Why Does Consumption Fluctuate in Old Age and How Should the Government Insure It?
by Blundell, Borella, Commault, and De Nardi

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Question, Motivation, & Data at a glance:

1. Are older HHs subject to shocks, and are these shocks insured by families, community, govt.?

2. Main focus is temporary health shocks, but also looks at income shocks for HH age 65+.

3. Ambitious goal: To disentangle causes of expenditure changes in old age due to:
   ✓ Change in MU of consumption; and
   ✓ Changes in resource constraints.

4. Uses CAMS (Consumption & Activities Mail Survey) linked to HRS 2001-2013 to track expenditure changes, health shocks, & income shocks.
Panel A: Marginal utility declines with sickness

Panel B: Marginal utility increases with sickness

Finkelstein et al. 2013 JEEA What Good Is Wealth Without Health? The Effect of Health on the Marginal Utility of Consumption
Main findings:

1. Temp health shocks for low-wealth HHs impact expenditures *more* than for higher-wealth HH.

2. Temp. health shock to current health associated with a $11,300 drop in expenditures, larger for low-wealth.

3. Temp health shock only reduces MPC for *luxuries*; temp health shock reduces both MPC and expenditures on *necessities*.

Impressive paper!

- Ambitious effort to identify impact of transitory health shocks on expenditures (would like to see figure with expenditure fluctuations, estimates of their size & frequency?).

- Few have used CAMS data linked to HRS panel, so nice work! (still need to impute missing data; how consequential?).

- Useful disaggregation by wealth heterogeneity.
Future Enhancements

1. Perhaps more concerned with permanent, rather than transitory, health shocks? E.g. dementia, disability.
2. Also permanent income shocks: E.g. job loss, retirement.
3. No role for home production? E.g. Hurst/Aguiar JPE 2005
4. Show how/if model fits singles; currently the paper averages health shocks across couples and shock impact could be attenuated.
5. Evaluate impact of selection due to death (and other panel attrition): if poorest, sickest die first, what does this imply about estimated elasticities?

Other thoughts/questions:

• Analysis omits majority of wealth: Social Security, Pensions, Medicare, housing equity.

• Paper defines “high wealth” as top 80% of population. How sensitive are results to this? Why this threshold?

• Why (see paper title*) assume that the government must insure temporary health shocks? Why no role for family transfers, privately-purchased health insurance, LTCI, etc.?

*Why does consumption fluctuate in old age and how should the Government insure it?
Conclusions:

– Impressive work, delighted to see the new developments!

– Should include pensions, SSW, home equity in the picture. (See Sylvain Catherine Social Security and Trends in Wealth Inequality CMS.pdf (dropbox.com) )

– Permanent health shocks perhaps more policy-relevant.

Thank you!

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