

Consumption During Retirement

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Why is Consumption Interesting To Explore?

- **Correlated with measures of “well-being”.**
 - A fall in consumption is usually associated with a decline in well-being.
- **Look at what happens to consumption as households transition to retirement to infer something about “well-being” in retirement.**
- **Given existing datasets, consumption (spending) is relatively easy to measure.**

“The Retirement Consumption Puzzle”

- **At the time of retirement, household spending seems to fall sharply (relative to pre-retirement trends).**
 - o Magnitudes are large (~10-20%)
 - o Originally, documented in “total nondurable” expenditures and “food” expenditures
 - o Robust findings across countries

Interpreting the Retirement Consumption Puzzle

- **Most standard consumption models predict that household consumption should be smooth through retirement.**
 - Most people know that they will eventually retire and save accordingly.
- **Interpretation 1: Households do not plan for retirement.**
 - Bernheim, Skinner and Weinberg (2001)
- **Interpretation 2: Household may be forced to retire sooner than they had planned due to unforeseen circumstances.**
 - Unforeseen circumstances usually associated with deterioration of health.
 - Banks, Blundell, and Tanner (1998)

Today's Talk

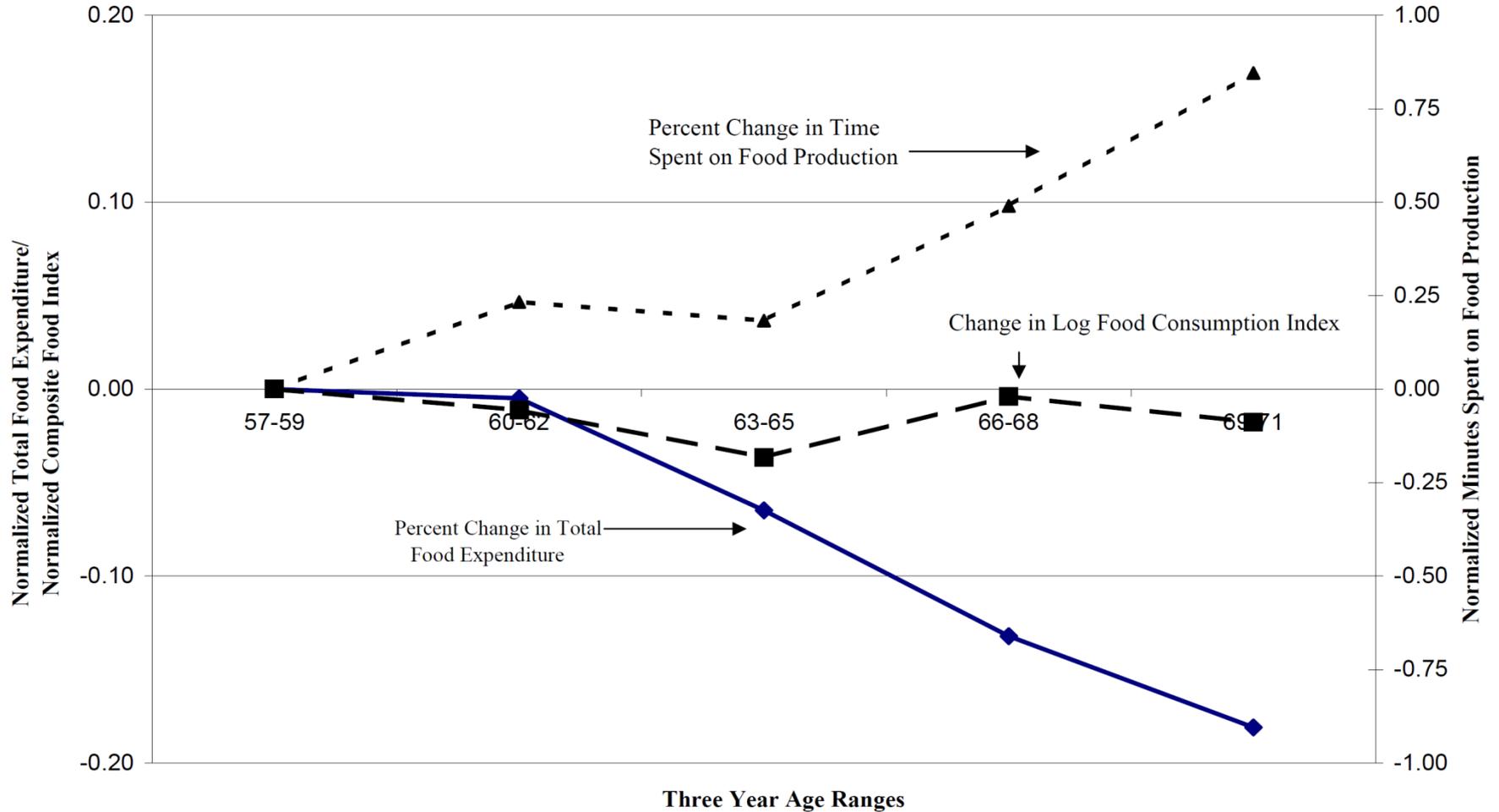
- **Reinterpreting “The Retirement Consumption Puzzle”**
- **Household “consumption” does not equal household “expenditure”.**
 - o Home production is important to translate expenditures into consumption.
 - o Home production uses household time.
 - o Think of a meal. Same meal can be accomplished with different expenditures.
 - Buy groceries and cook meal for one's self.
 - Go to restaurant and pay someone to cook meal.
- **Key Finding:** Average household does not experience a drop in consumption during retirement.

Overview of Some of My Existing Research

- **“Consumption vs. Expenditure”** (with Mark Aguiar) in *The Journal of Political Economy*
 - Examine “Food Diaries” from Department of Agriculture
- **“Lifecycle Prices and Production”** (with Mark Aguiar) in *The American Economic Review*
 - Examine “Scanner Data” from Nielsen
- **“Deconstructing Lifecycle Expenditure”** (with Mark Aguiar) in *The Journal of Political Economy*.
 - Examine “Spending Data” from Consumer Expenditure Survey
- **“The Retirement of a Consumption Puzzle”**

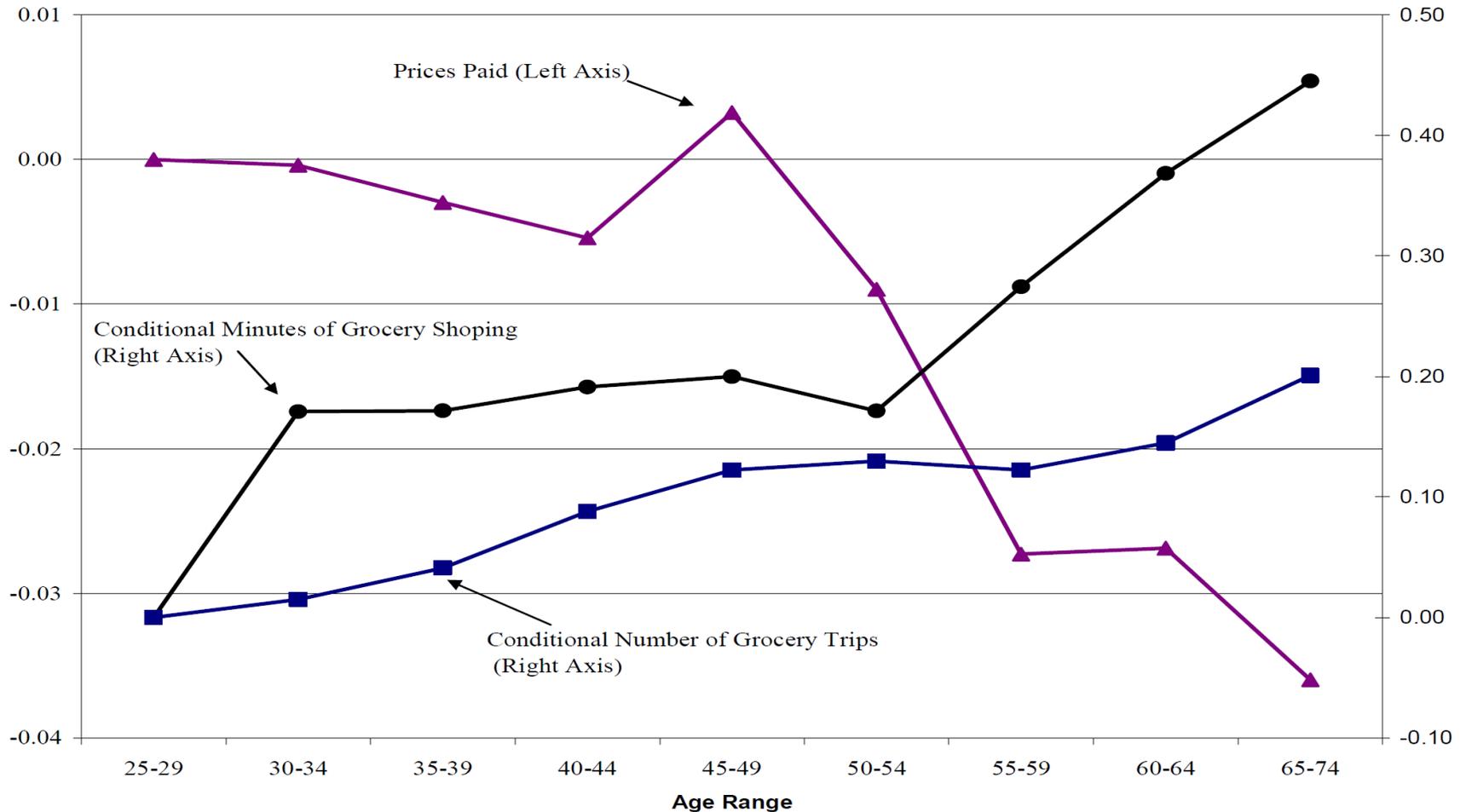
“Consumption vs. Expenditure”: Retires Use Less Money and More Time When Making Meals

Figure 1: Percentage Change in Food Expenditure, Composite Food Index, and Time Spent on Food Production for Male Household Heads by Three Year Age Ranges

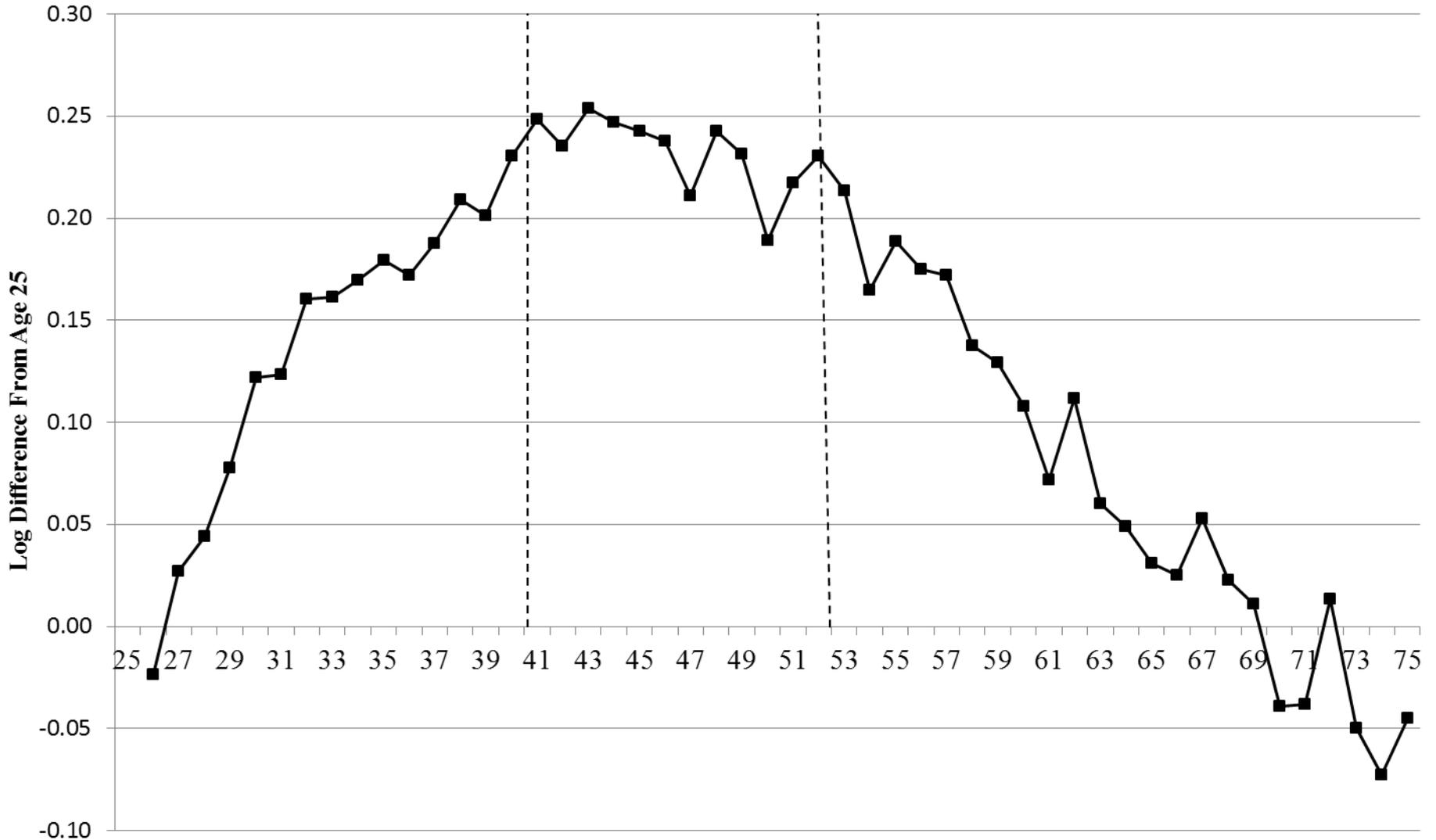


“Lifecycle Prices and Production”: More Time Spent Shopping Reduces Prices Paid at Register

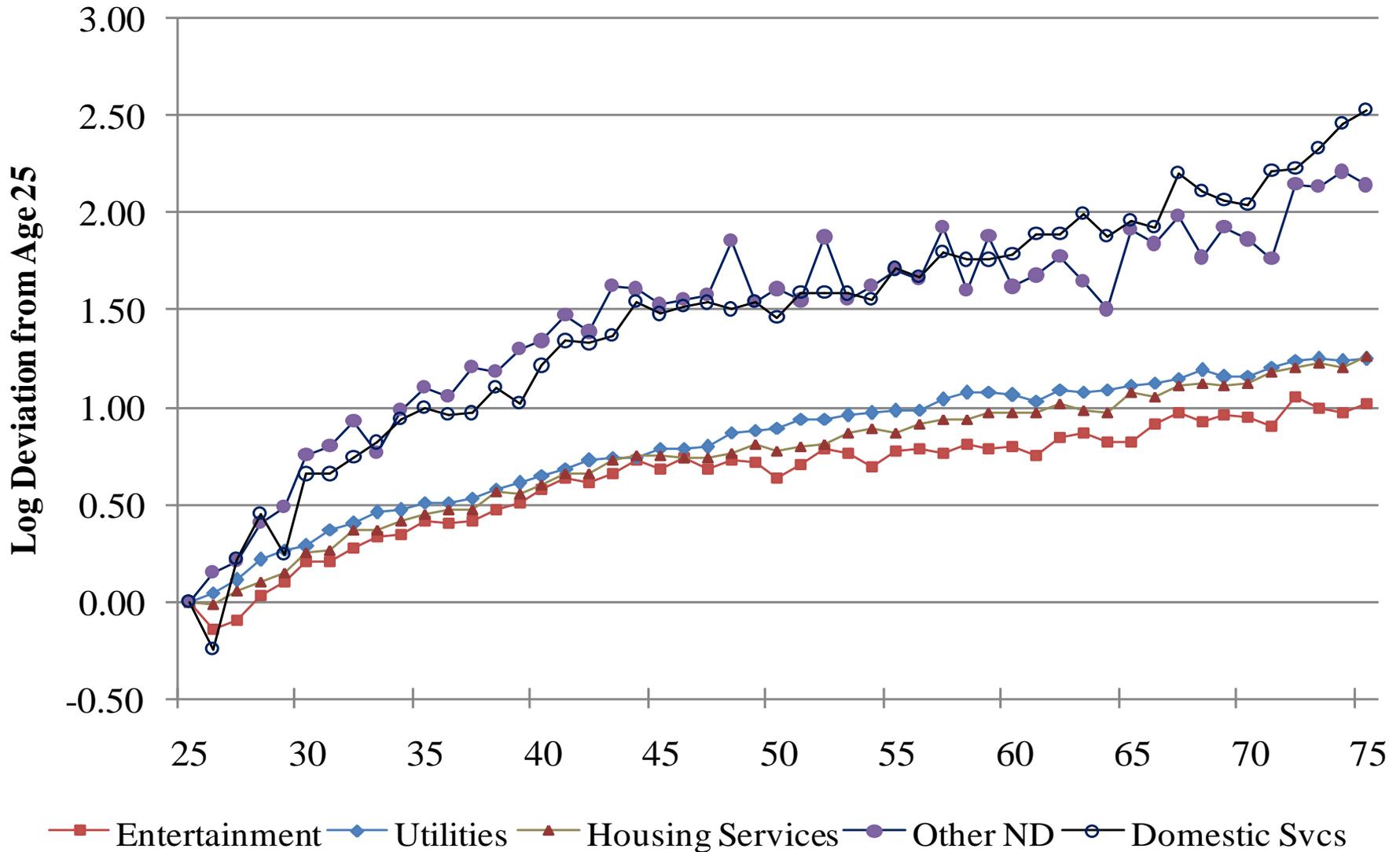
Figure 1: Price Paid and Shopping Frequency Over the Lifecycle:
Log Deviation from 25–29 Year Olds



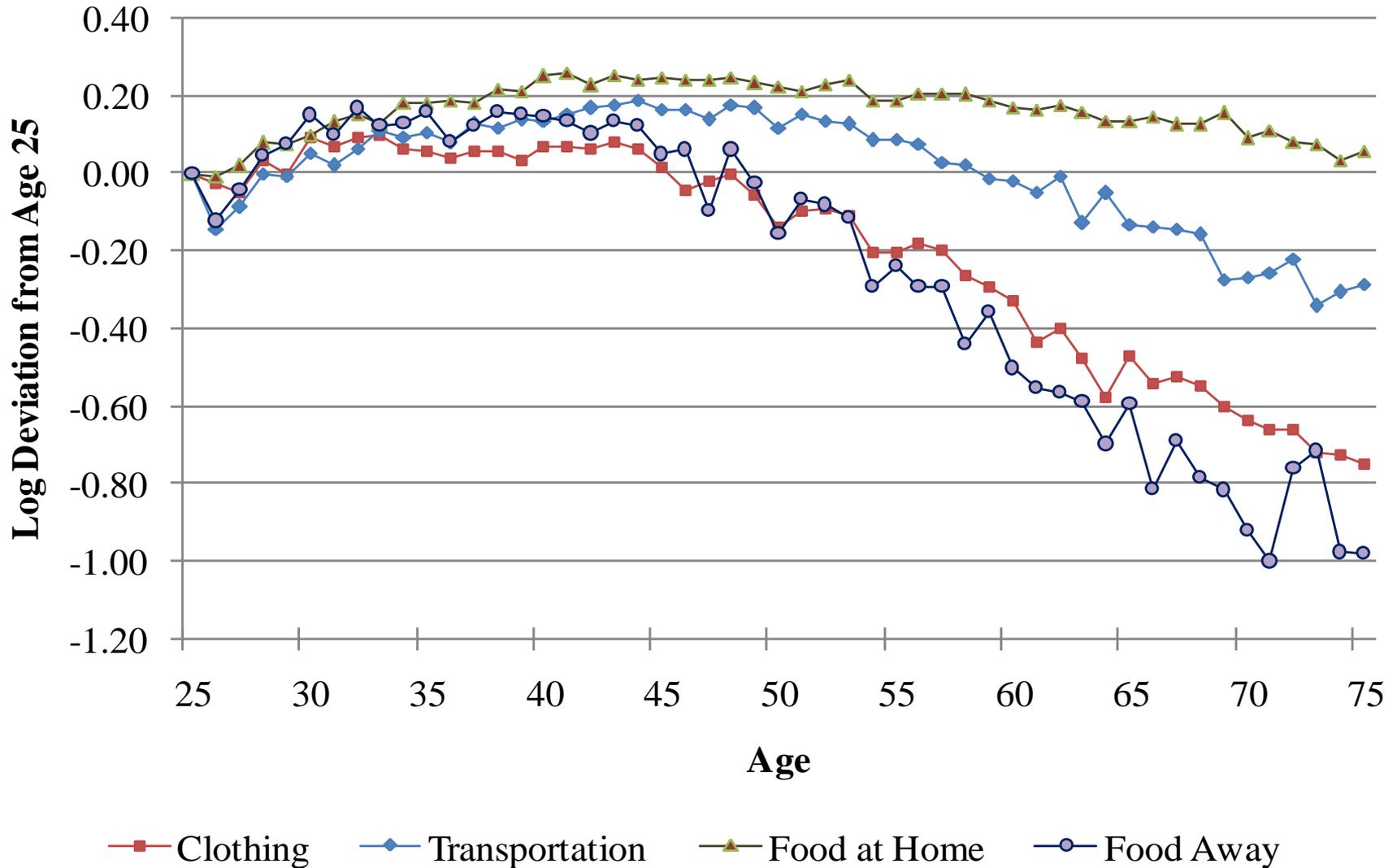
“Deconstructing Lifecycle Expenditures”: Total Non-Durable Expenditures Over the Lifecycle



“Deconstructing Lifecycle Expenditures”: Spending on Many Categories Does Not Decline With Age

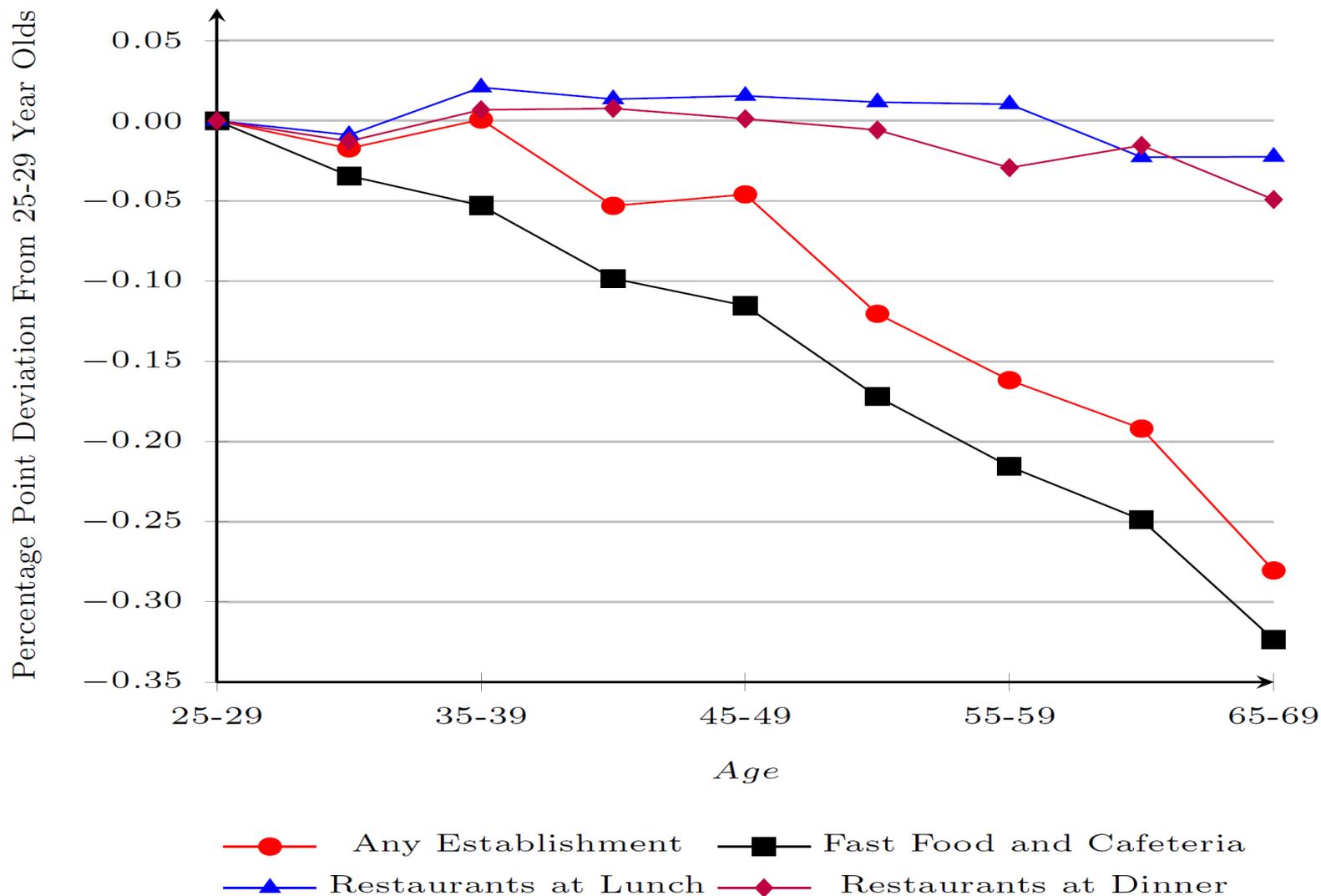


“Deconstructing Lifecycle Expenditures”: Which Categories Experience a Decline in Expenditures?



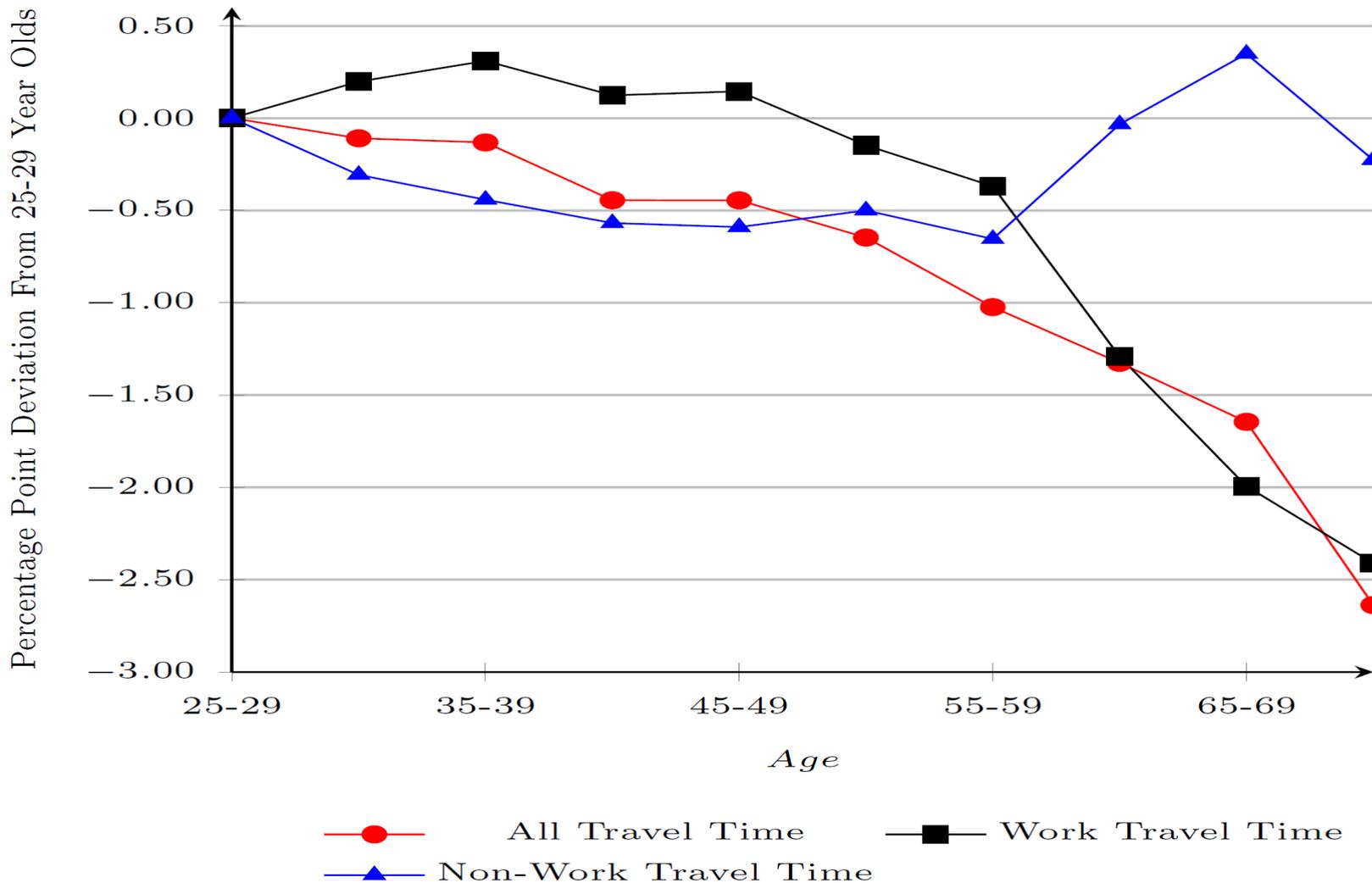
“Deconstructing Lifecycle Expenditures”: Propensity to Eat at “Restaurants” Steady With Age

Figure 5: Propensity to Eat Away From Home By Establishment



“Deconstructing Lifecycle Expenditures”: Work Travel Time Declines but “Vacation” Time Increases

Figure 6: Travel Times Over The Lifecycle



Broad Summary of Research Agenda

- **Households Smooth Food Spending During Retirement.**
 - Food expenditures fall.
 - “Home production” time rises.
- **Households Shop More in Retirement.**
 - Pay lower prices.
 - Part of the reason expenditures are lower.
- **Household Spending Around Retirement Differs Dramatically Across Goods.**
 - Work related expenditures fall (clothing, nondurable transportation).
 - Food falls (home production).
 - All other goods do not fall (entertainment).

Spending Patterns Vary Across Households

- **While the average household does well as they transition into retirement, some households experience actual consumption declines at the onset of retirement.**
 - Estimates range from 10-30% of households
- **Who are these households?**
 1. Households with very low wealth (relative to their permanent income) at the time of retirement.
 2. Households who involuntarily retired.
- Health shocks tend to be associated with both of the above.
- **Poorer households have trouble “smoothing” health shocks!**

Additional Facts: Measuring Well Being via Surveys

- Instead of relying on measures of consumption (which may deteriorate with age for biological reasons), we can get a sense of household well being by asking them directly.

Within the U.S., retirees were asked the following:

Thinking about your retirement years compared to the years just before you retired, would you say the retirement years have been better, about the same, or not as good?

Results:

	<u>Better</u>	<u>Same</u>	<u>Worse</u>
All	41%	29%	29%
Retired Voluntarily (~60%)	61%	34%	5%
Retired Involuntarily (~40%)	28%	27%	45%

From my *“The Retirement of a Consumption Puzzle”* (2008)

Conclusions

- **Consumption is a good metric to measure well-being in retirement.**
- **Total nondurable expenditures fall during retirement.**
 - Declines are concentrated in food and work related expenditures.
 - All other goods do not decline in retirement.
- **There is no “Retirement Consumption Puzzle” for the average household.**
 - Actual consumption does not decline.
 - This is a robust finding (replicated across samples and countries).
- **There are some households – however – who are not prepared.**
 - Those who received adverse health shocks.
 - Should policies be targeted to such households?