The Saving Behavior of the Aged in Italy

Charles Yuji Horioka
Asian Growth Research Institute
Email:horioka@agi.or.jp

Luigi Ventura
Sapienza University of Rome

Previous studies for most countries have found that the retired aged decumulate their wealth but that their rate of wealth decumulation is much slower than predicted by the simple life cycle model with no lifespan uncertainty and no bequest motives. At least two explanations have been proposed for this so-called "Wealth Decumulation Puzzle." The first explanation is that the aged are decumulating their wealth more slowly than expected because they are worried about lifespan uncertainty and the possibility of facing high medical and long-term care expenses in the future and that they are engaging in precautionary saving in response to these worries. The second explanation is that the aged are decumulating their wealth more slowly than expected because they are saving to leave bequests and other intergenerational transfers to their children. Many studies have been conducted in the United States and other countries in an attempt to shed light on the relative importance of these two explanations of the slower than expected wealth decumulation rates of the aged, but no consensus has been reached in any country (studies for the U.S. include Palumbo (1999), Dynan, et al. (2002), French, et al. (2006), and De Nardi, et al. (2010), studies for Europe include Borsch-Supan (1992), Alessie, et al. (1999), and Dobrescu (2015), and studies for Japan include Horioka, et al. (1996), Horioka (2010), and Niimi and Horioka (2017)).

In this paper, we analyze the saving behavior of the aged in Italy using micro data from the "Survey of Italian Households' Income and Wealth," a panel survey of households conducted annually by the Bank of Italy, in order to resolve the "Wealth Decumulation Puzzle" in the case of Italy. We are particularly interested in knowing why the wealth decumulation rate of the aged is slower than expected and attempt to shed light on the relative importance of bequest motives and precautionary saving induced by lifespan uncertainty and the possibility of facing high medical and long-term care expenses in the future as explanations of the slower than expected wealth decumulation rates of the aged in Italy.

This analysis is meaningful not only because it sheds light on the determinants of the saving behavior of the elderly (who hold a substantial share of household wealth) and on the applicability of the life-cycle model but because it has important policy implications. For example, if precautionary saving arising from inadequacies in social safety nets are the root cause of the slower than expected wealth decumulation rates, it may be desirable for the government to expand social safety nets so households will not feel compelled to save so much for precautionary purposes. Second, if financial market imperfections preventing the aged from decumulating their wealth and using it to finance their living expenses during retirement (such as the unavailability of home equity loans, reverse mortgages, lifetime annuities, and other financial products more generally), it may be desirable for the government to eliminate regulations and other factors impeding the introduction of such products. Third, if households are leaving massive bequests and other intergenerational transfers to their children and such transfers are causing wealth disparities to be passed on from generation to generation, it may be desirable for the government to impose heavier taxes on bequests and other intergenerational transfers.

It is especially interesting to look at the case of Italy because household saving rates have traditionally been very high in Italy and because it would be interesting to shed light on the impact of Italy's unique cultural and institutional setting (relative strong family ties, relatively underdeveloped social safety nets and financial system, etc.) on its household saving behavior.

The data set we use for our analysis (the "Survey of Italian Households' Income and Wealth," conducted by the Bank of Italy) is ideally suited for an analysis of this issue because it includes detailed data on the flow of saving, the stock of wealth, saving motives, actual and expected bequest receipts, bequest intentions, preference parameters such as those relating to time preference and risk aversion, demographic and economic characteristics, etc.

We will therefore be able to see whether or not households saving for precautionary purposes have a slower wealth decumulation rate, ceteris paribus, than other households and whether or not those planning to leave bequests have a slower wealth decumulation rate, ceteris paribus, than other households. Moreover, based on our estimation results, we will attempt to quantify the extent to which precautionary saving and bequest motives are responsible for the slower than expected wealth decumulation rates of the aged in Italy.

References

Alessie, R., A. Lusardi, and A. Kapteyn (1999), "Saving after Retirement: Evidence from Three Different Surveys," Labour Economics, 6(2), pp. 277-310.

Börsch-Supan, A. (1992), "Saving and Consumption Patterns of the Elderly: The German Case," Journal of Population Economics, 5(4), pp. 289-303.

De Nardi, M., E. French, and J. B. Jones (2010), "Why Do the Elderly Save? The Role of Medical Expenses," Journal of Political Economy, 118(1), pp. 39-75.

Dynan, K. E., J. Skinner, and S. P. Zeldes (2002), "The Importance of Bequests and Life-cycle Saving in Capital Accumulation: A New Answer," American Economic Review: Papers & Proceedings, 92(2), pp. 274-278.

Dobrescu, L. I. (2015), "To Love or to Pay: Savings and Health Care in Older Age," Journal of Human Resources, 50(1), 254-299.

French, E., M. De Nardi, J. B. Jones, O. Baker, and P. Doctor (2006), "Right Before the End: Asset Decumulation at the End of Life," Economic Perspectives, 30(3).

Horioka, C. Y. (2010), "The Dis(saving) Behavior of the Aged in Japan," Japan and the World Economy, 22(3), pp. 151-158.

Horioka, C. Y., et al. (1996), "Do the Aged Dissave in Japan? Evidence from Micro Data," Journal of the Japanese and International Economies, 10(3), pp. 295-311.

Niimi, Yoko, and Horioka, Charles Yuji (2017), "You Can't Take It with You: The Saving Behavior of the Elderly in Japan," mimeo.

Palumbo, M. G. (1999), "Uncertain Medical Expenses and Precautionary Saving Near the End of the Life Cycle," Review of Economic Studies, 66(2), pp. 395-421.