ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

Evolution of Wealth among Ireland's Older Adults

DATE
23 February 2018

VENUE
Dublin Castle

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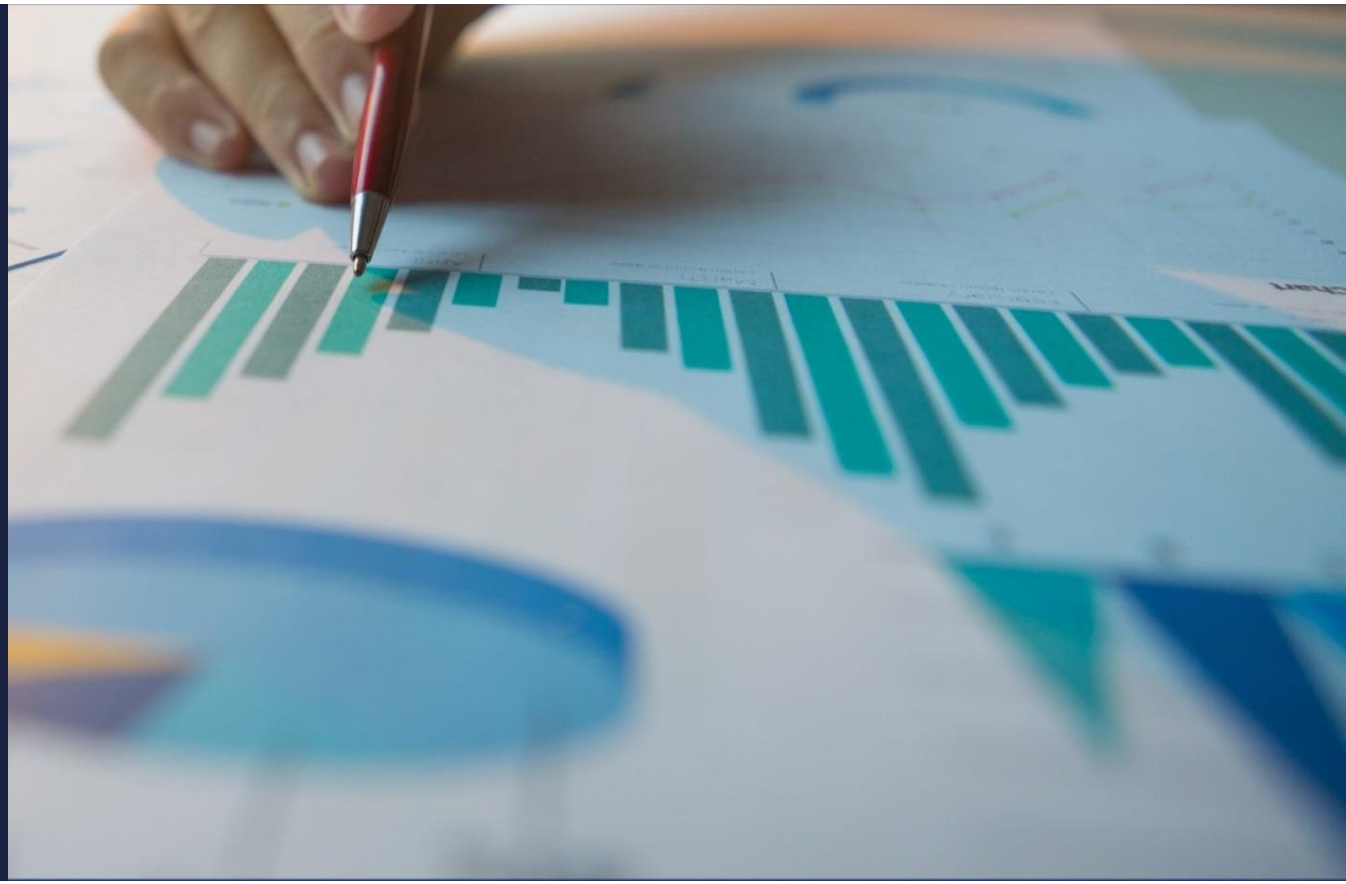


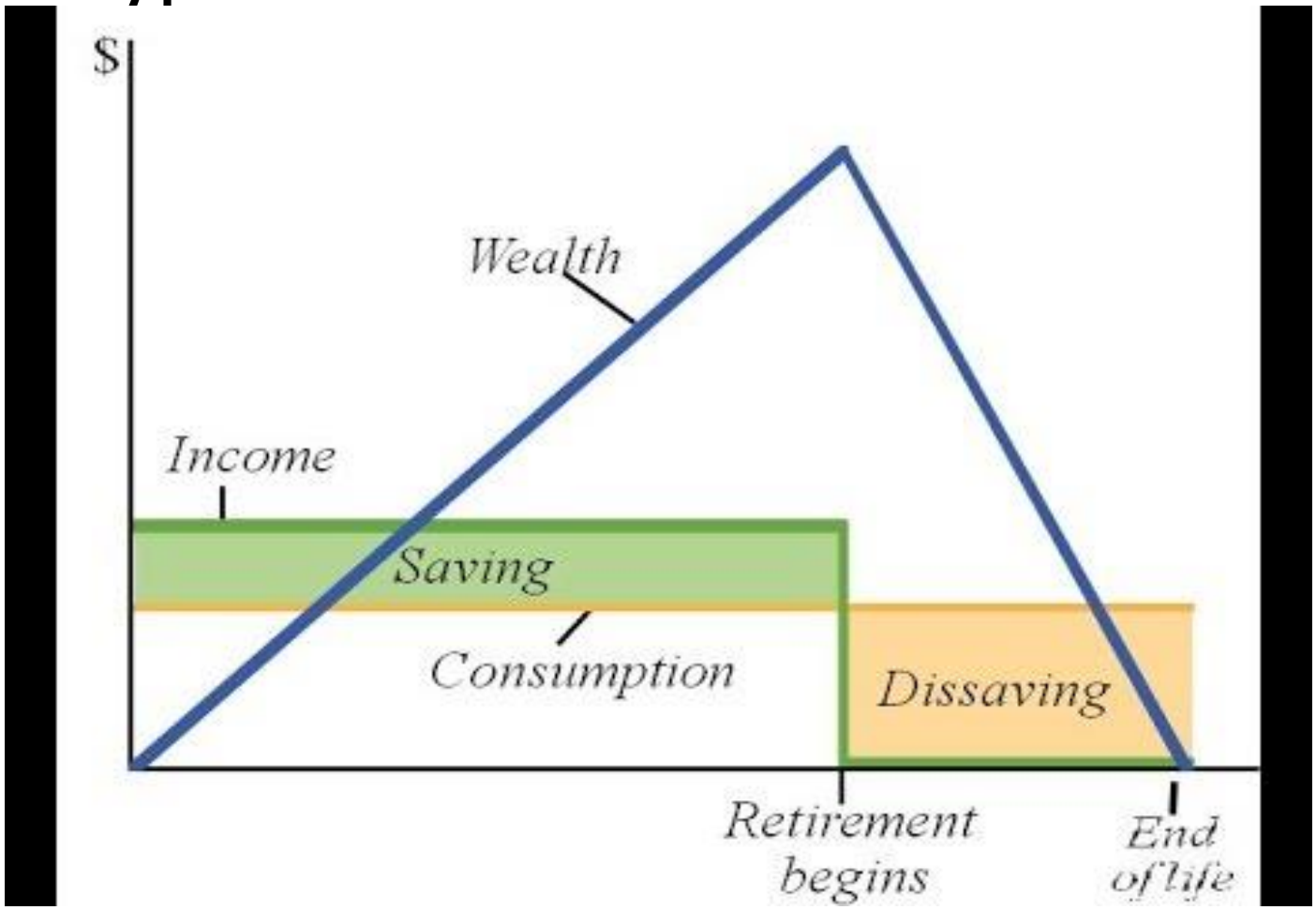
Structure of the talk

- Motivation for exploring this issue
  - With some broader remarks on the joint research programme between the ESRI and the Pensions Authority
- The data
- The methods
- The results
- Conclusions

Motivation

- Some time ago, the ESRI and the Pensions Authority opened a dialogue on current policy issues and the possibility for research to inform policy formation
- Two strands to the research programme were agreed
    1. **Behavioural economics** – the capacity of people to interpret pensions statements and to make good decisions
    2. More traditional **data-based analysis** covering issues such as retirement and financial management post-retirement, in particular decumulation

Decumulation – life cycle hypothesis



The specific interest in decumulation in Ireland

- In Ireland, people have a large degree of autonomy over how to receive pension benefits - specifically, lump-sum or annuity

- Little is known about how older people in Ireland manage wealth and so a concern exists that overly rapid rates of decumulation might be present

- This study represents an attempt to shed light on this issue

The data

- Longitudinal data needed to undertake the analysis
- Reason: if we only had a cross-section of data, we might confuse ageing effects and cohort effects
- Always a problem where we think wealth has increased across cohorts

The Irish Longitudinal Study on Ageing

- TILDA started in late 2009, when Trinity College Dublin began interviewing 8,500 people in Ireland aged 50 and over
- This group has been re-interviewed in 2012, 2014 and 2016
- Information collected on income, wealth, health, family circumstances etc
- Comparable to other surveys such as SHARE

The wealth data

TILDA looks for data on these categories:

- Savings/deposits
- Stocks/shares
- Investment properties
- Other assets
- Debt
- Housing wealth/outstanding mortgages

Wealth data

Collecting wealth data often difficult:

- For couples, **refusal rate** for question on savings/deposits ranges from 4.2% to 21.2% across the age bands
- We also get **"don't know"** responses – for savings/deposits the range is 6.7% to 22%
- Even so, we generally get at least 70% responses

Wealth data, couples, 71-75

	Median	C. Median
Savings/deposits	30,000	40,000
Stocks/Shares	0	27,500
Investment properties	0	187,000
Other assets	0	100,000
Debt	0	9,000
House	250,000	250,000
Mortgage	0	98,000

How do we model wealth dynamics?

- As we follow households over time, singles and couples, we can calculate the changes in their wealth between data collection waves
- We then set up regression equations with “change in wealth” as the dependent variable
- This set-up allows us to check for general reductions in wealth over time (decumulation) and differences across age groups

One regression result

	D Net Financial Wealth
Constant	10.1 (72.8)
Age 71-75	-15.5 (75)
Age 76-80	-18.6 (74.4)
Age 81-85	-39.7 (76)
Age 86+	-26.7 (79)

Standard errors in brackets; 66-70 is reference category for age groups

General findings

- Generally, we do not find evidence of decumulation
- This is true across educational categories
- Some evidence of house sales for 86+
- Some evidence of decumulation for those suffering health shocks
- Some evidence of accumulation among those with supplementary pension coverage

Was this a surprise?

- Possibly not
- International evidence
- Theories in addition to the simple Life Cycle Hypothesis
  - Bequest motives
  - Precautionary savings

Final thoughts

- Does this mean we don't need to worry about this issue?
- We think otherwise
- Our data may not be perfect so need to update and review
- The relative rise of DC versus DB (plus ARFs) means more people will face the challenge of financial decision-making later in life