

Consumption and time use responses to unemployment

“Do unemployed people self-insure their loss of income?”

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Unemployment often has major consequences for income and pension accrual. To what extent can unemployed people absorb this income drop by increased home production? And do younger and older workers differ in this regard? Knowing the answers to these questions is important for determining the optimal risky share of pension wealth over the life cycle. That is because the ability to absorb a loss of income increases an individual's risk capacity.

Principal Findings

- The effect of unemployment on total household expenditure is relatively low (about 5%), whereas household income drops by about 20% if the head of the household becomes unemployed.
- Unemployment results in lower transportation costs and people dedicating far more time to leisure and household chores, especially among older workers.
- Older households' ability to devote more time to home production could help them mitigate negative income effects due to retirement, disability or changes in family.
- However, there is no evidence that unemployment leads to expenditures being replaced by home production.

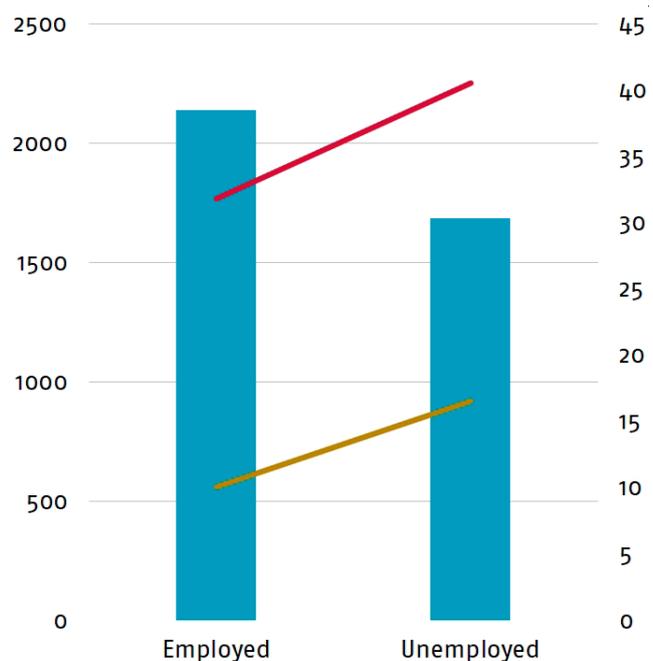


Figure: Average total spending (blue bar, euro/m) and time spend (h/w) on leisure (red line) and home production (brown line) by employment and unemployment.

Key Takeaways for the Industry

- Risks implied by unemployment and other events that can negatively affect income and wealth accumulation should be measured more completely. Therefore, this study shows the results on home production.
- Basic models often assume a certain future income. This means that pension wealth of young people can be invested relatively risky. However, job uncertainty and the absence of substitution of expenditures by home production (in case of unemployment) flattens the optimal age profile of the optimal risky share of pension wealth.



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