

Patterns of Consumption and Savings around Retirement

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- The question whether or not individuals plan properly and save enough for retirement is still debated (Poterba, 2015)

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 - ★ DeNardi et al. (2010); Jones et al. (2018); Ameriks et al. (2016); Laitner et al. (2018) explain this with longevity and medical expense risk

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- ★ Other papers on changes in households' balance sheets around retirement: Addoum (2016) analyses portfolio choice around retirement and Agarwal et al. (2009) look at financial mistakes over the life-cycle

Monthly income and personal finances

	Eligible but not retired		Retired	
	Mean	St.dev.	Mean	St.dev.
Age:	64.2	3.6	71.2	5.8
Income:				
Pensions	74	1,063	1,899	1,869
Personal finances:				
Overdraft indicator	0.46	0.50	0.38	0.49
# Overdrafts	0.52	0.65	0.46	0.67
Overdraft interest	24	66	17	56
Late fees	6	36	5	31
Interest income indicator	0.32	0.47	0.53	0.50
Interest income	45	724	79	609
Liquidity (in days of average spending)	180	152	201	330

Empirical findings: personal finances

	Overdraft indicator	# overdrafts	Overdraft interest	Late fees	Interest income indicator	Interest income	Credit lines
<i>Without controlling for income:</i>							
Retired	-0.044*** (0.016)	-0.043** (0.021)	-0.549*** (0.133)	-0.249*** (0.081)	0.036** (0.016)	0.281*** (0.098)	-0.060 (0.080)
<i>Controlling for income:</i>							
Retired	-0.045*** (0.016)	-0.045** (0.021)	-0.561*** (0.133)	-0.284*** (0.081)	0.021 (0.016)	0.281*** (0.098)	-0.058 (0.080)
Individual FE	✓	✓	✓	✓	✓	✓	✓
Month-by-year FE	✓	✓	✓	✓	✓	✓	✓

Empirical findings: personal finances dynamics

	Overdraft indicator	# overdrafts	Overdraft interest	Late fees	Interest income indicator	Interest income	Credit lines
<i>Retired for (months):</i>							
<i>Without controlling for income:</i>							
< 12	-0.050*** (0.016)	-0.049** (0.020)	-0.577*** (0.134)	-0.263*** (0.084)	0.042*** (0.015)	0.487*** (0.098)	-0.048 (0.081)
12 > < 24	-0.037** (0.018)	-0.031 (0.024)	-0.468*** (0.155)	-0.149 (0.099)	0.029 (0.019)	0.296*** (0.108)	-0.134 (0.108)
> 24	-0.039** (0.020)	-0.043 (0.028)	-0.574*** (0.166)	-0.319*** (0.104)	0.033 (0.023)	-0.047 (0.115)	-0.020 (0.152)
<i>Controlling for income:</i>							
< 12	-0.051*** (0.016)	-0.051** (0.020)	-0.590*** (0.134)	-0.300*** (0.084)	0.020 (0.015)	0.487*** (0.098)	-0.047 (0.081)
12 > < 24	-0.038** (0.018)	-0.032 (0.024)	-0.480*** (0.155)	-0.182* (0.099)	0.013 (0.018)	0.296*** (0.108)	-0.133 (0.109)
> 24	-0.041** (0.020)	-0.044 (0.028)	-0.587*** (0.166)	-0.355*** (0.104)	0.029 (0.022)	-0.047 (0.115)	-0.018 (0.152)

Empirical findings: personal finances

- If the agent would rationally plan for an expected fall in income, he or she would save before and dissave after – not the opposite

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- We find the same patterns in CEX and SCF data
- We find the same patterns in individual-level data from the PSID and HRS
- Using spending data alone, even for very fine categories (bakeries, fine dining, restaurant visits, ...) we cannot conclusively tell whether expenses are work-related or not

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 - Individuals reduce consumer debt and increase liquid savings in response to an expected and large fall in income
 - This response is very difficult to explain in a model of rational planning
- We can look at the leading explanations of the retirement puzzles but they do not necessarily explain our findings
- We cannot "retire the consumption puzzles" just yet

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