

Comments on Sholz et al.

AEI Seminar

December 17, 2004

General—I

Purely micro study of consumption behavior

- No necessary implications for macro saving decline
- Nevertheless policy-relevant—SS; saving subsidies
- Disconcerting: How the heck do they do it?
- Ambivalence? Results contradict (roughly speaking) other studies with similar approach [Bernheim et al. (2000); Mitchell (2004)]

General—II

- Strengths:
 - Carefully executed
 - Pushes the envelop in computational sophistication
 - Well defended—important addition to literature
- Minor reservation:
 - Title too general given limited segment of population studied

Evaluation—I

- Carefully examine the two items being compared
- Data on net-worth:
 - Sample selection—dropped households most likely orthogonal to most household characteristics
 - except married vs. single—379 dropped for lack of spousal earnings (no drops for singles—obviously; → Tables 4 & 5)
 - Over-reporting net-worth in HRS? – Possible if
 - Liabilities under-reported; assets over-reported—unlikely
 - Could check against SCF using demographic controls
 - Weighting with HRS sampling weights beyond Tables 1 & 2?

Perspective for Evaluation—II

Household problem:

How to protect against being forced to reduce currently desired future living standard due to a lack of resources under all contingent states?

Controls:

- *C-S choice*
- *Work effort (implicitly there?)--retirement timing*
- *Life Insurance*
- *Resource Annuitization*
- *Human Capital Acquisition (young households only?)*
- *Gift/Bequest Motive (?)*

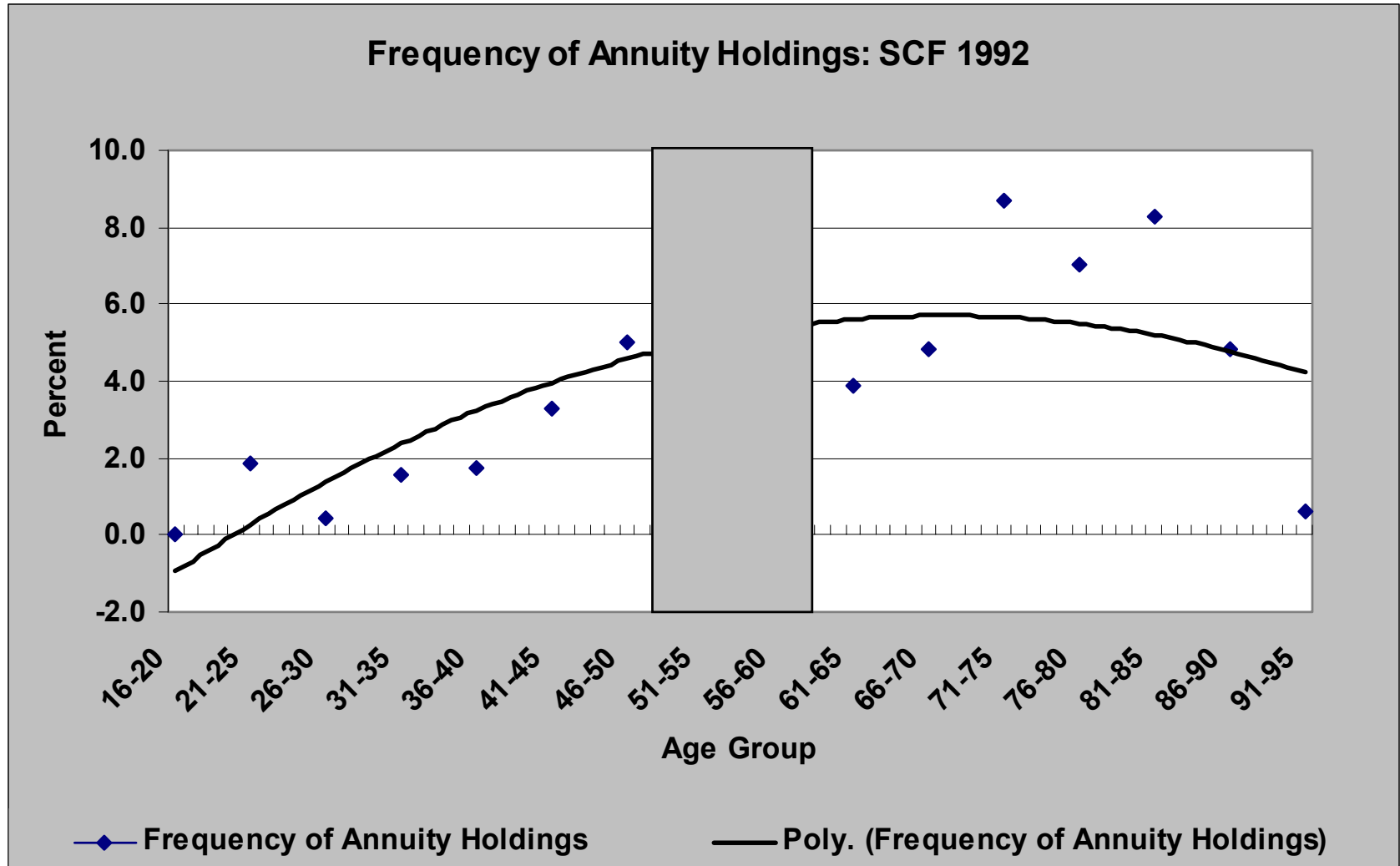
Evaluation—II

Modeling strategy/missing features of augmented LC consumption model →

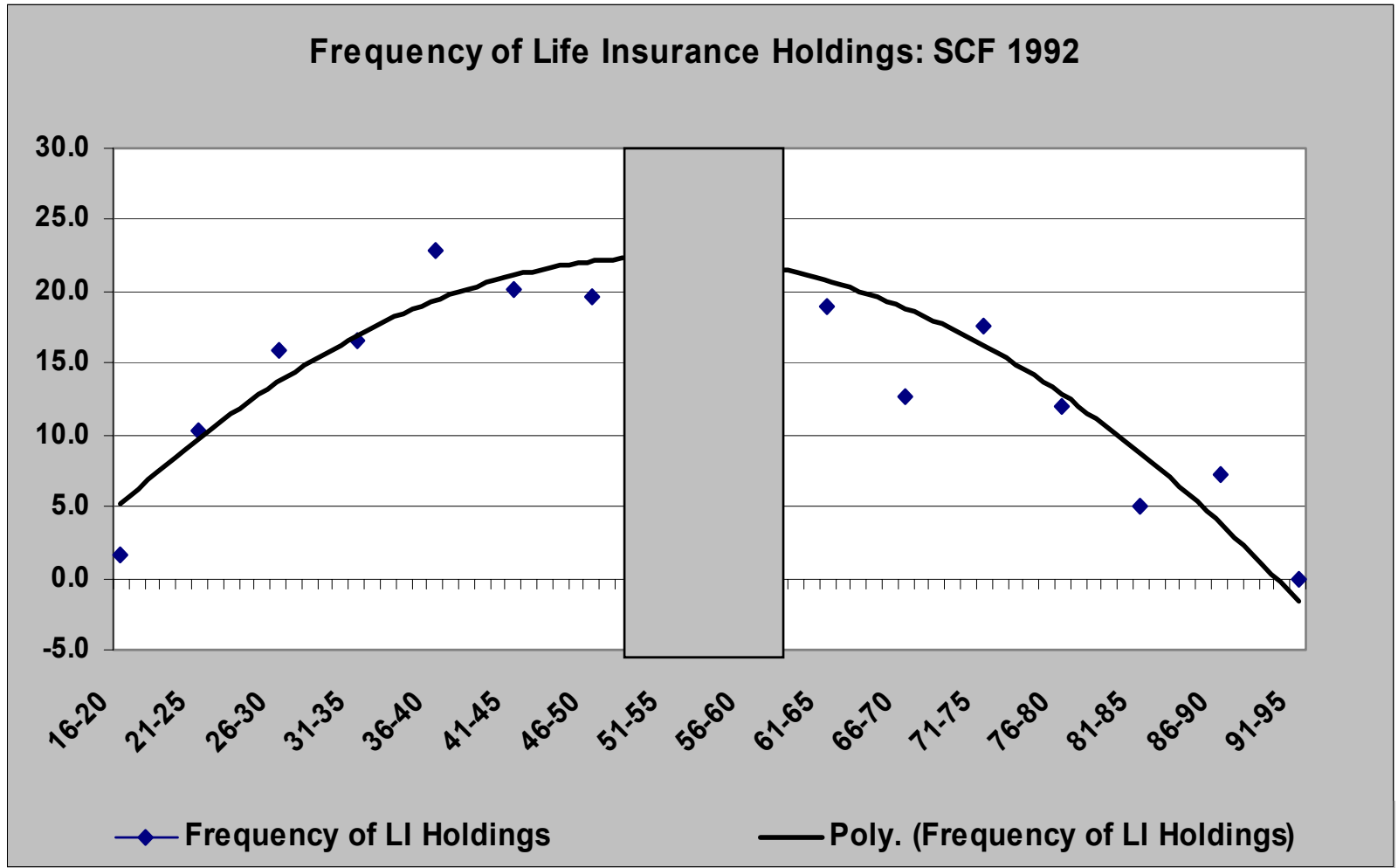
- Biases model toward finding under- or over-saving
 - Model-bias toward under-saving → strengthens conclusion
- Some model features may just increase measurement errors

Count elements potentially generating each type of bias...

- Uncertain lifespan but cannot annuitize personal assets
→ Higher wealth-accumulation in model → biased toward **under-saving**



- Uninsurable earnings -- cannot purchase life insurance
- Higher wealth-accumulation in model → biased toward **under-saving**



- Uninsurable medical expenses—no health insurance in model → higher accumulation → bias toward finding **under-saving**
- Medicare wealth not included in the data → bias toward finding **under-saving**
- Lumpy expenditures—
 - Kids’ college expenses; Care of aged parents; vacations; durable goods;
 - To the extent people save for these goals → HRS wealth not meant for own retirement is counted for retirement → bias toward finding **over-saving**.
- Access to tax-favored saving plans w/ employer match.
 - About ½ the workforce had such plans in the early 1990s
 - Model wealth too low w/o tax-favored plan access—bias toward finding **over-saving**
- Social Security/Medicare unsustainable—model wealth too low—bias toward finding **over-saving**

Impact of Future Social Security Benefit Cut on Required Non-Tax-Favored Saving Rates

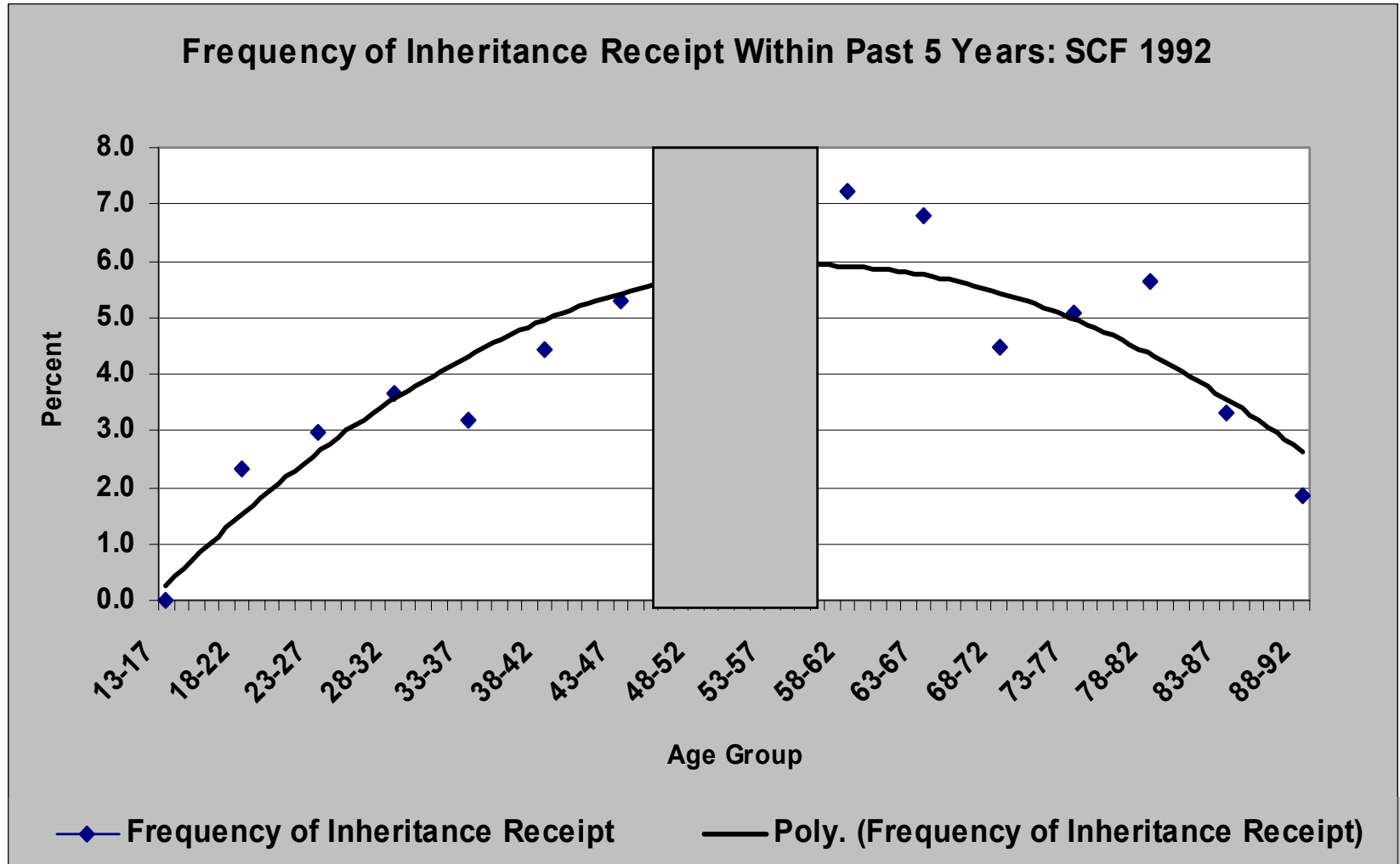
Median Recommended Non-Tax-Favored Saving Rates:

With/without Future Social Security Benefit Cut--30% Beginning in 15 Years

	Annual Income			
	0-15,000	15,001-45,000	45,001-100,000	100,000+
Age 51-55	1.0 / 6.0	13.0 / 20.0	14.0 / 19.0	17.0 / 20.0
Age 56-61	0.0 / 0.3	17.0 / 23.0	20.0 / 25.0	23.0 / 25.0

Source: Bernheim et al. AER P&P, May, 2000.

- No inheritance expectation in model—model wealth too high—bias toward finding **under-saving**



- “Optimal” wealth based exclusively on earning
 - No information on past inheritance receipts
 - No information on past consumption standards
 - Model accumulation too low—biased toward finding **over-saving** (Kotlikoff-Summers—result from 2+ decades ago)
- Paper (correctly) emphasizes the importance of household-by-household analysis but...
 - ...uses stylized functions for
 - Taxes; Welfare transfers; Social Security benefits (accuracy?); DB pensions
 - bias unknown — measurement errors

Conclusion

Policy implications?

- Net bias? Biases cancel?... Who knows?
- Computations within the context of Social Security and Medicare; saving subsidies. Robust to their absence?
- Perhaps finding is contingent on the provision of these programs—unobservable counterfactual
- Only possible conclusion – “tends to show” that one of the rationales considered important for providing SS and saving subsidies might be suspect