

The complex economics of growing old

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 - How long should I work and when should I retire?
 - How much should I save?
- ⇒ Important to understand the key aspects of retirement

Based on work with

- Eric French, John B. Jones, and Rory McGee
- Richard Blundell, Margherita Borella, Jeanne Commault
- Margherita Borella, Fang Yang

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 - Health might affect needs for consumption and medical expenses
- Many people care about leaving bequests after they die
- Social insurance (Medicaid, Medicare, SSI, Old age benefits...) very important

Retirement risks at age 70: Life expectancy

Income Percentile	<u>Men</u>		<u>Women</u>		All
	Bad Health	Good Health	Bad Health	Good Health	
Singles					
Bottom 10	76.9	78.7	81.3	83.2	80.2
Median	77.8	80.3	82.3	84.9	81.5
Top 10	78.1	80.9	82.5	85.4	82.0
Couples					
Bottom 10	77.8	79.8	82.1	84.1	81.3
Median	79.4	82.2	83.7	86.3	83.4
Top 10	80.4	83.5	84.6	87.3	84.5
Single Men					79.0
Married Men					81.5
Single Women					83.9
Married Women					85.8

Retirement risks at age 70: nursing home entry

Income Percentile	<u>Men</u>		<u>Women</u>		All
	Bad Health	Good Health	Bad Health	Good Health	
Singles					
Bottom 10	23.6	25.3	35.8	37.9	32.8
Median	22.8	24.8	35.5	38.2	32.5
Top 10	20.3	22.8	32.2	35.8	30.1
Couples					
Bottom 10	17.3	19.2	34.4	37.0	28.7
Median	16.6	18.8	34.1	37.3	28.7
Top 10	14.6	16.8	31.4	34.5	26.3
Single Men					26.4
Married Men					19.5
Single Women					37.2
Married Women					36.3

What else does health do during retirement?

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- \Rightarrow When health declines, people tend to consume less regular goods and services and more medical goods and services

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- Couples can share resources and help each other but face the risks of both spouses



What happens when the first one dies in a retired couple?

- Income drops 30-40%
- Couples assets drop (on average by an additional \$160k)
- Medical expenses jump around time of death (an extra \$30k more, on average during the six years around death)
- Assets are often distributed to other heirs than the surviving spouse (about \$70K on average)

Bequest distribution to others than the spouse, upon death of first spouse

All recipients				
	Children	Relatives	Charities	Other
Share	75.4%	11.9%	7.3%	5.4%

<i>Among Those Making No Transfers To Children</i>				
Share	0%	39.4%	39.5%	21.2%

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- About 50% of retired older couples benefit from Social Security spousal benefits
- But Social Security spousal benefits provide a big disincentive to female labor supply

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- Retirement: interaction of health and financial risks as we age makes for complicated period of life with major implications for policy
- Being widowed is a profound financial event, partly because it kicks-starts the process of giving away wealth
- Declining health is not just expensive, it robs us of enjoyment from money we spend
- Very important to take into account retirement risks and realities as we better evaluate policy, over all of the life cycle