The Effects of the Economic Crisis on the Older Population: Changes in Consumption and Expectations

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Data

• Health and Retirement Study
  – Core survey 2006 and 2008
  – Internet survey April-June 2009
    • Subsample of HRS
    • Access to Internet and agreed to survey
  – Key variable: Expectations
    • Changes in expectations in panel
Data (continued)

• Consumption and Activities Mail Survey
  – Random sample of HRS
  – Complete measure of spending in prior 12 months
  – Compare change between 2007 and 2009 with earlier change in panel
HRS 2006, 2008 and HRS Internet 2009

S&P 500 monthly closing prices
CAMS 2007 and 2009

S&P 500 monthly closing prices

spending period covered
HRS 2008 and HRS Internet 2009

Case-Shiller House price index, 20-city average
CAMS 2007 and 2009

Case-Shiller House price index, 20-city average
Impact depends on location

Case-Shiller House price index

Phoenix, Los Angeles, Denver, Detroit
Will show

• Change in spending 2007-2009 based on CAMS
• Change in subjective spending and expectations based on HRS 2008 and HRS Internet 2009
Change in actual spending

• In older population expect spending decline because of life-cycle effects

• Compare two-year change in “normal” times with two-year change 2007-2009

• “Normal” times: average of three transitions
  – 2001-2003
  – 2003-2005
Two-year change in nondurable spending, means, panel

Age 51-64

Age 65+

2001-2007

2007-2009

0

-1

-2

-3

-4

-5

-6

-7

-8

-9

-10
Rest of results from HRS 2006, 2008 and HRS Internet 2009
HRS Internet April-June 2009. Household spending now compared with a year ago. % of households
Important reasons for spending decline (among those stating decline)

- Worried about economic future: 85%
- Lower income: 74%
- Need to reduce debt: 70%
- Stocks down: 59%
- Lower house value: 52%
- Worse employment: 47%

- Age differences: less income, debt, employment among the oldest
House value

- Self-reports in HRS
- Compare with Case-Shiller 20 city average normalized to HRS 2006 values
HRS house value (thous.), panel and Case-Shiller normalized to 2006 HRS

Mean  Case-Shiller mean  Median  Case-Shiller median

2006  2008  2009

-13%  -28%
HRS house debt (thous.), panel

Mean

Median
Homeowners underwater (%)
Expectations measured by subjective probabilities

On a scale from 0 percent to 100 percent where 0 means that you think there is no chance and 100 means that you think the event is absolutely sure to happen, what do you think are the chances that by next year at this time your home will be worth more than it is today?

Additional targets

10% and 20% up
10% and 20% down
<table>
<thead>
<tr>
<th></th>
<th>1 year from now</th>
<th>5 years from now</th>
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<tbody>
<tr>
<td>Any increase</td>
<td>32.3</td>
<td>53.5</td>
</tr>
<tr>
<td>Increase by 10% or more</td>
<td>21.3</td>
<td>47.0</td>
</tr>
<tr>
<td>Increase by 20% or more</td>
<td>10.6</td>
<td>28.0</td>
</tr>
<tr>
<td>Decrease by 10% or more</td>
<td>18.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Decrease by 20% or more</td>
<td>11.0</td>
<td>9.2</td>
</tr>
<tr>
<td>Estimated median change</td>
<td>-4%</td>
<td>+6%</td>
</tr>
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In 88% of one-year intervals between 1991 and 2009, housing prices increased. In all five-year intervals housing prices increased.
Average subjective probability of stock market gain, one-year horizon

- HRS 2008: 52%
- HRS Internet 2009: 41%

Cumulative distribution across individuals
Cumulative distribution. Subjective probability of stock market gain one year ahead.
Average subjective probability of bequest less than three target amounts

<table>
<thead>
<tr>
<th>Targets</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>10k</td>
<td>16.2</td>
<td>23.9</td>
</tr>
<tr>
<td>100k</td>
<td>36.0</td>
<td>44.1</td>
</tr>
<tr>
<td>500k</td>
<td>71.2</td>
<td>77.5</td>
</tr>
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Mean expected bequest: $535.5k, $436.0k
Possible retirement responses to stock market and labor market

• Stock market: increase retirement age
• Labor market: possibly reduce retirement age
  – May become unemployed
  – Difficulty of finding another job
  – Social Security reported increase in claiming between ages 62 and 66
Average subjective probability of working past age 62 or 65 among those working in 2008, panel

![Bar chart showing the average subjective probability of working past age 62 and past age 65 among those working in 2008, panel. The chart compares HRS 2008 and HRS 2009 Internet data.](#)
Transition rate from working in HRS 2008 to not working in HRS 2009 Internet was 13.7%
Average subjective probability of working past age 62, among those working in 2008 by work status in 2009, panel

[Bar chart showing the average subjective probability of working past age 62 for those working in 2009 and not working in 2009, comparing HRS 2008 and HRS 2009 Internet data.]
Average subjective probability of working past age 65, among those working in 2008 by work status in 2009, panel
Conclusions

• Substantial spending reductions (measured)
  – about 7.6% among 51-64 year-olds over two years (deviation from “normal” times)
  – about 3.4% among 65+

• Self-reported: 29% of households reduced spending (17% increased)
  – but age 51-64: 33% reported decrease

• Age differences
  – Retired population pretty well insulated
  – Although their children may have been affected
Conclusions (continued)

• Small increase in housing debt at an age when it should be decreasing
• Sharp increase in underwater 2008-2009
• Reduction in expected bequests
  – Allocation of losses in stock market and housing market (and possibly future earnings) between consumption and bequests
• Considerable pessimism in house price and stock market expectations
Conclusions (continued)

• Labor market
  – those working in 2009 expect to retire later than they did in 2008...wealth effect?
  – those not working in 2009 expect to retire earlier than they did in 2008...labor market effect?

• Although recession is over (NBER) it is not over