

Were They Prepared for Retirement? Financial Status at Advanced Ages in the HRS and 1AHEAD Cohorts

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Overview

- Study the level of assets households hold in the last year before death
- Ex post measure of retirement preparation rather than an ex ante measure (assets at beginning of retirement)
- Emphasize the importance of **health**
- And **family pathways** to end of life

Sequence

- Balance sheets by age
- Evolution of the wealth of AHEAD households by family pathway—age 70 and older in 1993.
- Distribution of the annuity income, financial assets, housing assets, and health status at death
- Health, annuity assets, non-annuity assets, and **life satisfaction** in retirement

Table 1-2. Selected percentiles of the distribution of assets for households in 2008, by age and marital status

Asset Category	per- centile	Single-		Two-Person	
		age 65-69	age 85 +	age 65-69	age 85 +
Financial Assets	10	0	0	0	1
	25	0	1	14	27
	50	13	22	112	125
Home Equity	10	0	0	7	0
	25	0	0	63	46
	50	52	35	150	125
Social Security & Defined Benefit Pensions	10	38	38	129	119
	25	173	57	354	161
	50	269	83	572	224

Three Pathways to End of Life

- 1) Original one-person households in 1993 who were also single at death
- 2) Persons in two-person households in 1993 whose spouse is deceased in the last year observed
- 3) Persons in two-person households in 1993 whose spouse is alive in the last year observed.

Evolution of assets

- AHEAD households
- From 1993 to last year observed before death
- By family pathway group
- All assets in \$2008

Health

- Health index—based on 27 health measures—
with these properties
 - 1) strongly related to the **evolution of assets**
 - 2) stable over time
 - 3) strongly related to **mortality**
 - 4) strongly predictive of **future health events**
 - 5) strongly related to pre-retirement economic outcomes
 - 6) the loading on the HRS questions do not differ much between men and women nor between married and single persons

Annuity income, non-annuity assets, and health at death

- Percent below annuity income and financial asset levels
- Percent with zero home equity by annuity income and financial asset interval
- Mean health percentile by annuity income and financial asset interval

Table 3-7. Selected characteristics of **single-person households, by **annuity income and financial assets** in the last year observed before death**

Financial Assets (\$000s)	Percentage distribution				
	Annuity Income (\$000s)				
	< \$10	< \$20	< \$30	< \$40	All
Zero	12.1	23.0	24.2	24.7	24.9
<\$10	23.9	52.0	55.7	56.4	57.0
<\$25	26.3	58.8	64.5	65.7	66.5
<\$50	27.9	65.5	72.8	74.4	75.4
All	31.9	82.0	94.1	97.7	100.0

Percent of households with **zero home equity**

Financial Asset Interval (\$000s)	Annuity Income Interval (\$000s)				
	\$0-\$10	\$10-\$20	\$20-\$30	\$30-\$40	All
Zero	76.3	69.8	74.8	63.6	73.1
\$0-\$10	62.9	63.3	57.8	53.8	61.2
\$10-\$25	49.8	46.8	52.2	53.5	50.0
\$25-\$50	48.6	47.2	48.3	47.0	47.7
All	63.7	57.7	53.9	47.6	57.1

Mean health percentile

Financial Asset Interval (\$000s)	Annuity Income Interval (\$000s)				
	\$0-\$10	\$10-\$20	\$20-\$30	\$30-\$40	All
Zero	24.1	24.8	22.4	28.3	24.5
\$0-\$10	23.4	28.2	24.3	26.2	25.6
\$10-\$25	28.5	33.3	38.3	35.6	33.5
\$25-\$50	26.6	25.3	26.8	43.3	30.2
All	25.1	28.4	29.5	33.4	28.5

Table 5-2. Selected characteristics of persons in all family pathways, by annuity income and financial assets in the last year observed before death

Percentage distribution						
Financial Assets	Annuity Income (\$000s)					All
	< \$10	< \$20	< \$30	< \$40		
Zero	9.1	17.0	18.2	18.5		18.8
<\$10	19.1	40.0	44.5	45.2		46.1
<\$25	21.7	47.3	53.3	54.6		55.5
<\$50	23.7	54.1	62.0	63.7		64.9
All	31.0	76.2	92.0	96.2		100.0

Percent of households with zero home equity

Financial Asset Interval (\$000s)	Annuity Income Interval (\$000s)				
	\$0- \$10	\$10- \$20	\$20- \$30	\$30- \$40	All
Zero	67.0	60.7	64.9	49.7	63.2
\$0-\$10	51.9	54.6	51.5	45.0	51.7
\$10-\$25	42.2	36.9	37.3	37.2	38.5
\$25-\$50	30.8	39.0	37.9	25.3	33.2
All	48.4	46.5	40.3	31.2	50.4

Mean health percentile					
Financial	Annuity Income Interval (\$000s)				
Asset Interval (\$000s)	\$0- \$10	\$10- \$20	\$20- \$30	\$30- \$40	All
Zero	24.3	26.6	23.2	33.9	25.8
\$0-\$10	26.5	28.2	30.1	30.3	28.2
\$10-\$25	31.3	35.4	34.7	36.4	34.3
\$25-\$50	31.1	32.7	35.0	42.4	35.5
All	28.0	30.9	32.2	37.2	31.7

In Short

- A large fraction of retirees rely almost entirely on Social Security benefits (**annuity wealth**) for support in retirement
- With no financial or housing wealth (**non-annuity wealth**)
- And those with the least wealth are in the poorest **health**.
- How are they related to **life satisfaction**?

Health, Wealth, and Life Satisfaction

- Question: “All in all, would you say that your retirement has turned out to be very satisfying, moderately satisfying, or not at all satisfying?”
- 60% say very satisfying, 35% say moderately satisfying, and 5% say not at all satisfying
- We estimate the effect of health, non-annuity wealth, and annuity wealth on the probability of retirement being “very satisfying”

Life Satisfaction Table 1. Percent **very satisfied**, AHEAD households with health, non-annuity wealth, and annuity wealth all set at these percentiles

10th
percentile

34.5%

50th
percentile

49.0%

90th
percentile

79.7%

Life Satisfaction Table2. Percent very satisfied:
The effect of changing a variable from the 10th to the 90th percentile, holding the other variables at their medians.

Variable	10th percentile	90th percentile	Difference
Health	41.8%	64.4%	22.6%
Non-annuity wealth	43.6%	59.8%	16.2%
Annuity wealth	46.7%	56.5%	9.7%

Summary

- 1) Wealth at death is greatest for persons who remain in two-person households the longest.
- 2) There is a strong correspondence between the level of assets in 1993 and the number of years a person survives after 1993.

And

- 3) There is a very **strong relationship between health status and wealth at death.**
- 4) A substantial fraction of people die with annuity income only, with **no financial assets**, and with zero housing wealth.
- 5) Greater financial assets (and housing wealth) would increase life satisfaction in retirement