
Financial Security in Old Age: Data and Measurement

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Assessing the adequacy of retirement preparations?

- Adequacy: living standards roughly the same, pre- and post- retirement
 - Economic theory
 - Common notion
- More precisely, would not have been better off, ex ante, saving more *or* less
- Implication: heterogeneity
 - optimal 'replacement rate' depends on entire history of earnings realizations, etc.

Assessing the adequacy of retirement preparations

- pre-retirement generations
 - The adequacy of savings
- present (and past) retirees
 - The ‘retirement consumption puzzle’

Are current workers preparing adequately?

- *State of the art*: compare data on households' assets (including pension) to simulations of models of optimal life cycle behaviour:
 - Engen, Gale and Uccello, BPEA, 1999
 - Bernheim, Skinner and Weinberg, AER, 2001
 - Scholz, Seshadri and Khitatrakun, JPE, 2006
- Treatment of risks
- Current Canadian data not sufficient to support a comparable exercise (?)

More modest goals

- Trends in pension coverage, RRSP contributions
 - Drolet and Morissette, Morissette and Ostrovsky
- Trends in private savings

Figure 1: Aggregate Saving Rate in Canada
National Accounts, Personal Sector

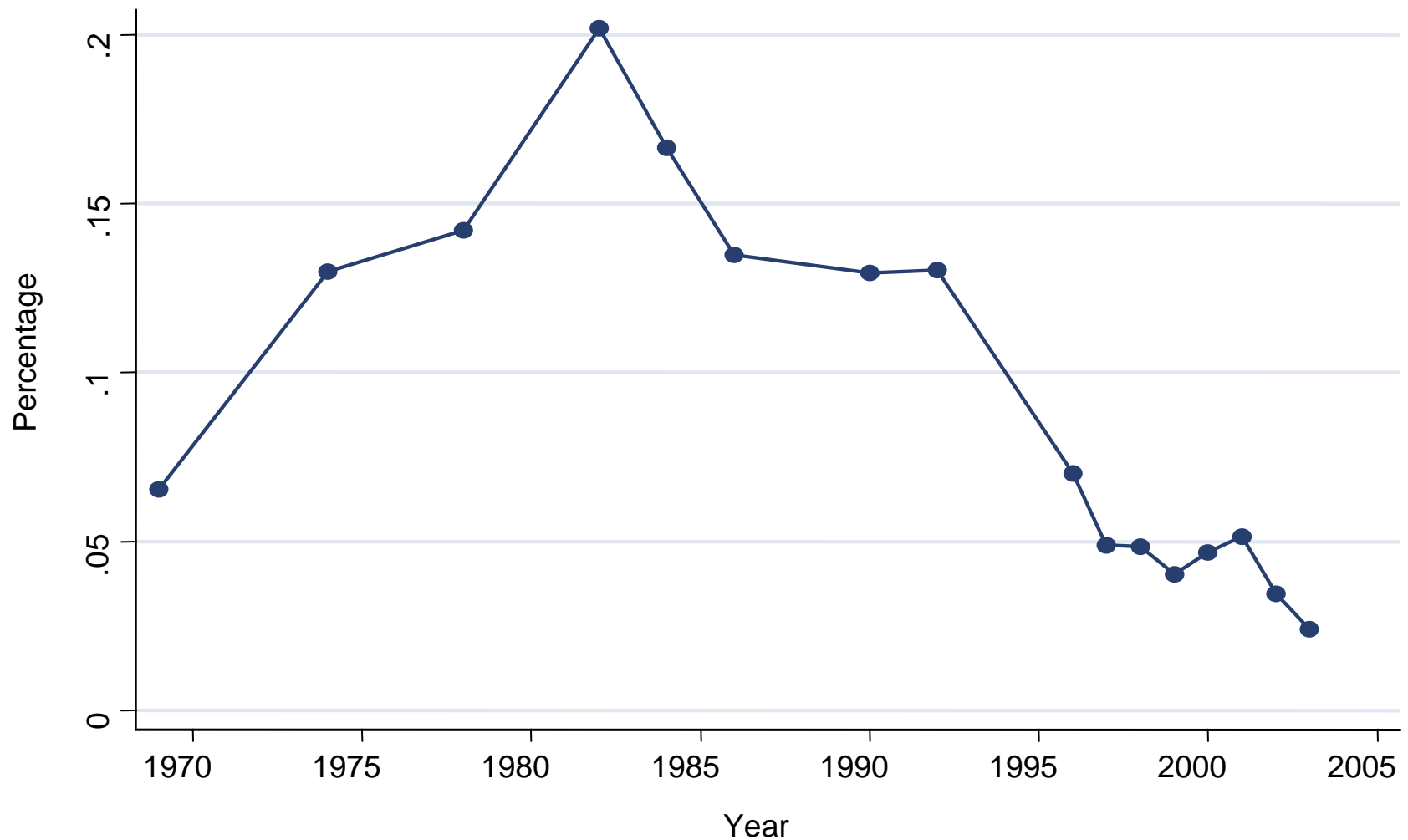
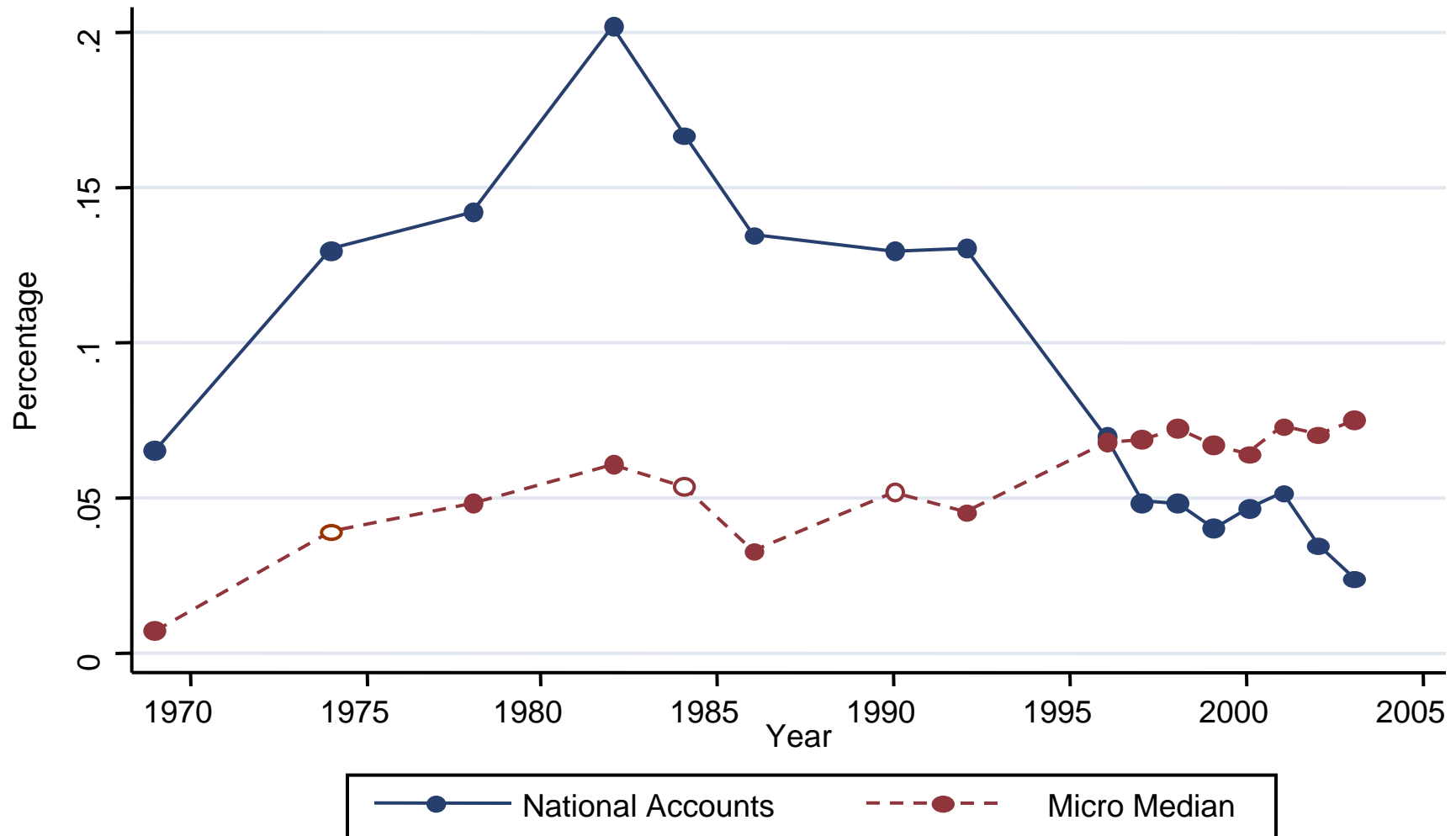


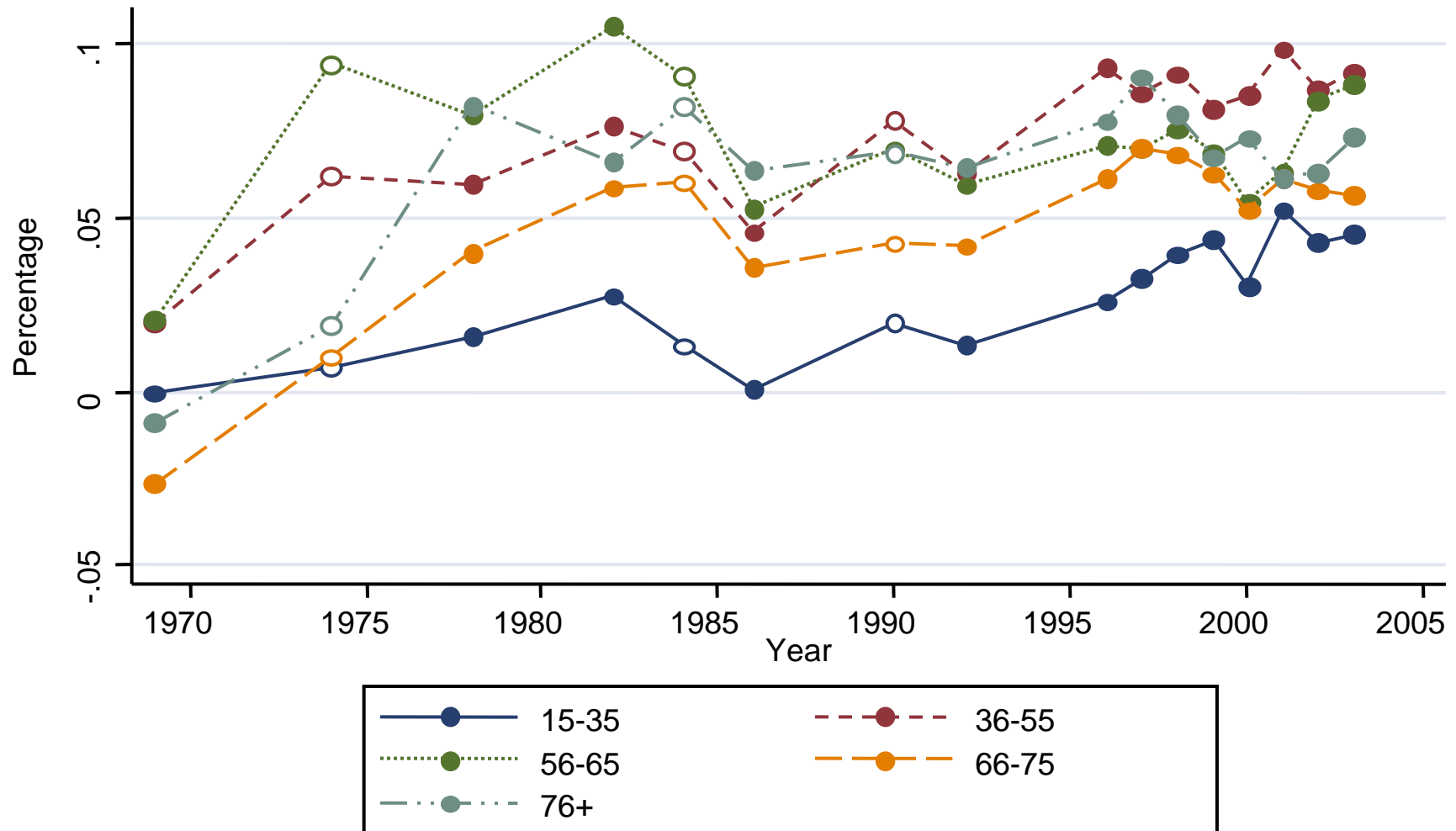
Figure 7: Personal Saving Rate In Canada, SHS Based
National Accounts versus Median Saving Rate in the Micro Data



Personal Saving in the SNA and Household Surveys: Key Differences

| Issue | SNA | Household Surveys | HS versus SNA |
|--|-------------|-------------------------------|--------------------|
| Non-mortgage interest | expenditure | Not expenditure | ↑ |
| Mortgage principal | savings | Expenditure (SHS) | ↓, but adjusted |
| Employer-based pensions (contributions and earnings) | savings | Contributions are expenditure | ↓, but adjusted |
| Employer-based pension and RSSP benefits | Not income | income | ↑ |

Figure 8: Median (Household) Saving Rate by Age Group, SHS
Micro data



Did current (and past) retirees prepare adequately?

- Income (*relative to pre-retirement*)
 - Falls at retirement
 - Not a comprehensive measure of financial resources
- Expenditure (*relative to pre-retirement*)
 - Related to financial resources if households sensible and forward looking
 - Consumption is closer to what should be `smoothed`
 - Also falls at retirement (the `retirement consumption puzzle`)
 - Note that Canadian evidence is from repeated cross sections, and so is about means

Does Expenditure Measure Consumption? Or living standards?

- Demographic adjustments (changing needs)
- Durables
- Time
 - Aguiar and Hurst, JPE, 2005
 - Aguiar and Hurst, 2006
 - Brzozowski and Lu, 2006
 - Expenditure falls anticipated: Hurd and Rohwedder, 2003

Does Exp. Measure Cons.?

Food Expenditures and Food Production by Labour Force Status, Age 55-74

| | Employed Full Time | Retired |
|---|-----------------------|---------|
| Total Food Expenditure (Dollars, weekly) | 119 | 92* |
| Expenditure on Food “at Home” | 87 | 73* |
| Expenditure on Food “Away from Home” | 32 | 19* |
| Sample Size | 378 | 1686 |
| Proportion of households reporting positive Food Preparation Time | 0.75 | 0.85* |
| Total Time Spent (Minutes, daily) | 46 | 72* |
| Sample Size | 430 | 1099 |
| Total Time Spent, conditional on reporting positive time spent. (Minutes, daily) | 62 | 85* |
| Food Preparation | 41 | 53* |
| Food Clean up | 8 | 15* |
| Grocery Shopping | 13 | 17* |
| Sample Size | 322 | 932 |

Source: Brzozowski and Lu , SEDAP WP #151, 2006

What else can we do?

Self-reported (Financial) Satisfaction?

- Subjective well being questions have been repeatedly validated by psychologists, and are of increasing interest to economists
- Statistics Canada has been asking retirees such questions for a long time (albeit infrequently, and with changing wording)
 - GSS 1989, 1994, 2002
 - Retirement Survey (LFS) 1975

Life Satisfaction of Canadian Retirees

| Any aspect of Life better/worse than expected | <i>RS</i> 1975 | Relative to retirement, enjoy life | <i>GSS</i> 1989 | <i>GSS</i> 1994 | <i>GSS</i> 2002 |
|--|---------------------------|---|----------------------------|----------------------------|----------------------------|
| Worse | 21% | Less | 18% | 18% | 12% |
| | | Same | 41% | 38% | 49% |
| Better | 25% | More | 40% | 44% | 39% |

Sources of Discontent, Canadian Retirees

| | Reason Life Worse than Expected <i>1975 RS</i> | Reason Enjoy Life Less than pre- retirement <i>1989 GSS</i> | Reason Enjoy Life Less than pre-retirement <i>1994 GSS</i> |
|-----------------------------|---|--|---|
| Income/ Economic | 43% [14%] | 6% [1%] | 11% [2%] |
| Health | 24% [8%] | 55% [10%] | 46% [8%] |

Conditional %
[Unconditional %]

Financial Satisfaction, Canadian Retirees

| How adequate is your Income? <i>RS 1975</i> | | Are you satisfied or dis-satisfied with your finances? <i>GS 1989</i> | | Comparing Financial Situation pre-retirement to today, are you: | | |
|--|-----|--|-----|---|-----------------|-----------------|
| | | | | | GSS 1994 | GSS 2002 |
| Inadequate or somewhat inadequate | 24% | Strongly /somewhat dissatisfied | 12% | Worse off | 28% | 23% |
| Somewhat adequate or adequate | 46% | Somewhat satisfied or satisfied | 49% | About the Same | 47% | 54% |
| Completely adequate | 23% | Strongly satisfied | 34% | Better off | 19% | 19% |

Summary

- Assessing the adequacy of financial preparations for retirement is difficult
- Canada needs better data on savings and wealth; also more frequent (and especially panel) data of retirees and near retirees
- Crude evidence from GSS surveys suggests:
 - Finances not the main source of discontent among current retirees
 - Almost as many positive as negative surprises

Thanks to:

- **Kadir Atalay**
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- **Matthew Brzozowski and Yuqian Lu**

Figure 3: Personal Saving Rate in Canada Over Time
National Accounts versus Micro Data

