



Consumption behavior, annuity income and mortality risk of the elderly - Discussion

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Topic

Individuals do not seem to draw down their assets after retirement. Why is that so?

- Simple life cycle model predicts decumulation of assets
- Uncertainty: lifetime, earnings, medical expenses
- Bequest motive
- Consumption constraints due to health deterioration
- Authors follow Hurd (1998, 1999): add lifetime uncertainty and bequest motives to life cycle model



Contributions

- Extension of the model for couples by Hurd (1999)
- Empirical evaluation of the above model and a related model for singles (Hurd, 1998) using US data
 - Consumption $>$ annuity income: people draw down savings
 - Higher wealth \rightarrow higher excess consumption
 - Singles: higher mortality rates, smaller consumption growth
 - Couples: mortality rates no effect on consumption growth



Theoretical model: Singles

- Clear explanations and mathematical derivations
- Why do you assume there is no bequest motive?
- Can one assume the discount rate for utility from consumption and bequests are the same?



Theoretical model: Couples

- Great extension: Define the utility of holding wealth at moment of death of one of the spouses as the utility from consumption for remaining lifetime of surviving spouse
- Bequest motive again drops out
 - instead of: $M((1+r)A_t) := \sum_{\tau} (1+\rho)^{t+1-\tau} a_{\tau}^{m,t+1} u(c_{\tau})$
 - why not define
$$\tilde{M}((1+r)A_t) := M((1+r)A_t) + \sum_{\tau} (1+\rho)^{t-\tau} m_{\tau+1}^{m,t+1} V((1+r)A_t)$$
(and similar for $F((1+r)A_t)$)



Data

- Compliments: very complete and detailed descriptions
- More than half of relevant sample deleted due to missings
 - Characteristics of the deleted observations
 - Could you use some imputation strategy?



Estimates

- Interesting analysis
 - Consumption levels and consumption growth
 - Various consumption definitions
 - Control for many health variables
- Some unclearities
 - How did you account for the panel aspect of the data?
 - IV analysis: subjective mortality rates corrected and instrumented for objective mortality rate?



Framing (I)

- Paper is framed in context of observed lack of decumulation of assets after retirement
- Theoretical model: focus on presence of bequest motive
- Estimates: Focus shifts to health variables
- Findings: people DO draw down savings, but at a decreasing rate



Framing (II)

- Either: Incorporate bequest motive in the estimating equation
- Or: Frame paper it in the context of the effect of health and uncertain lifetime on consumption at old age
- Or both! → Domeij & Johannesson (2006)
 - Include uncertain lifetime, bequests and health
 - Bequest motives and mortality risk cancel each other out → expect constant consumption path
 - Health explains decreasing consumption