

THE RETIREMENT CONSUMPTION GAP: EVIDENCE FROM THE HRS

Introduction

Research on post-retirement asset decumulation shows that many retired households are consuming from their financial assets at a very slow rate or not at all. Factors commonly associated with this phenomenon are the complexity of decumulation decisions, the fear of outliving one's money or facing high medical costs, home production, bequest motives, and the aversion to loss associated with the retirement nest egg. Using a consumption model following a product allocation framework we plan to investigate the existence and size of the retirement consumption gap for retirees with varying levels of financial assets. Given the evidence of conservative post-retirement consumption found in previous work, which is in most cases determined by evaluating the value of retirees financial assets over time, we will attempt to quantify the forgone consumption of retirees by comparing actual and available consumption under a variety of asset allocation strategies. Our preliminary results suggest a consumption gap, especially for those with the highest financial asset values, that is large and has important financial implications.

Methods

Data

To investigate the potential retirement consumption gap we will use the Health and Retirement Study (HRS). In addition to the HRS core survey, the RAND CAMS data will be used to evaluate consumption. This will be done to ensure accurate comparisons between actual and available consumption in our study. The sample in our analysis will be limited to retired respondents and cohort effects will be considered.

Consumption Model

We plan to use Monte Carlo simulation, following a product allocation framework to estimate how much retirees could consume given the value of their financial assets under a variety of asset allocation strategies. For each strategy we plan to run 200 Monte Carlo iterations based on a return series generated by a multivariate lognormal distribution. For each iteration, the optimal consumption amount will be identified based on the probability of successfully funding a 30-year retirement period. Under this framework retirees can choose to invest in traditional assets, including stocks and bonds, single premium immediate annuities with a fixed nominal payment, and single premium immediate annuities with an inflation-adjusted payment. Multiple strategies will be considered to provide evidence of a consumption gap regardless of retirees' investment product preferences and expectations for future risk and return.

Importance

If available consumption in retirement is the best measure of retirement preparedness many Americans may be forgoing a significant amount of utility by failing to consume available resources. Policy that simplifies asset decumulation and divides retirement assets into 1) a pool that is annuitized to create a stream of income that ensures consistent consumption across time and 2) a bucket of reserves that is available to protect against uncertainties and/or ensures bequests would be beneficial.

Alternatively, evidence of a significant retirement consumption gap may suggest that traditional measures of retirement preparedness, such income replacement ratios, are somewhat irrelevant. Preparedness may better be measured by retirement satisfaction and quality of life metrics, suggesting that Americans may be more prepared for retirement than suggested by prior analyses.

Proposed Budget

Half-time Research Assistant (12 month)		
Salary	\$11,359	
Fringe Benefits (9% of Salary)	1,022	
Fee Waivers	4,000	\$16,381
Travel		
Conference Registration	600	
Airfare	700	
Hotel	600	
Meals	300	
Incidentals	250	2,450
University F&A		
Total		\$18,831

Justification

Research Assistant: The funding requested for research assistance will be used to fund the ½ time salary of a PhD student in the Department of Financial Planning at Texas Tech University. The research assistant will assist with literature review and empirical analysis. Texas Tech University requires that 9% of the research assistant’s salary be paid by the source of external funding when the funds are used for compensation. In addition, research assistants receive fee waivers from the department as part of their compensation. The fee waivers for a ½ time 12 month research assistant are \$4,000.

Travel: The funding requested for travel would be used to cover the cost of attending and presenting the funded research at a national conference. Such travel would provide an opportunity for feedback from other academics experts on the proposed topic and a chance to promote the initiatives of the NBER’s Household Finance Working Group. The requested amounts are estimated based on costs previously incurred for this type of travel.

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EDUCATION:

Ph.D., (Personal Financial Planning), 2013, Texas Tech University
Title: Managing Retirement Resources: Evidence from the HRS.
Major Advisors: Dr. Michael S. Finke & Dr. Sandra J. Huston

B.B.A./M.P.A., (Accounting), 2004, West Texas A&M University

PROFESSIONAL EXPERIENCE:

Texas Tech University, Lubbock, TX (Aug. 2013-Present), Assistant Professor, Department of Personal Financial Planning, College of Human Sciences

East Central University, Ada, OK (Aug. 2011-Aug. 2013), Asst. Professor, Chickasaw Nation Endowed Professor, Chair, Department of Accounting, School of Business.

Texas Tech University, Lubbock, TX (Aug. 2008-Aug. 2011), Teaching Assistant, Department of Personal Financial Planning, College of Human Sciences.

West Texas A&M University, Canyon, TX (Aug. 2005-May 2007), Instructor, Department of Accounting, Economics, and Finance, College of Business.

West Texas A&M University, Canyon, TX (Jan. 2005-May 2005), Adjunct Instructor, Department of Accounting, Economics, and Finance, College of Business.

AREAS OF INTEREST:

Research: Consumer Behavior and Decision Making, Retirement Planning and Policy

Teaching: Asset Management, Retirement Planning, Tax Planning

PUBLICATIONS:

Browning, C., Finke, M., & Huston, S. (2012). Rational Choice with Complex Products: Consumer Valuation of Annuities. *Journal of Financial Counseling and Planning*, 23(2), 32-45.

CONFERENCE PROCEEDINGS:

Browning, C. 2013. Did Cognitive Ability Affect the Stock Reallocation Decisions of Older Investors During the Great Recession?. *Academy of Financial Services Proceedings*.

WORKING PAPERS:

- Browning, C. & Finke, M. (2014) Cognitive Ability and Stock Reallocations During the Great Recession, *Journal of Consumer Affairs*, Submitted.
- Browning, C., Huston, S., and Finke, M.(2014). Cognitive Ability and Post-Retirement Asset Decumulation, *Journal of Family and Economic Issues*, Submitted.
- Guillemette, M., Browning, C. and, Payne, P. (2014) Framing, Risky Choice, and Cognitive Ability, *Journal of Behavioral Finance*, Submitted.
- Browning, C., Guo, T., and Cheng, Y. (2014). The Retirement Consumption Gap: Evidence from the HRS, Working Paper.

PRESENTATIONS:

- Browning, C. 2014. Stock Reallocations and Cognitive Decline. American Council on Consumer Interests Annual Conference.
- Browning, C. 2014. Cognitive Ability and Post-Retirement Asset Decumulation. Texas Tech Financial Planning Research and Development Symposium.
- Browning, C. 2013. Did Cognitive Ability Affect the Stock Reallocation Decisions of Older Investors During the Great Recession?. Academy of Financial Services Annual Conference.
- Browning, C. 2012. The Impact of Market Sentiment on the Stock Trading Behavior of Individuals: Evidence from the HRS. Academy of Financial Services Annual Conference.
- Browning, C. 2010. Barriers to Annuitization. Academy of Financial Services Annual Conference.

SELECT MEDIA APPEARANCES:

- 2014, March 12, New Year, New You: Finance. Texas Tech Today Monthly.
- 2014, February 15, Is Fear Making Your Too Conservative? MarketWatch.
- 2014, January 28, What is Behind America's Retirement Crisis? BankRate.
- 2013, November 18, Canceling Credit Cards: Should You Do It & How to Avoid Credit Score Damage. CardHub.
- 2013, July 29, Why Stock Investors Freak Out. ThinkAdvisor.
- 2010, August 13, Securing Guaranteed Retirement Income. Smart Money.

COURSES TAUGHT:

Texas Tech University

Spring 2014	Professional Development in Personal Financial Planning
Fall 2013	Fundamentals of Asset Management
Fall 2008-Summer 2011	Introduction to Personal Finance

East Central University

Fall, 2011-Summer 2013	Intermediate Accounting I
Spring 2012-Summer 2013	Intermediate Accounting II
Fall 2012-Spring 2013	Intermediate Accounting III
Fall 2012	Development of Accounting Theory, graduate
Spring 2013	Retirement Planning, graduate

West Texas A&M University

Spring 2005-Spring 2007	Financial Accounting
Spring 2005-Spring 2007	Managerial Accounting
Summer 2006	Individual Income Tax Accounting

HONORS & AWARDS:

2014	Texas Tech Alumni Association New Faculty Award Nominee
2013	Leadership YOUiversity Participant and Graduate, Ada Area Chamber of Commerce
2011	Outstanding Teaching Assistant Nominee, Texas Tech University
2010	Best Paper Award, Academy of Financial Services
2010	Winner, iOME National Retirement Challenge
2009	Runner-up, iOME National Retirement Challenge

SERVICE:

- TTU College of Human Sciences Scholarship Committee, Current
- TTU Department of Personal Financial Planning Scholarship Liaison, Current
- TTU Department of Personal Financial Planning Assessment Committee, Current
- TTU Department of Personal Financial Planning Graduate Appreciation Committee, Current
- TTU Department of Personal Financial Planning Undergraduate Recruiting Committee, Current
- CPE Presenter (4 hours), *Compilation Engagements: Mastering the Fundamentals*, October 2012
- Advisor, ECU Student Center for the Public Trust, Fall 2012-Spring 2013
- Co-advisor, ECU Accounting Club, Fall 2012-Spring 2013
- ECU School of Business Assessment Committee, Fall 2011-Spring 2013
- ECU School of Business Online Standards Committee, Fall 2011-Spring 2013
- ECU School of Business Awards Committee, Spring 2012-Spring 2013
- Accounting Department Scholarship Committee, Spring 2012-Spring 2013