Volume Title: Insights in the Economics of Aging

Volume Author/Editor: David A. Wise, editor

Volume Publisher: University of Chicago Press

Volume ISBNs: 0-226-42667-X; 978-0-226-42667-9 (cloth); 978-0-226-42670-9 (e-ISBN)

Volume URL: http://www.nber.org/books/wise-21

Conference Date: April 30-May 2, 2015

Publication Date: March 2017

Chapter Title: Comment on "What Determines End-of-Life Assets? A Retrospective View"

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Chapter URL: http://www.nber.org/chapters/c13630

Chapter pages in book: (p. 157 – 160)

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Comment   Brigitte C. Madrian

In their chapter "What Determines End-of-Life Assets? A Retrospective View," Poterba, Venti, and Wise trace the evolution of assets with age using data through 2012 for HRS respondents age fifty-one to sixty-one in 1992 and for AHEAD respondents age seventy and older in 1993. Their analysis documents several interesting patterns. First, they find that asset balances are quite persistent. As one might expect, individuals with substantial assets when last observed also had substantial assets when first observed. What is more striking is their finding that most individuals who are last observed with a low level of assets (< $50k) also had a low level of assets when first

observed; for the most part, individuals who are poor in old age did not become poor in old age, they started poor. Second, Poterba, Venti, and Wise find that for the (younger) HRS cohort, median asset levels change very little with age (over the range of observed ages), whereas for the (older) AHEAD cohort, median asset levels do decline over time. If these wealth patterns with respect to age are not cohort specific, they suggest that on average, older individuals are able to live well into their seventies before drawing down their assets. Finally, because there is heterogeneity across households in the evolution of wealth, Poterba, Venti, and Wise delve beyond the averages to examine the factors that impact how wealth changes over time. They find that health shocks and family disruption (e.g., death of a spouse) result in a significant decline in assets between the first and last year that individuals are observed for both the HRS and the AHEAD cohorts. On the other hand, individuals with higher levels of educational attainment and no health problems actually see their assets increase over time, as do coupled individuals without a family disruption.

This set of findings is an important contribution to the literature on the financial well-being of older individuals. It highlights both the source and magnitude of the financial shocks that older individuals face. It also highlights the demographic factors that are correlated with how well individuals weather financial shocks in old age.

One of the striking findings in this chapter is the sizable negative impact that health shocks have on wealth. Indeed, as noted above, the authors find that for individuals in good health and with at least some college education, average wealth actually increases with age. Because HRS and AHEAD respondents are only surveyed every two years, one limitation of these findings is that they likely do not completely account for the impact on assets of medical spending during the last year of life. Riley and Lubitz (2010) find that the 5 percent of Medicare beneficiaries who die in any given year account for approximately one-quarter of total Medicare expenditures, while Barnato et al. (2004) calculate that annual per capita Medicare-covered hospital expenditures are six times higher for decedents than for survivors. If individuals who die face similarly large disparities in out-of-pocket expenditures in their last year of life relative to those who survive, the impact of health shocks on assets as calculated in this chapter is likely understated because the last observation on wealth of those who die may be up to two years before the date of death.

The authors could address this issue by exploiting variation in the timing between the date of death and the date of the last year observed (LYO) asset level. Among those who die, some will have died very shortly after the survey in which their assets were last observed, while others will have died up to two years later. If health shocks in the last year of life negatively impact assets, we should see a large decline in the level of assets between the final survey and the survey two years prior for those who die shortly after their

last survey interview because for many of these decedents, the health shock that preceded death will have started having a financial impact between these last two surveys. In contrast, for those who die much closer to two years after the last survey, the difference in the level of assets between the final survey and the survey two years prior to the final survey should be much smaller as the financial shock that accompanies the health shock preceding death will more likely have occurred after the final observation on assets. Thus, we would expect to see a positive correlation between the length of time between the last interview and a decedent's date of death and the change in assets observed between the last and the penultimate surveys. This type of analysis would shed some light on the evolution of financial well-being, not just over the longer multiyear time horizon currently analyzed in the chapter, but over a relatively shorter horizon focused on the final months leading up to death.

A potentially important factor that could influence the evolution of assets in old age that is not examined in the chapter is mortality expectations: How long do individuals anticipate they (or their spouse) will live? As noted earlier, one of the findings in the chapter is that for the HRS cohort, the average level of assets does not decline with age; in contrast, the average level of assets does show a pattern of decline with age for those in the AHEAD cohort, particularly for the older members of the AHEAD cohort (those age seventy-six and older in 1993, see the last panel of figure 4.2). One difference between the older members of the AHEAD cohort and the (younger and older) members of the HRS cohort is that the AHEAD cohort is much closer in age to their life expectancy at the start of the survey than are members of the HRS cohort. If individuals self-manage their wealth in retirement rather than fully annuitizing it, age relative to life expectancy will be a key parameter in any model of wealth evolution, yet it is not included in the analysis in this chapter. Both the HRS and the AHEAD ask respondents to give subjective survival forecasts for the likelihood that they will live to particular ages. These questions have been shown in previous research to be correlated with behaviors linked to mortality such as smoking and exercise (Hurd and McGarry 1995; Manski 2004), although their relationship to actual mortality experiences is the subject of some debate (Hurd and McGarry 2002; Perozek 2008; Elder 2013).

It would be extremely interesting to incorporate some measure of mortality expectations into a future analysis of wealth evolution. Figure 4.2 in the chapter shows that in both the HRS and the AHEAD cohorts, those individuals who are still alive in the last survey year have a much higher level of assets in the first survey year than do individuals who died in the intervening years. Did these individuals who are still alive at the time of the last survey have a higher subjective survival forecast at the time of the initial survey that would lead them to acquire more assets before retirement? And once in retirement, do these individuals spend down their wealth more slowly? If individuals can predict their own mortality with some degree of

accuracy, they may rationally save less while working if they expect to die young, and they may rationally spend down their assets in retirement more quickly, especially following a health shock, because they do not anticipate living much longer. Whether or not this is true in the data remains to be seen, but the analysis is a logical extension of what is in this chapter, and would help speak to policy issues around retirement income adequacy and the market for annuities.

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