

Can Temptation Explain Housing Choices in Later Life?

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Comments by:

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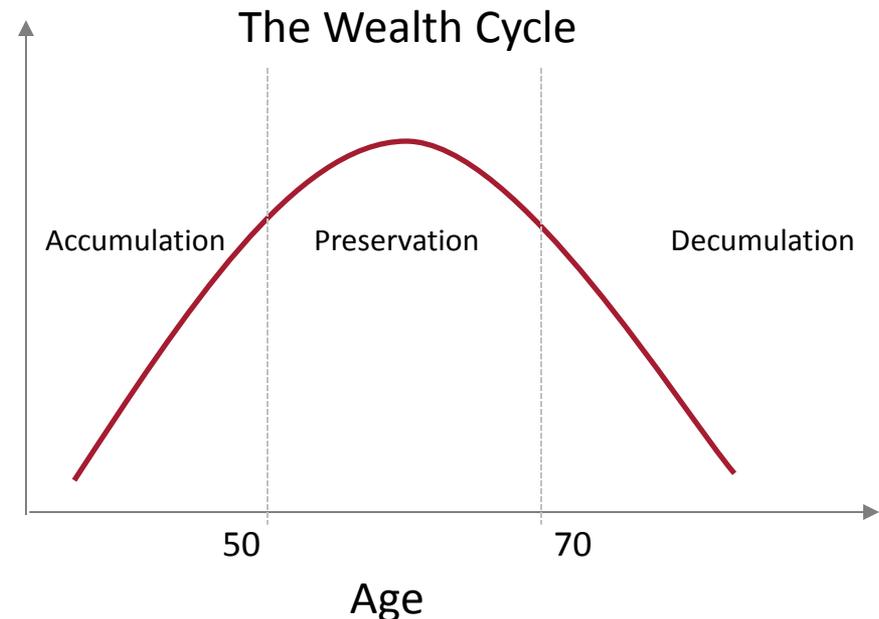
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Background

- Why is it that people don't sell their houses at older ages?

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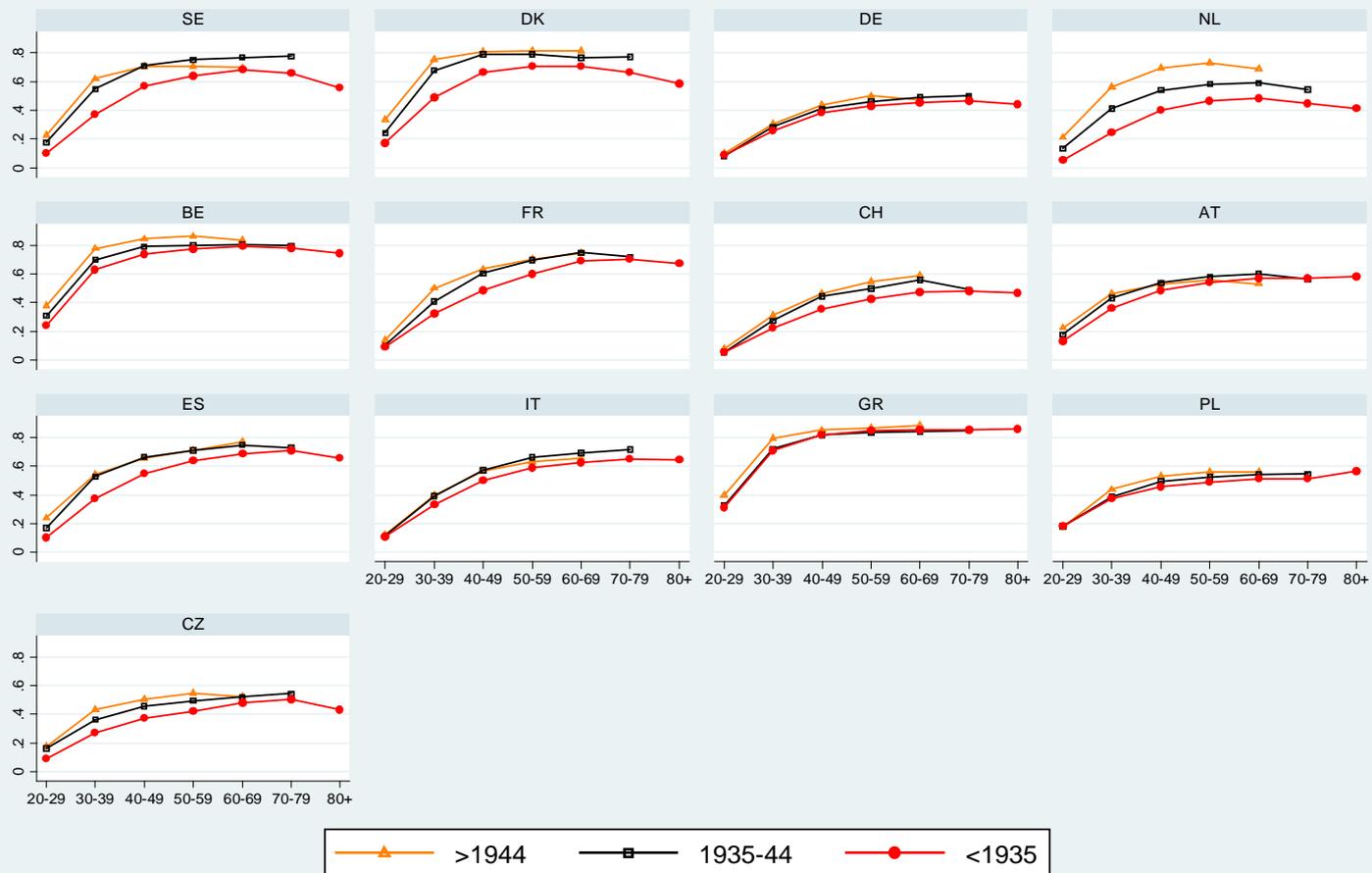
- The standard life –cycle model predicts that households should accumulate assets while working and decumulate these assets to fund consumption in retirement



But they don't sell their house



Home-ownership age profiles by country and cohort



Graphs by ctr

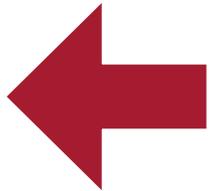
Source: Angelini, et al (2011)

Why is it that people don't sell their houses at older ages?

- They like living in their own house because of memories, neighborhood, etc
- Hedge against future (rent) price changes (Sinai & Souleles, 2005)
- Large costs of selling and moving

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- Hedge against future (rent) price changes (Sinai & Souleles, 2005)
- Large costs of selling and moving
- To reduce temptation to spend retirement assets



This paper

- Idea: Illiquid assets may be used to tie one's hands by people who find it hard to resist the temptation presented by a large stock of "cash on hand".
 - Particularly, once pensions enter the decumulation phase, housing may be the asset that provides this commitment technology.
- Propose a model that adds a "temptation motive" to the standard motives for saving and investing in illiquid assets (Gul & Pesendorfer, 2001, 2004).

This paper

- Use SHARE+SHARELIFE individual life-history data on 12 European countries.
- Discrete-time duration analysis - estimate the hazard rate of first owning a house, conditional on the ownership of illiquid financial assets (retirement accounts and life insurance policies) + a number of observable characteristics, including a measure of permanent income.

This paper

- Results consistent with notion that tempted individuals first resort to illiquid financial assets to control temptation, but as retirement age approaches they are more likely to use housing as a commitment device.

Comments

- Can one rule out the other explanations (e.g., financial hedge against rent risk, value of staying “in place”, etc.?)
 - Housing is a good thing to have in the portfolio even for those not driven by temptation.

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- Can one rule out the other explanations (e.g., financial hedge against rent risk, value of staying “in place”, etc.?)
 - Housing is a good thing to have in the portfolio even for those not driven by temptation.
- Can one use one outcome of financial planning (illiquid asset accumulation) to “explain” another (buying a house)? If the two are determined simultaneously, it is not clear which is on the right-hand side or the left-hand side of the equation.

Comments

- Should the model predict that those with illiquid assets should be more or less driven to own a house?
 - If I have trouble accumulating illiquid assets, I might be more likely to buy a house.
 - Paper: people with commitment problems buy both illiquid assets and a house.
 - Not sure which effect dominates.

Suggestions

- Exploit cross-country institutional differences (mortgage and credit markets, housing policy, ...) to somehow identify the temptation effect:
 - If it is harder to buy illiquid assets in some countries, does that lead to a corresponding increase in home ownership?
- Temptation and downsizing/selling off the house when in retirement. Is a temptation model still relevant then?
 - Moving is a stressful experience and for people who are thinking only of today, and not into the future, they might be less likely to move.

Overall

Overall

- Very nice paper!
 - Important question,
 - Interesting & novel model
 - Excellent data 😊

Additional slides

“Throughout our analysis, therefore, we interpret the ownership of illiquid assets and housing as evidence of temptation”

- seems a bit over-reaching.