Consumption behavior, annuity income and mortality risk of the elderly - Discussion
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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 → 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?
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: \( M((1 + r)A_t) := \sum_\tau (1 + \rho)^{t+1-\tau} a_{\tau,t}^{m,t+1} u(c_\tau) \)

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 \( F((1 + r)A_t) \))
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