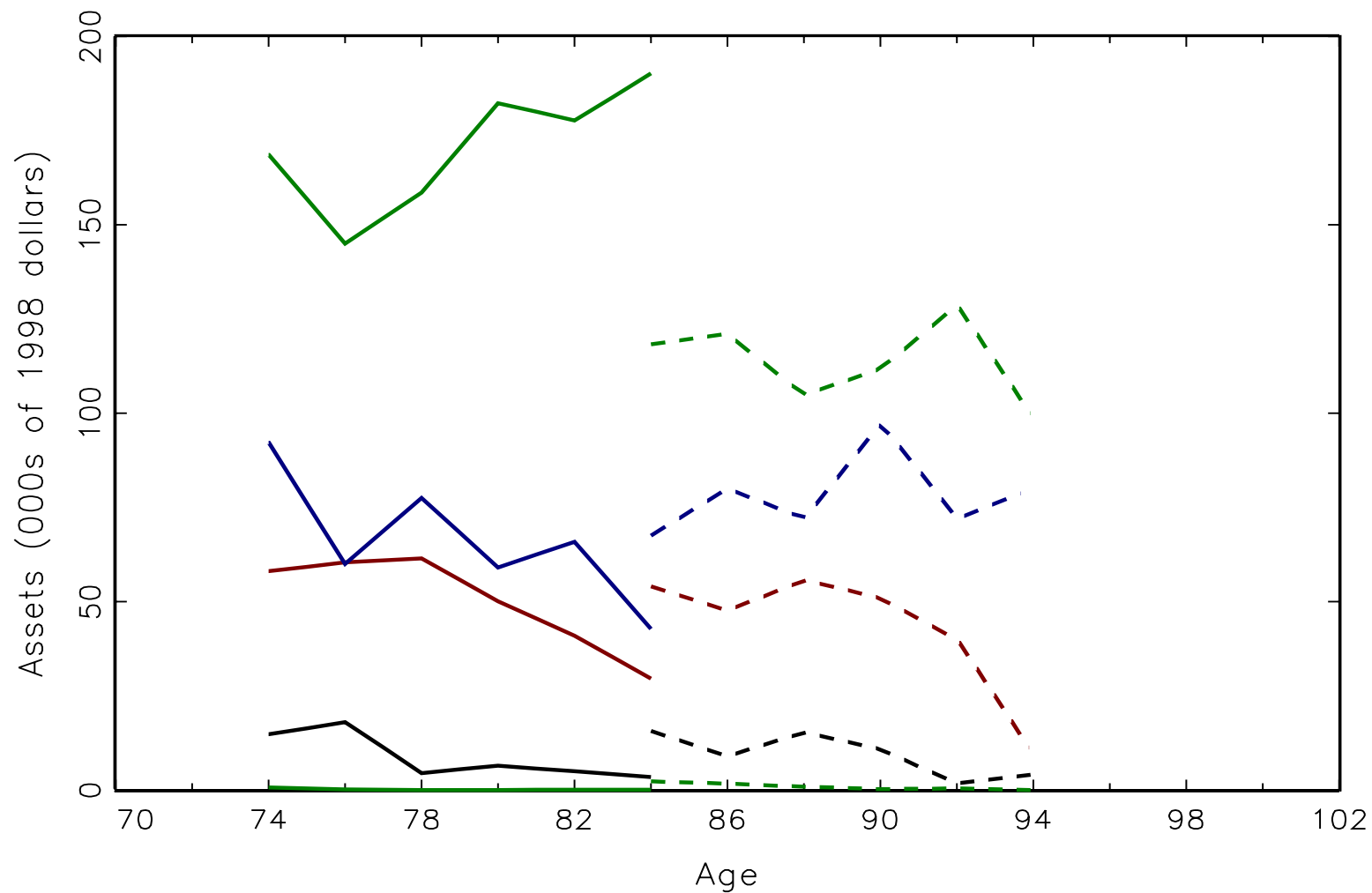


Figure 1: AHEAD data (unbalanced panel)

Medical expenses facts in the US

Out-of-pocket medical costs rise with age and permanent income.

Mean Medical Expenses by Income Quintile

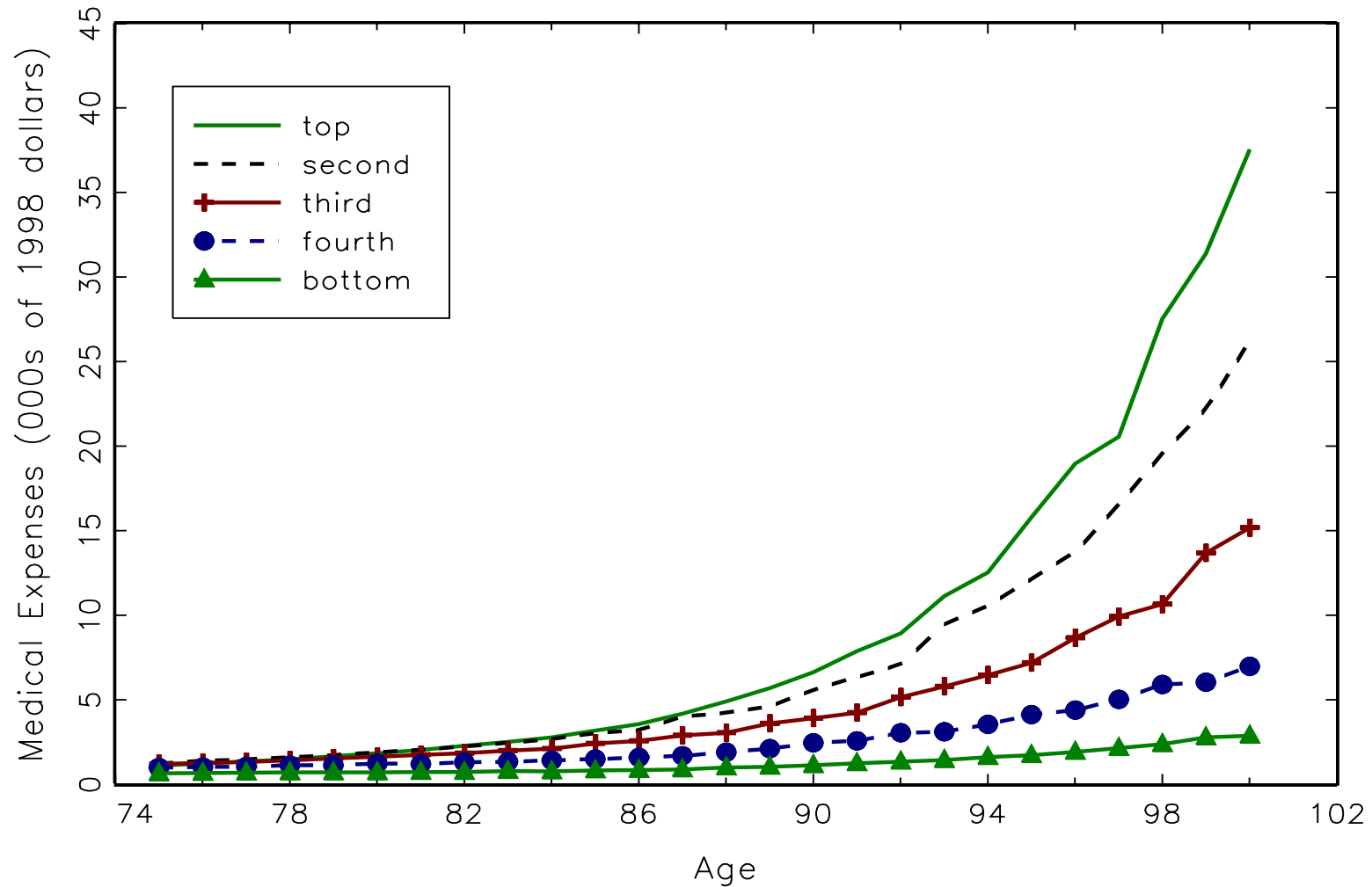


Figure 2: Average medical expenses, AHEAD data

Life expectancy facts in the US

There is a lot of heterogeneity in life expectancy

- Rich people live longer
- Women live longer
- Healthy people live longer

This might have an important effect on retirement savings.

Income Quintile	Healthy Male	Unhealthy Male	Healthy Female	Unhealthy Female	All
bottom	7.6	5.9	12.8	10.9	11.1
second	8.4	6.6	13.8	12.0	12.4
third	9.3	7.4	14.7	13.2	13.1
fourth	10.5	8.4	15.7	14.2	14.4
top	11.3	9.3	16.7	15.1	14.7
Men					9.7
Women					14.3
Healthy					14.4
Unhealthy					11.6

Table 1: Life expectancy at age 70

Why do the Elderly Save? Medical Expenses

- Estimate a structural model of singles' savings after retirement allowing for heterogeneity in:
 - income
 - medical expenses
 - life expectancy

Model

- **Singles only**, abstract from spousal survival
- **Health status and survival** uncertain, function of gender, age, health status, and permanent income.
- **Medical expenses:** uncertain, function of gender, age, health status, and permanent income.
- **Income:** function of gender, age, and permanent income.
- **Consumption floor** (Hubbard, Skinner, Zeldes (1995))

Eliminating medical expenditures

Eliminating out-of-pocket medical expenditures has a big effect on savings.

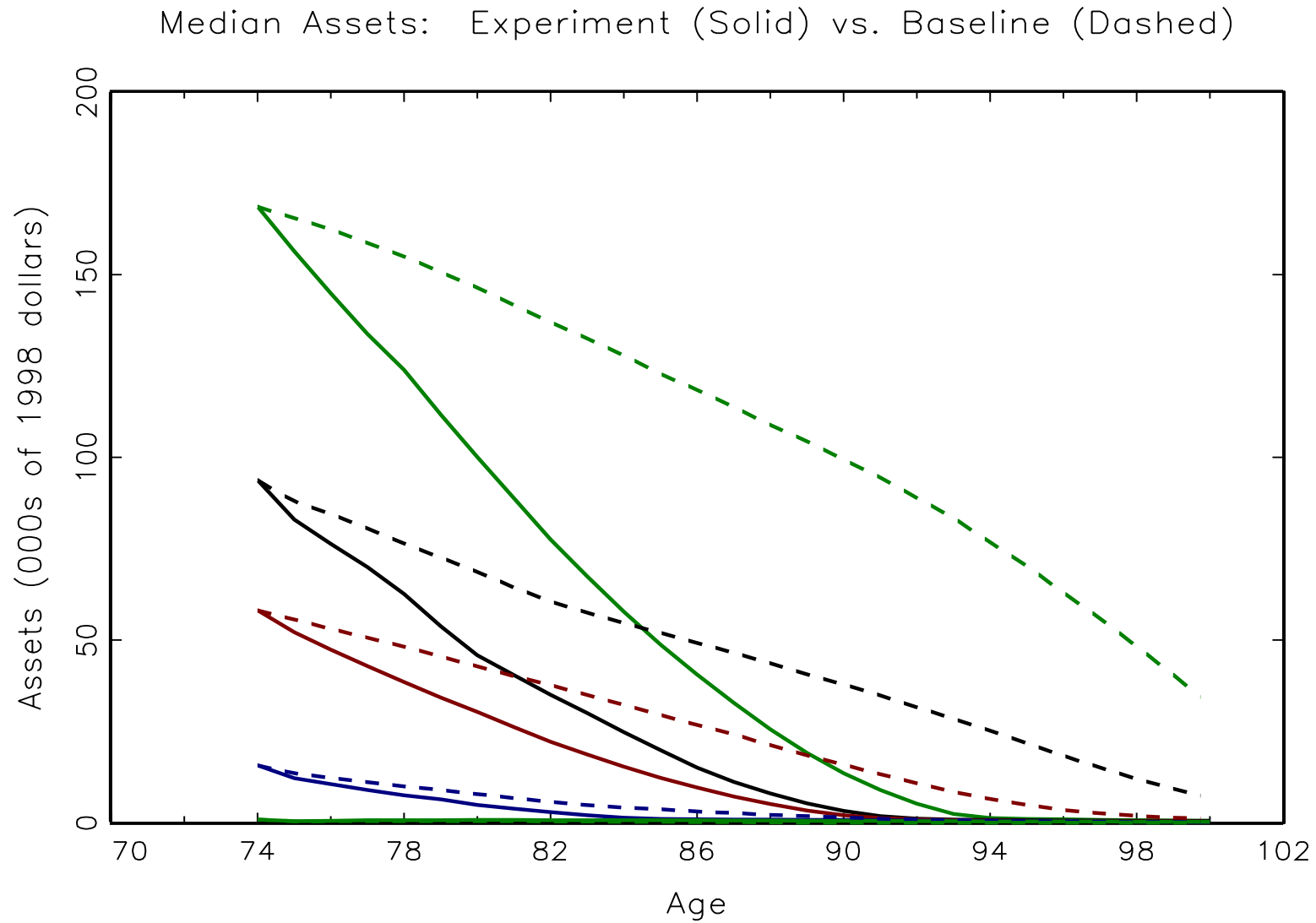


Figure 3: Benchmark and model with no medical expenditures

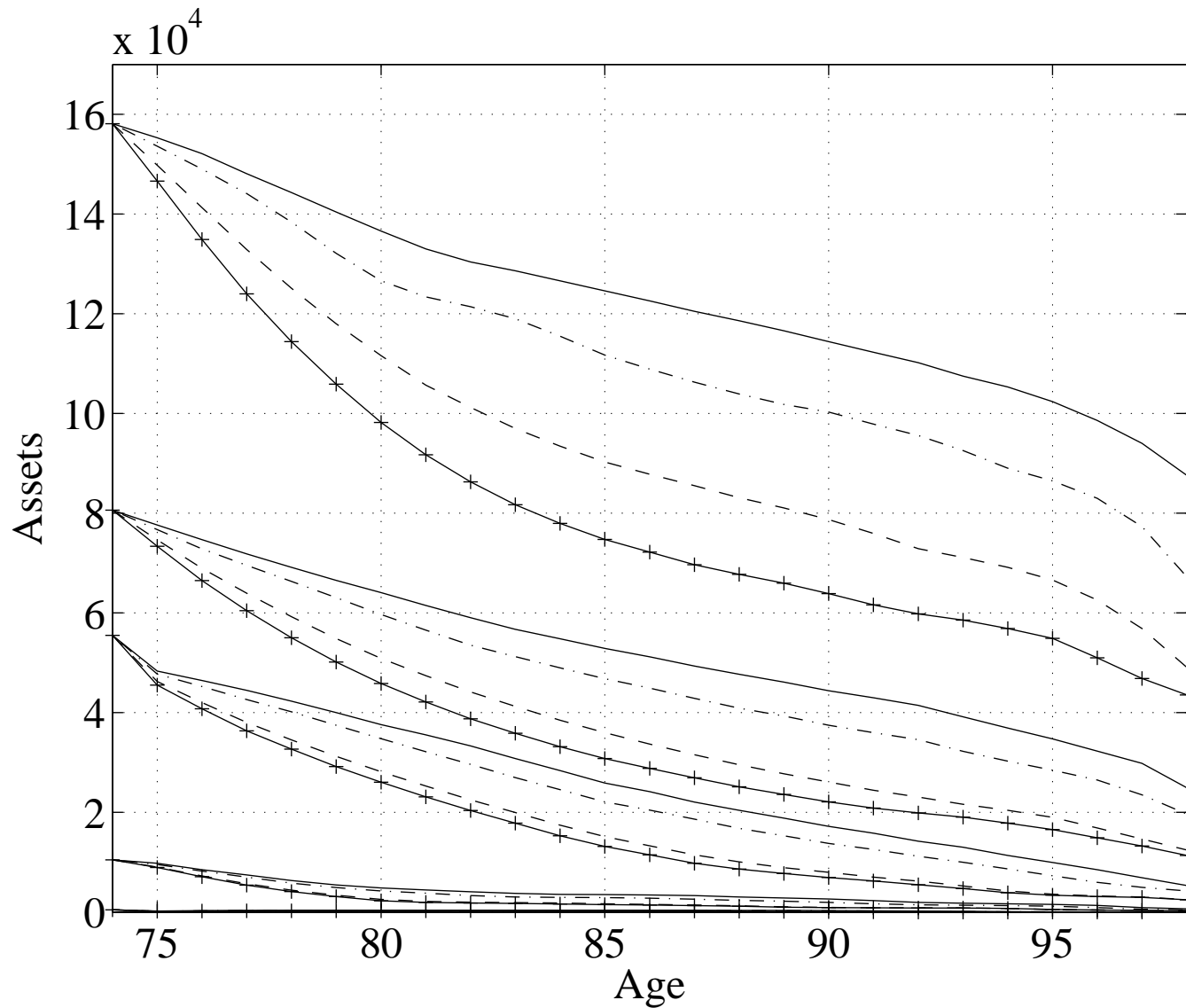
Conclusions from DFJ (2010)

- Medical spending that rises fast with income and age goes a long way to explaining savings of single retirees
- Social insurance (from Medicaid) affects savings even of the high income
- Above results robust to allowing for
 - Endogenous medical spending
 - Bequest motives

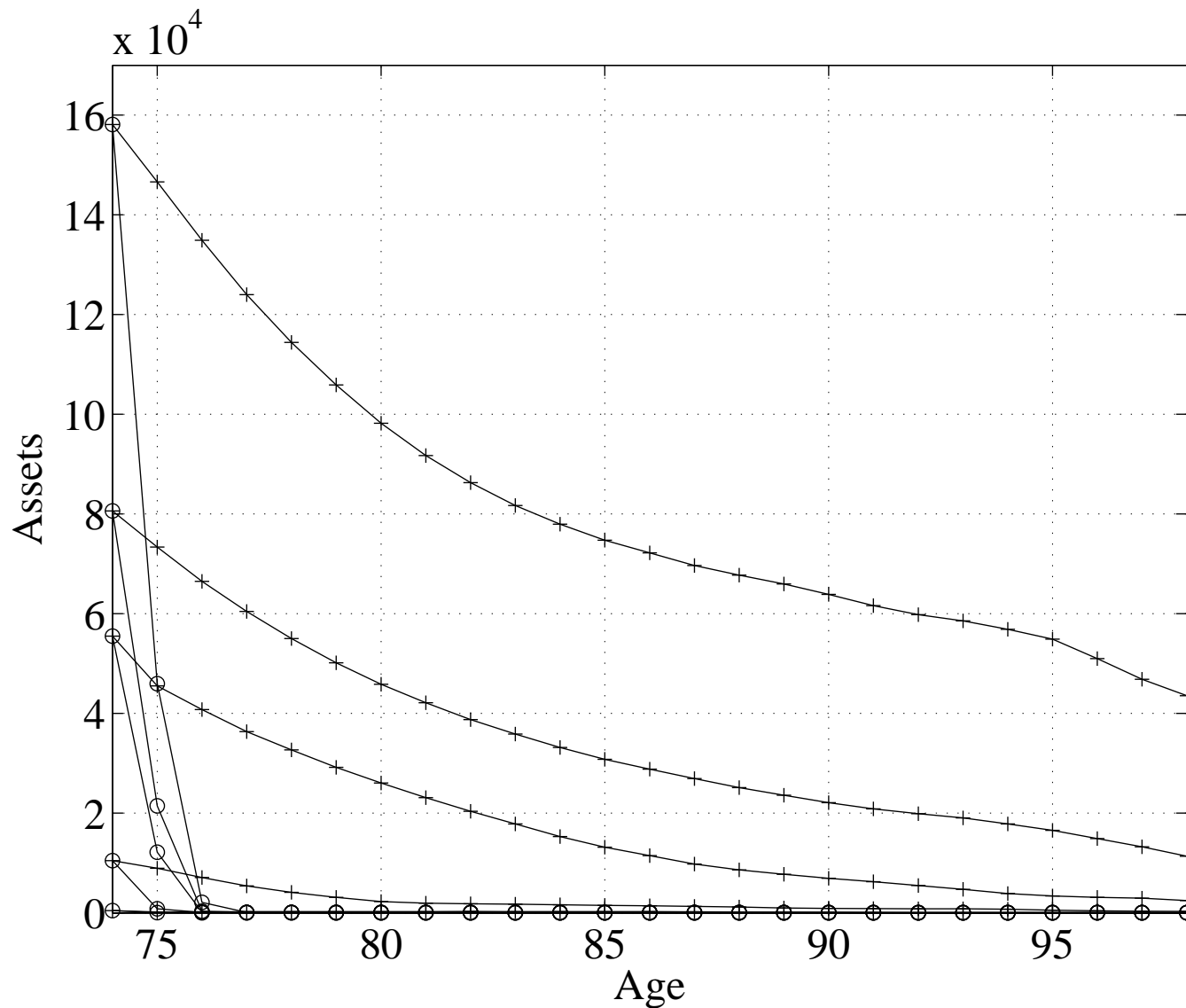
Life expectancy and old age savings, AER 2009

How much of the asset accumulation of old rich people is due to longer life expectancy and lifespan risk?

Median net worth, various mortalities



Median net worth: eliminating lifespan risk



Conclusions about life expectancy and savings

- Differences in life expectancy related to health, gender, and permanent income are important to understanding savings patterns across groups.
- The effect of each factor is of a similar order of magnitude.
- At realistic levels of annuitization the risk of living beyond one's expected lifespan has huge effects on saving.

Medicaid paper (2013)

Medicaid was designed to insure the poorest retirees against medical expenses. We ask:

- What is the degree of Medicaid redistribution?
- How much do people value Medicaid insurance?

Forces working against redistribution

- Heterogeneity in life expectancy and medical expenses
- Two pathways to qualify for Medicaid
 - Having low income and assets: *categorically needy*
 - Being impoverished by large medical expenses, such as long nursing home stays: *medically needy*

Results to date

- Even richer people receive Medicaid.
- Model fits data reasonably well.
- If we were to cut Medicaid payments by about 30%, people would value this loss at about twice its cost.

Couple's savings-work in progress

- Half of the 70+ people have a partner
- They can pool resources to self-insure
- How do life expectancy and medical expenses compare for couples and singles?
- How about savings?

Where is the literature going?

- Assessing the robustness of results to
 - Alternative ways of modeling medical spending: Yogo (2009)
 - Alternative moment conditions: Lockwood (2012), Ameriks et al. (2012)
- Understanding the importance of medical spending in different contexts
 - Kopecky and Koreshkova (2011): general equilibrium
 - Brown and Finkelstein (2006): insurance markets
 - French and Jones (2012): retirement
 - De Nardi, French, Jones (2012): Medicaid
 - De Nardi, French, Jones (2013): Couples