

Savings after Retirement: Homeownership Preferences or Risks?

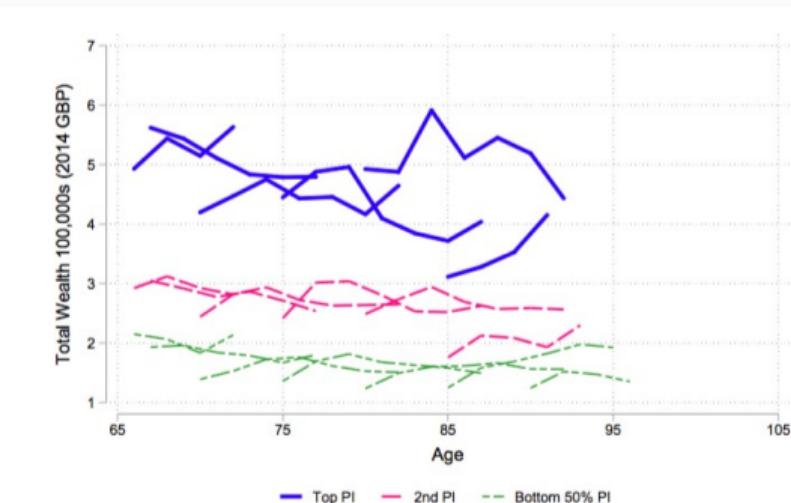
Rory McGee

Discussant: Arpit Gupta (NYU Stern)

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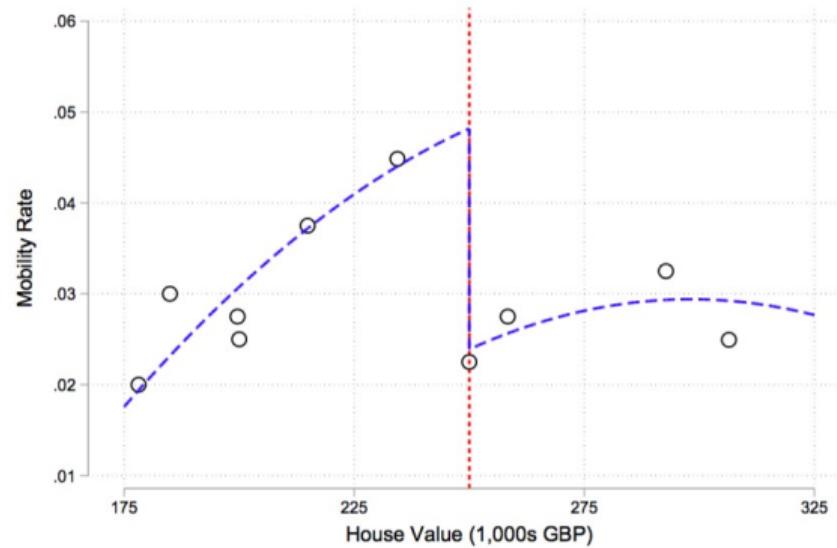
Paper finds Heterogenous Bequest Motive Explains Elderly Wealth Accumulation

1. Puzzle: many households “oversave” late in life
2. Identification from UK Tax Reform, wealth data, bequest expectations
3. Model Classifies Households by latent bequest motives using k-means
4. Self-insure through wealth accumulation, bequest the residual
5. Welfare affected by implicit marginal tax rates of means-tested benefits



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Group	Number of Households	Share	Mean Characteristics	
			Permanent Income (Percentile Rank)	Total Wealth (2014 GBP)
Type 1	847	18.23%	66.9	157,647
Type 2	1,584	34.09%	21.8	67,913
Type 3	573	12.33%	82.8	998,855
Type 4	980	21.09%	72.6	312,900
Type 5	663	14.27%	26	323,902

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Shock	Marginal Propensity to Consume Bequeath	
	Type 1	Type 2
Income	0.173	0.422
	0.169	0.516
	0.12	0.674
	0.064	0.823
	0.0244	0.889
House Price	0.010	0.292
	0.011	0.300
	0.015	0.327
	0.024	0.31
	0.025	0.262

Simulated responses for a single birth cohort to a one-time 10% increase in income and a one-time 10% increase in house prices. In both simulations the shock arrives at age 70 and the MPC is measured contemporaneously. Preference parameters for each type are taken from the estimation results above. In order to separate the role of preferences the correlation between preference type and initial conditions is set to 0.

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	Increase in PDV of payments			Compensating Variation	Ratio CV/PDV
	Total	Transfers	Disregard		
Initial Renters	-342	576	-918	595	1.74
Initial Owners	-852	159	-1012	5678	6.66
<i>Initial Owners</i>					
Top PI quartile	-921	49	-970	9225	10.02
2nd PI quartile	-1012	157	-1169	6308	6.23
Bottom 50% PI	-730	216	-946	3107	4.23
Single Men	n/a	n/a	n/a	n/a	n/a
Single Women	n/a	n/a	n/a	n/a	n/a
Couples	-1474	528	-2002	9040	6.13
<i>Health</i>					
Good	-491	88	-579	4169	8.488
Bad	-620	346	-966	4441	7.16
ADL	-1938	863	-2801	5108	2.64

Note: Columns (1)-(3): £increase in the present discounted value of government transfers as of age 68.

Column (4): £value of transfer needed to compensate people for the elimination of the disregards.

Column (5): Ratio of columns (4 and 3)

Roadmap of Discussion

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- Evidence on non-bequest motives in HRS data
- Highlight interactions of background risks and bequest motives

Replicating Wealth Distribution by Quantiles

Figure 1: Replication HRS

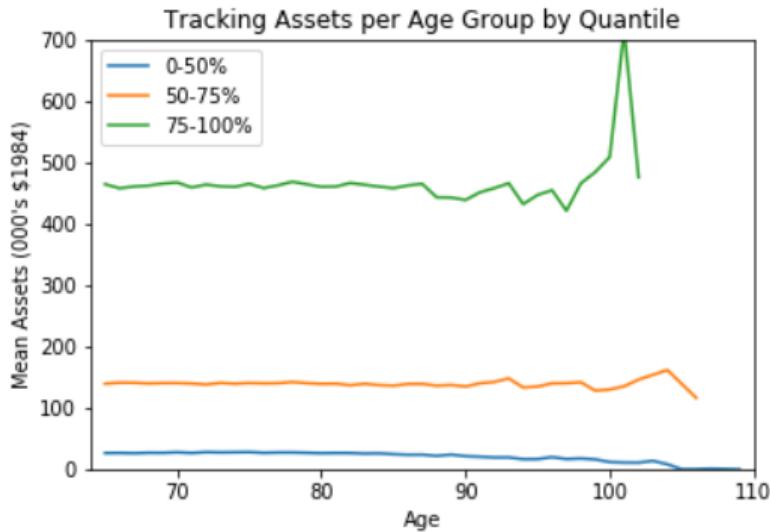
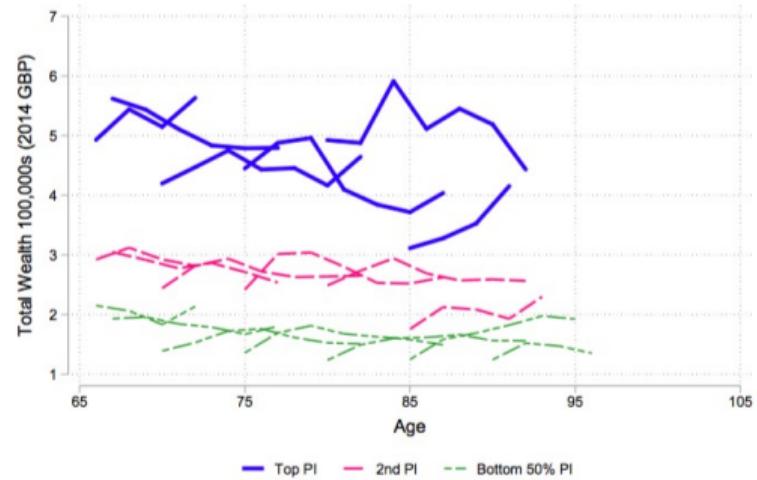
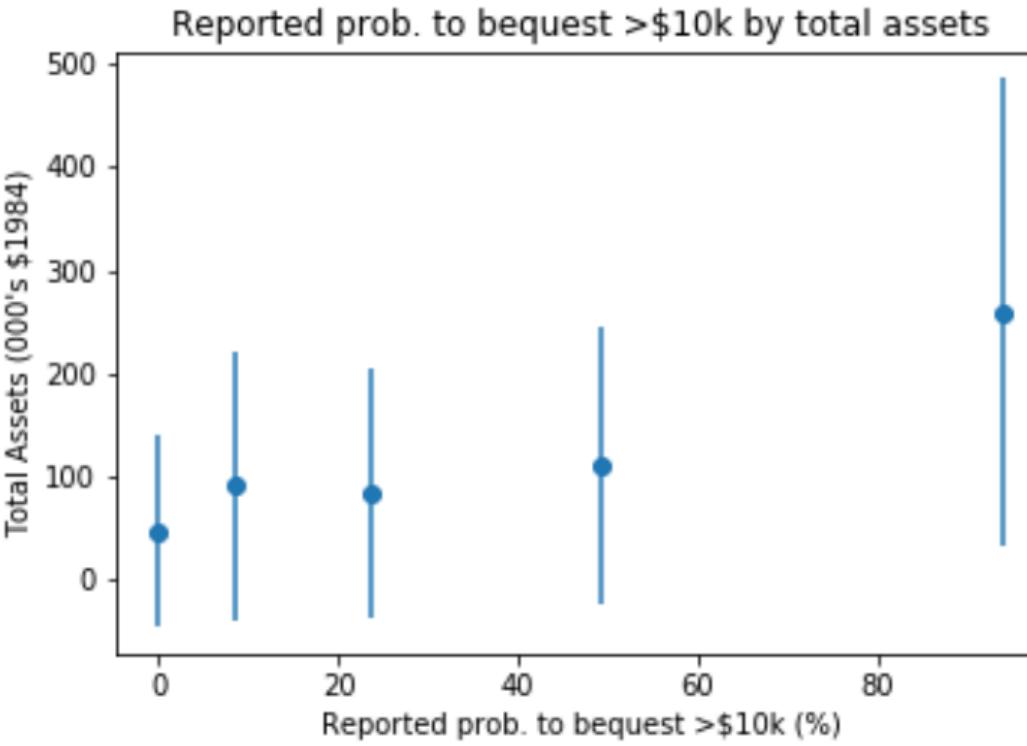


Figure 2: Paper

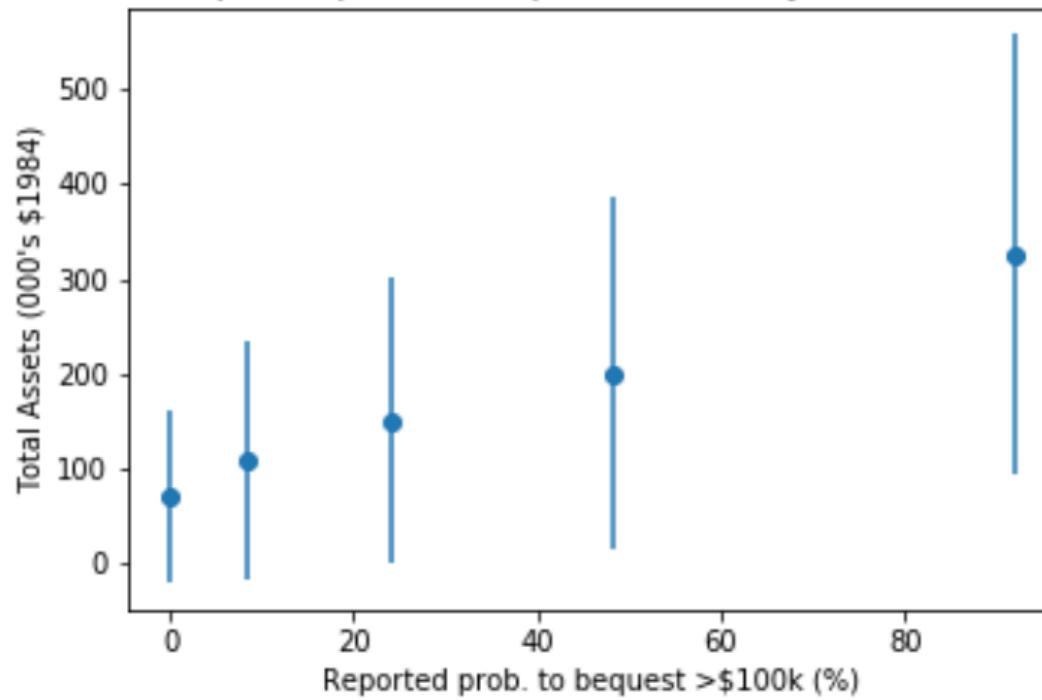


Wealth is Related to Bequest Expectations

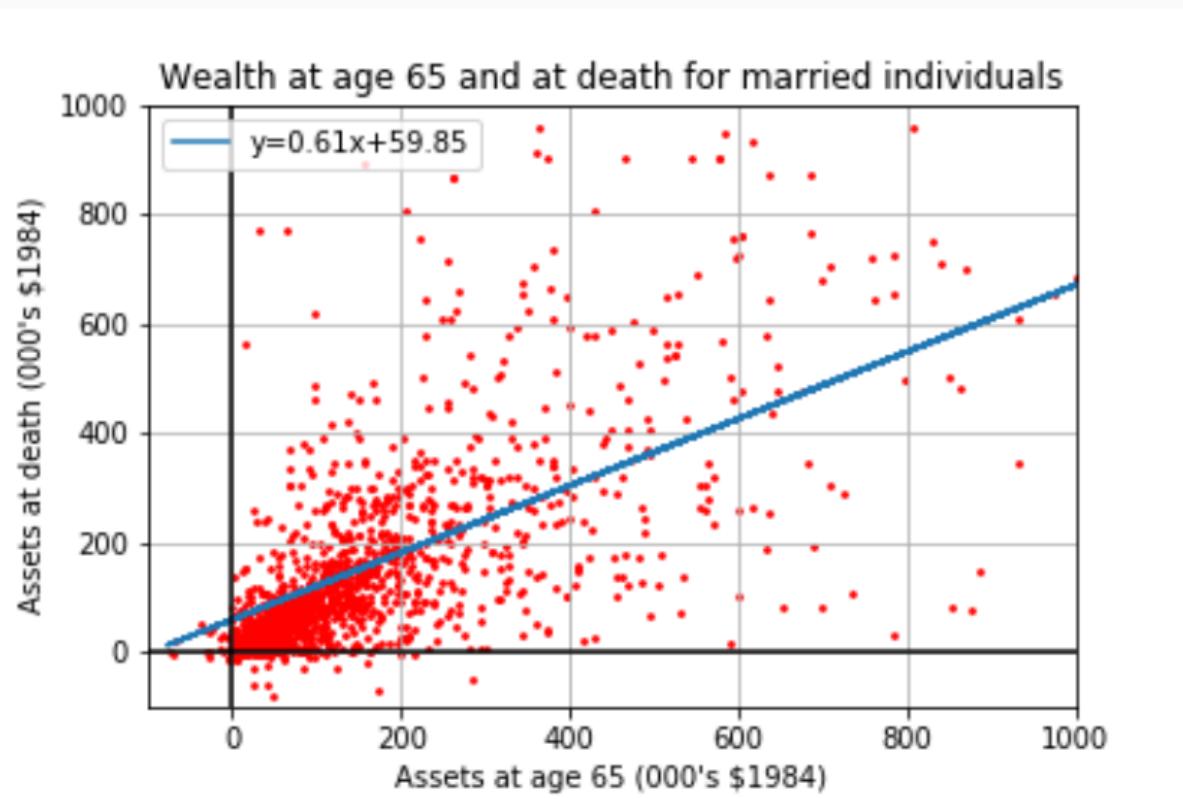


Wealth is Related to Bequest Expectations

Reported prob. to bequest >\$100k by total assets



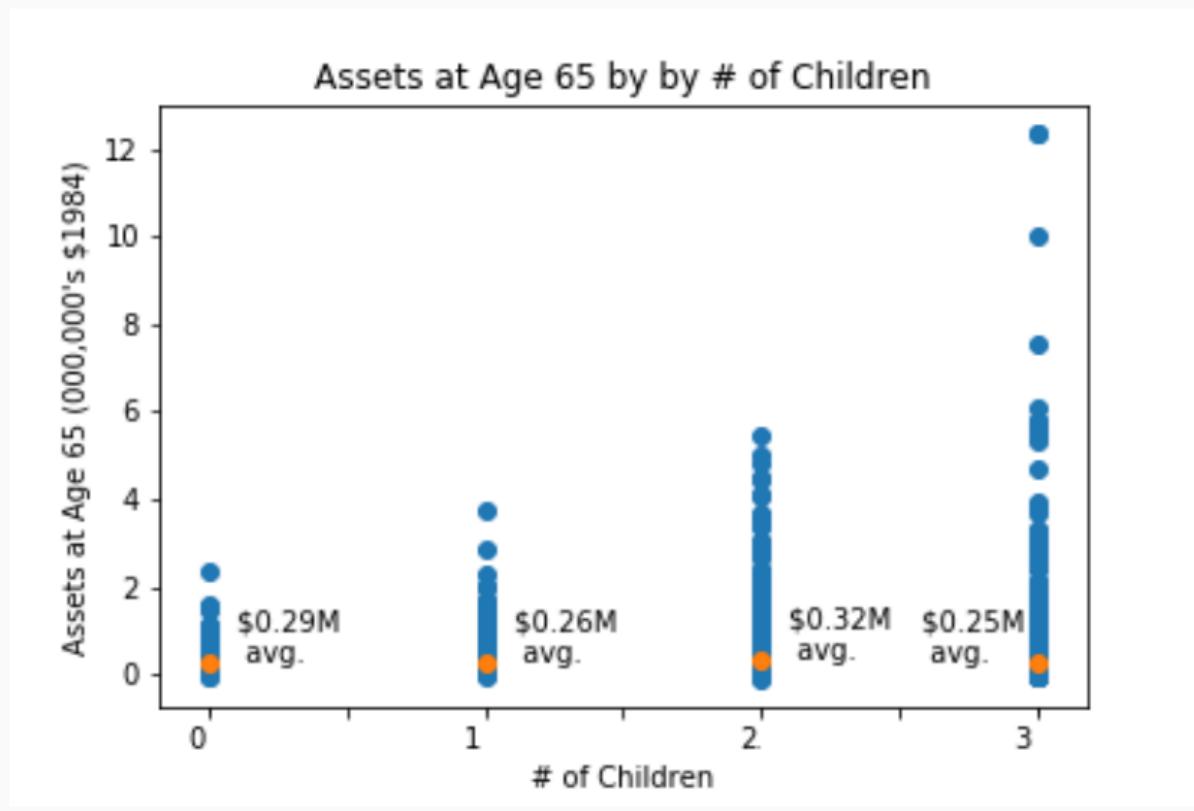
End of Life Wealth is Persistent (Poterba et al. 2017)



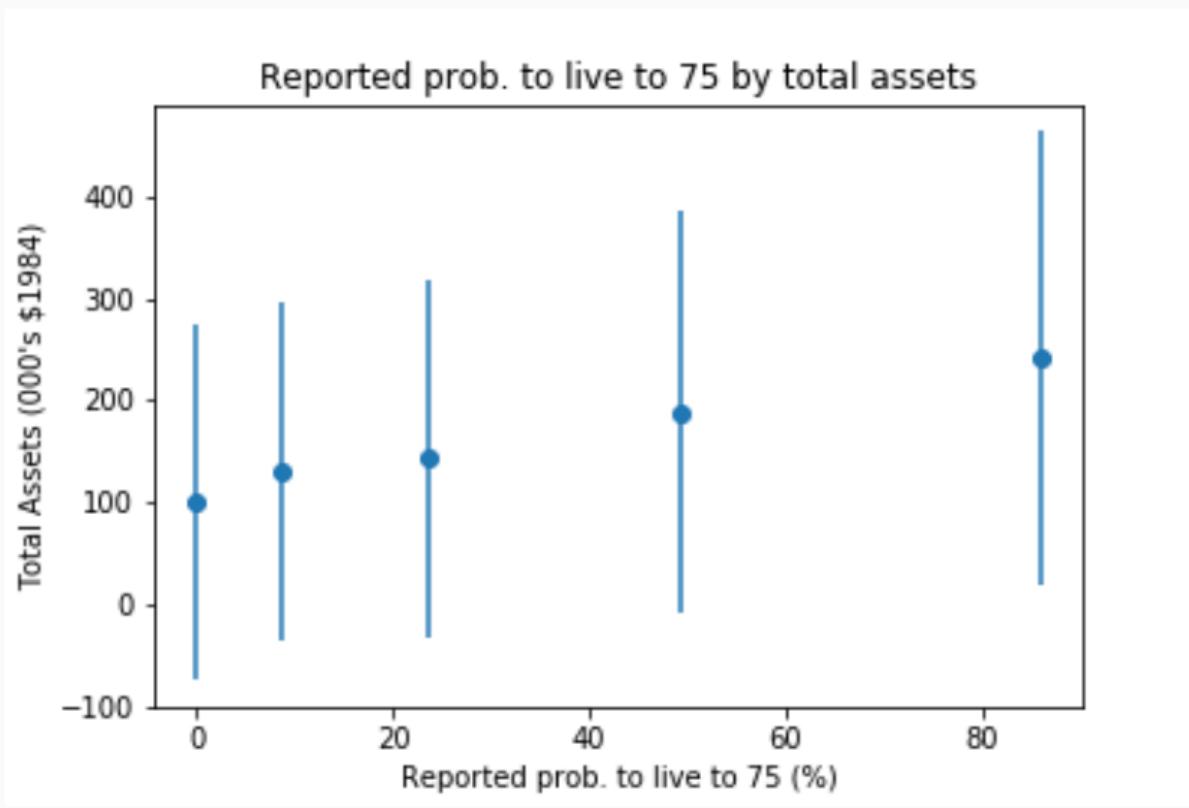
These Robust and Stylized Facts Establish Role for Bequest Motives:

- While a large fraction of the population engages in limited (too limited?) savings, and is the target of savings interventions (nudges, 401(k) auto-enrollment, etc.); a substantial minority has accumulated substantial wealth shares
- Persistence in wealth stakes rules out wealth accumulation for standard life-cycle pre-planned consumption motives
- People self-report higher bequest intentions with higher wealth stakes
- While these facts justify a focus on bequests (with heterogeneity); there are other reasons to suspect other motives are at play:

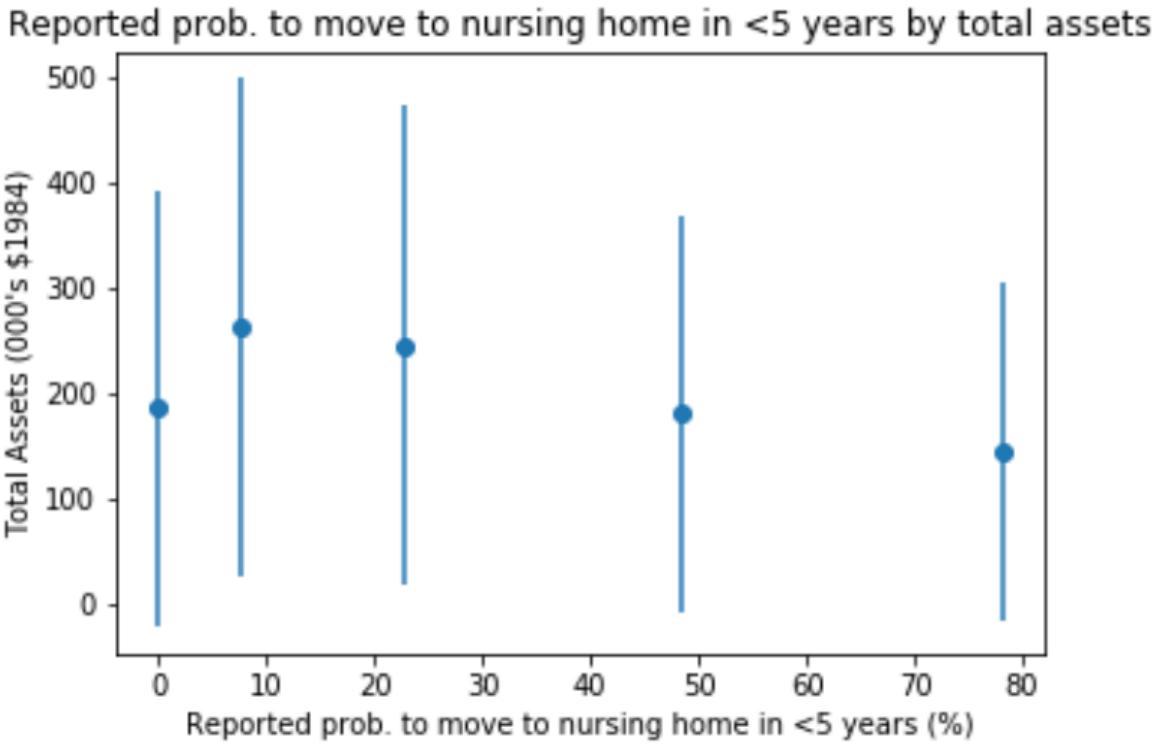
Wealth Level by Children



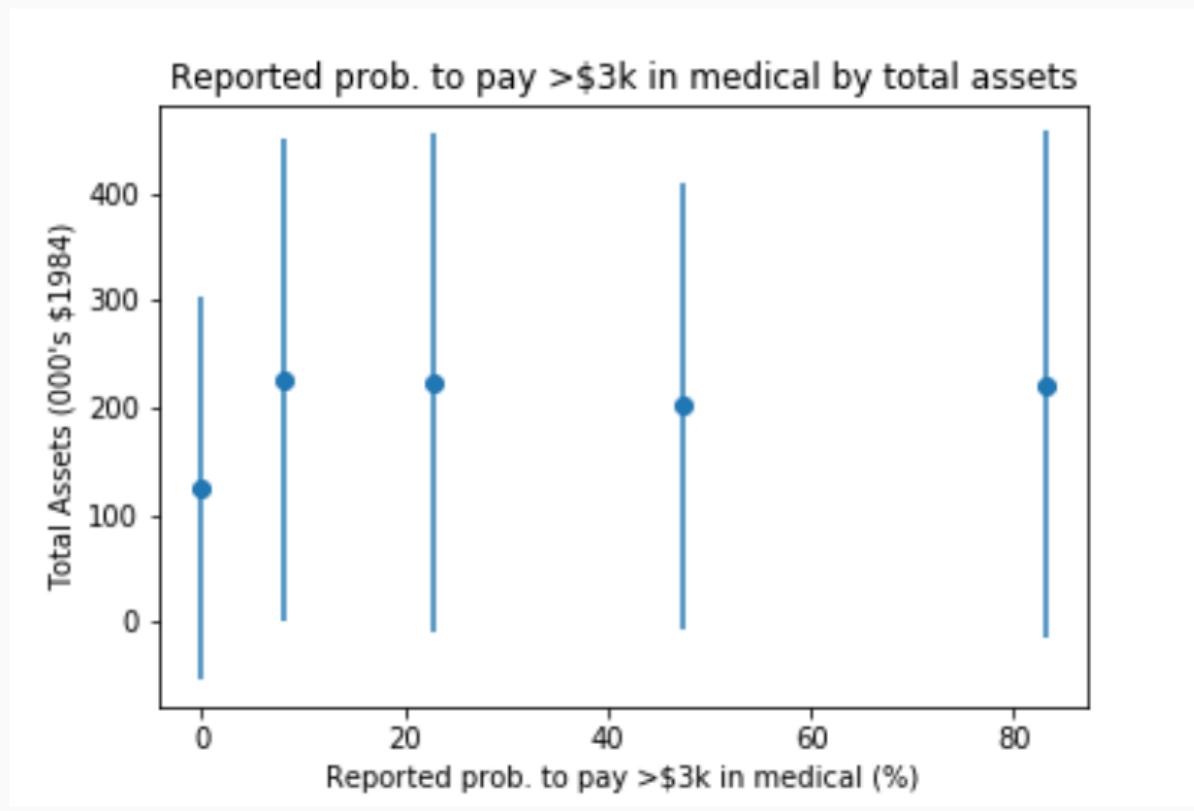
Wealth is Related to Longevity Expectations



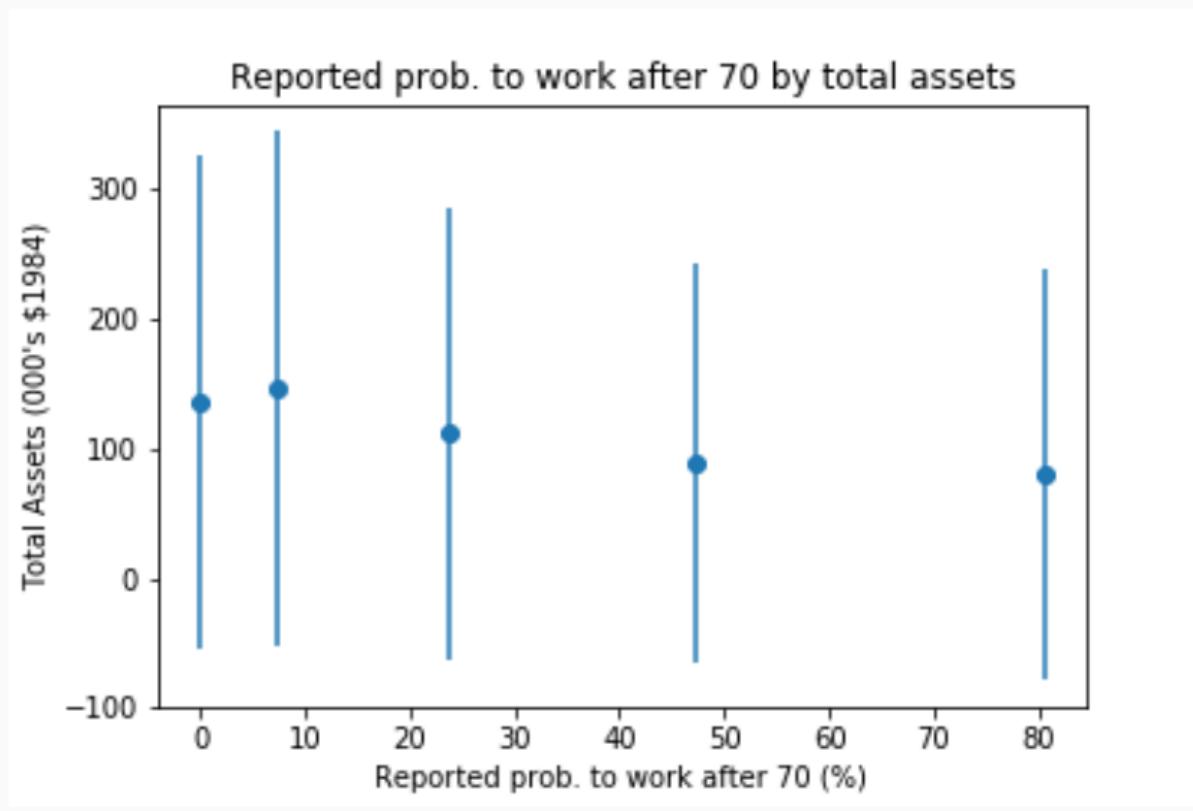
Spend Down Incentives for Dual Medicare-Medicaid Enrollment in Nursing Homes



Mixed Relationship for Wealth and Expected Medical Expenditures



Wealth and Future Labor Supply Expectations



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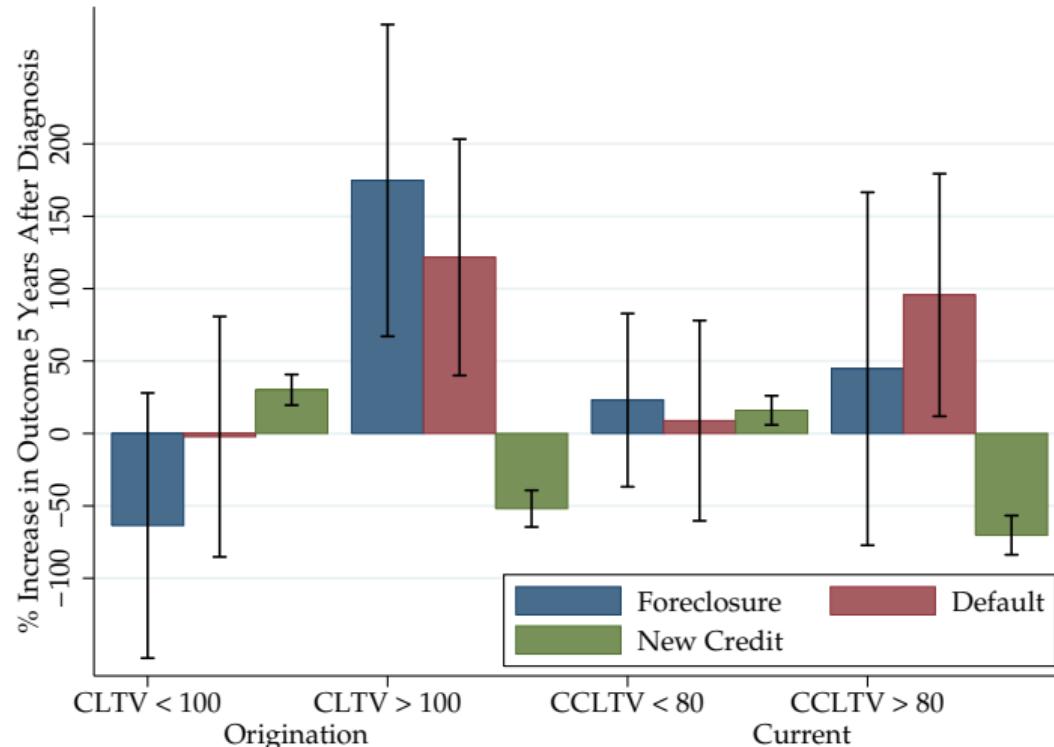
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 - Or enjoy consumption value of assets while still alive?
 - Preference for retiring in place?

Expectations and Risks explain Household Wealth Accumulation

- Can't be nursing home risk – goes the opposite direction since you have to spend down wealth to qualify for nursing home benefits in Medicaid/similar in UK
- Households appear to have in mind some kind of risk requiring large but rare out of pocket expenditures
 - Longevity, health expenses, labor income, capital return risk, ...
- Annuity puzzle: households unwilling to annuitize wealth holdings. Really one puzzle on role of large, idiosyncratic, illiquid assets in late in life portfolio
- “preference heterogeneity:” differential exposure/pricing of background risks?
- Large benefits to insuring households against these shocks, whatever they are

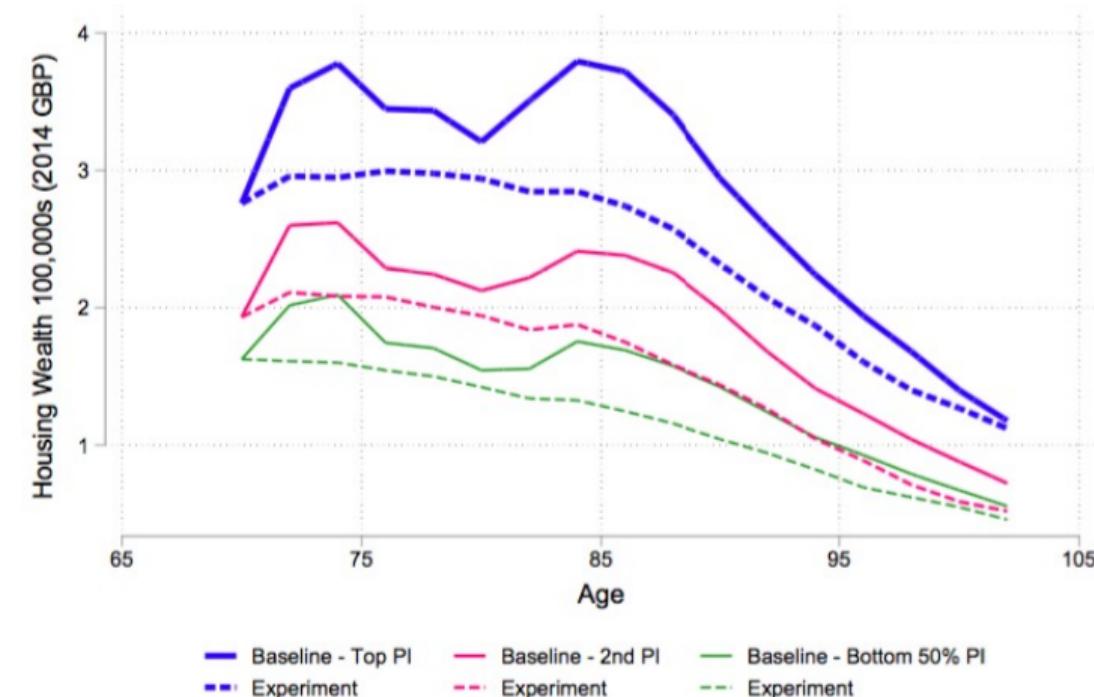
Protective role of Asset Buffer in Cancer Diagnosis

Gupta, Morrison, Fedorenko, Ramsey (2019)

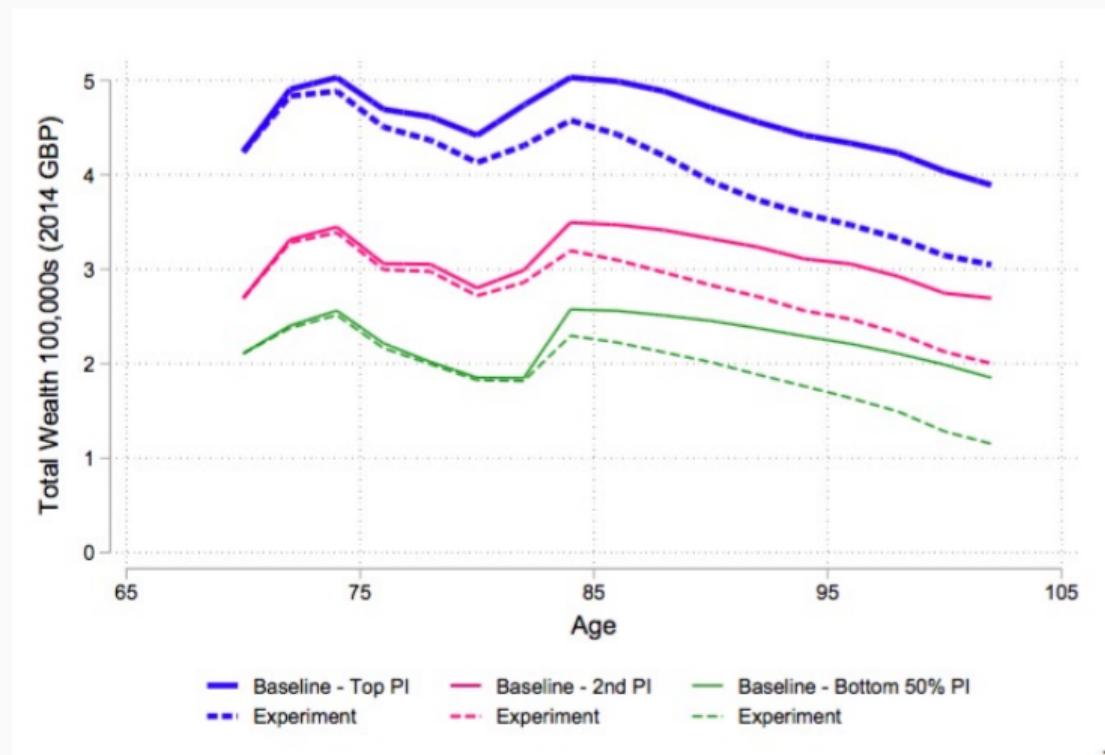


Key Insight from Model: Insurance and Bequest Motives Interact

Impact of Fixing House Prices: Household wealth, mobility lower



Impact of Lower Bequest Motives: Less Saving



Impact of Income/Price Shocks: Incomplete Pass-through to Bequests

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	Consume	Bequeath
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Impact of Incidental Income/Price Shocks: Incomplete Pass-through to Bequests

- House prices have more muted effects than income shocks:
 - House prices are mean-reverting
 - Positive income shocks enable liquidity-constrained individuals age in place (higher savings); while home price shocks result in more equity extraction
- For high bequest-preference households; portfolio reallocation motive is lower, so more winds up in bequests
- *Incidental bequests*: households insure late-life risks through large asset buffers. Utility cost of “over”-insuring is low, since excess insurance has bequest value.
- Suggestion: focus paper more on this insight. Try experiments that alter nature of *underlying cost shocks* that generate precautionary savings in tandem with bequests to understand ex ante household wealth accumulation.

Bequests and Risks in Combination Help Explain End of Life Saving

- Nice innovations in paper:
 - Combination of reduced form and structural estimates
 - Use of expectations data in structural estimates
 - Machine Learning technique to classify heterogeneity in population
- Caused me to think about the role of bequest and background risks in tandem
 - Good reasons to think both that bequests alone explain some, but not all of the retirement puzzle
 - Positive bequest motive ensures that excess insurance is “not wasted,” and so pushes people to do even more self-insurance
- Still a puzzle (to me) what these background risks *are* precisely, and how policy or product innovation can address them
 - Life insurance as a general savings vehicle (Koijen Van Nieuwerburgh [2019])