

Retirement Consumption: Insights from a Survey

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Retirement Consumption Puzzle

- **Consumption falls in retirement**
 - Hammermesh (1984), Mariger (1987), others
- **Recent focus on “Negative surprises”**
 - Banks, Blundell, Tanner [1998]: “the only way to reconcile fully the fall in consumption with the life-cycle hypothesis is with the systematic arrival of unexpected adverse information”
 - Bernheim, Skinner, Weinberg [2001]: “many retirees. . . take stock of their finances only to discover that their resources are insufficient to maintain their accustomed standard of living.”

Do Findings Invalidate LCH?

- **Key is expected vs. unexpected changes**
- **Need to better understand expectations**
- **We use survey methods to gauge pre-retiree expectations and retiree outcomes**
 - Roots in Juster [1966]

Four Findings

- 1. Pre-retirees generally expect significant falls in spending/consumption at retirement.**
- 2. Many retired households appear to be consuming more than expected.**
- 3. Households are profoundly uncertain about how consumption will change in retirement.**
- 4. Those who do not plan tend to underestimate retirement spending needs.**

Our Data

- **Two surveys mailed to a sample of TIAA-CREF participants**
 - Non-random: wealthier and more educated
- **Detailed data on asset holdings and income**
 - High quality (high item response, and self-reported balances closely match TIAA accounting data)
- **Financial preferences, expectations, attitudes**
 - Many with incomplete total wealth data, but no apparent bias in questions of interest

Key Qualitative Question

- **“For many households, overall spending changes dramatically upon retirement. Please indicate below what your experience has been (if you are retired), or what your expectations are (if not retired):**
 - My household had (or expects to have) no change in spending at retirement
 - My household has spent (or will spend) more after retirement than before
 - My household has spent (or will spend) less after retirement than before”

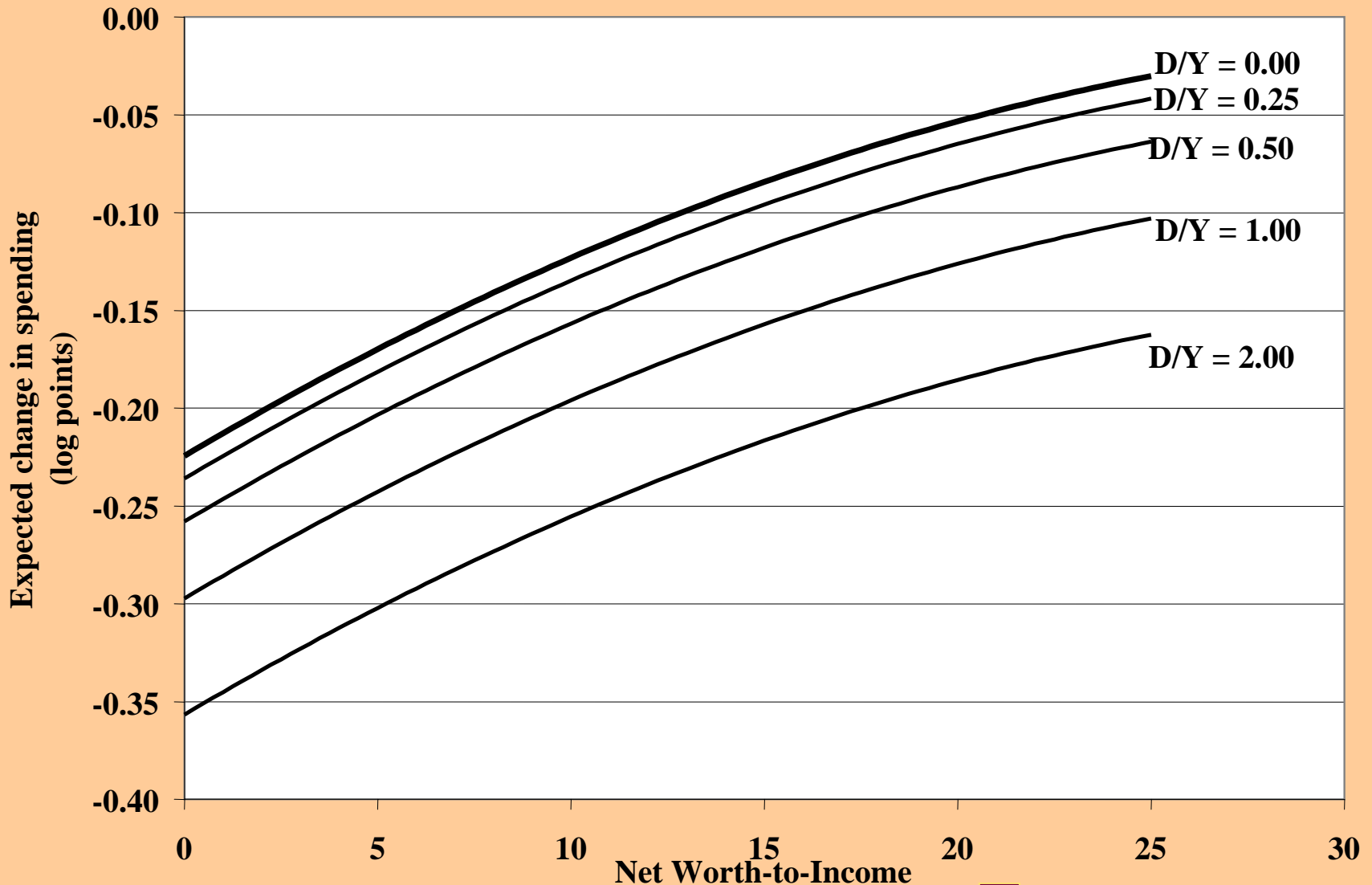
Key Quantitative Question

- “About how much more or less (as a percentage of your pre-retirement spending)?”
- “Because of the uncertainty that is inherent in any question about your financial future, we ask you to provide three estimates:
 - a **LOW** estimate, where you are 90% sure that the correct answer is above this number,
 - your **CLOSEST** estimate of the most accurate number,
 - a **HIGH** estimate, where you are 90% sure that the correct answer is below this number”

Finding 1: Pre-retiree $E[\Delta c]$ Is Negative

- **90% responded to both questions**
- **Qualitative responses:**
 - **55% expect to spend less**
 - 35% expect to spend same
 - 10% expect to spend more
- **Quantitative responses (average):**
 - –10%

OLS Regression for Pre-Retirees



Finding 2: Retiree Δc Less Negative than $E[\Delta c]$

- **Frequencies**
 - **44% spent less**
 - 36% spent same
 - 20% spent more
- **Arithmetic mean change in spending:**
 - **-4%**

Finding 3: High Uncertainty in $E[\Delta c]$

- **Average range from High to Low is 27.8% for pre-retirees**
- **Not significantly impacted by equity shares or years to retirement**

How is Uncertainty Resolved?

- **“If you are currently retired, how do your spending needs in retirement compare with those you expected before you retired:**
 - About what you expected
 - Higher than you expected
 - Lower than you expected”

Finding 4: Non-Planners Underestimated Needs

- **Question: “I have spent a great deal of time developing a financial plan.” (1-6 scale response)**

Planning Response	Spending Needs vs. Prior Expectations			
	At	Higher	Lower	(n)
Disagree (1-2)	67.0%	24.0%	9.0%	100
Equivocate (3-4)	76.8	14.9	8.2	328
Agree (5-6)	76.0	12.5	11.5	279

Conclusions

- **No evidence for wealth shocks**
- **Still some indication of poor preparation**
 - Great uncertainty
 - Possible bias in expectations regarding needs
 - Planning may have an important impact
- **While techniques need to be refined, survey data on expectations has great potential for research.**