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HOW AMERICANS SAVE

by
Sophie M. Korczyk
Analytical Services
Alexandria, Virginia 22301

Sara E. Rix, Ph.D.
Project Manager

The Public Policy Institute, formed in 1985, is part of the Research Group of the American Association of Retired Persons. One of the missions of the Institute is to foster research and analysis on public policy issues of interest to older Americans. This paper represents part of that effort.

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Executive Summary

Introduction

Most Americans do not save enough. Personal saving by U.S. households--generally considered the best measure of savings available for investment--declined from 9.0 percent of disposable income in 1975 to 4.8 percent in 1996. The decline is widespread, cutting across most age, income, and family status categories.

Retirement saving may be especially inadequate. One estimate suggests that members of the baby boom generation (those born between 1946 and 1964) are saving about one-third as much as they will need to maintain their pre-retirement living standards in retirement. Even under more optimistic estimates, many baby boomers could face disappointing retirements.

Purpose

The present report reviews and synthesizes research findings in the area of saving behavior. It then uses the *Health and Retirement Survey* (HRS) to evaluate the relative importance of personal characteristics, experiences, and attitudes in determining the amount of savings held by older adults. The report examines disparities in saving within and among demographic and economic groups and identifies people who are most likely to be vulnerable in retirement.

It also identifies those groups that are not currently saving, or not saving adequate amounts, but do not face intractable barriers to achieving adequate retirement savings. Intractable barriers could include low (or no) income, or emergency expenditures of a catastrophic magnitude. Barriers that could be overcome by an appropriately targeted informational and educational campaign, on the other hand, could include lack of economic literacy, especially concerning income and expenditure needs in retirement, and inability or unwillingness to plan for needs so far in the future. Public policy changes, educational initiatives, or both could be used to increase saving among vulnerable groups.

Methodology

The first part of the report reviews the economic and survey literature on saving behavior. It identifies several research gaps in our understanding of saving behavior, including the relative importance of personal characteristics, experiences, and attitudes in determining how much people save.

The second part of the report uses the first (1992) wave of the *Health and Retirement Study* (HRS) to fill in some of these gaps. The HRS is a national panel study focusing on respondents ages 51 to 61 in 1992 and their spouses (7,600 households and more than 12,600 persons representing 23.6 million people). It is intended to generate detailed information on the finances, health, experiences, and attitudes of people anticipating or in the early stages of retirement. The report evaluates the relative impact of personal characteristics, experiences, and attitudes on several components of household net worth: housing, financial assets, and balances in 401(k) and 403(b) retirement plans.

Principal Findings

Neither economic theory nor the statistical evidence on saving patterns suggest there are any absolute barriers to saving. Yet it is clear that some groups are more vulnerable than others: low-income households; single parents; non-homeowners; formerly married persons, especially African Americans and Hispanics; people with health problems; and households whose head has

less than a high school diploma.

The HRS analysis shows that even though people save more as they age, age does not equalize savings, even within narrowly defined economic and demographic groups. In nearly all economic and demographic groups, there are some people who do not save at all, some who save just a little, and some who save a great deal.

The report adds new insights based on the experiences and attitudes of people who are nearing or in the early stages of retirement. By the time they reach their 50s and early 60s, many people will experience various events that can reduce their earning capacity and upset their financial planning. People who experience unemployment in their 40s or 50s, those who are forced--either by on-the-job or personal circumstances--to retire earlier than they would have preferred, and those who experience a decline in health or a work-limiting disability may find it especially difficult to plan for retirement. People in industries that are cyclically sensitive or shrinking, or in physically demanding occupations, should therefore be especially aware of the need for adequate retirement planning.

An evaluation of the relationship between savings on the one hand and personal expectations, attitudes, and opinions on the other yields further insight, both into why people do what they do and how their decisions could be influenced. People may not know if they are saving enough, but they clearly know if their financial situation is deteriorating, and may be receptive to messages about ways to improve it. People who plan the furthest ahead save the most. But there may be limits on how far into the future people are willing to look.

An important debate in savings theory concerns the degree to which people save for their own lifetimes as compared with the needs and lifetimes of their heirs. The HRS suggests that feelings about the importance of leaving an inheritance are not consistently related to household saving patterns. Those who plan to leave an inheritance have saved more than those who don't, but this relationship may simply reflect the fact that high savers have more to leave rather than implying any particular relationship between saving and bequest plans.

Conclusions

Decades of research on saving have provided a good deal of information on what people do, how they do it, and how their behavior is changing over time. Less understood is why they do what they do, and why they change when they do.

There are several economic and demographic groups for whom saving--whether in general or specifically for retirement--is a challenge. Yet even in these groups, many people are able to save something.

Educational efforts targeted to vulnerable groups can help them make the most of what they have. How many people would save more--and how much more--if they felt as confident establishing a retirement account as they do buying a car or a television, two purchases about which most people express confidence?

Distant events may simply look less real and inspire less planning than events anticipated in the near future. Consequently, educational materials that break up the future into "bite-sized" pieces may be more useful than materials with a more comprehensive perspective.

As the nation engages in its most intense debate ever on the future of the Social Security program, it is important to note that the savings patterns of HRS respondents correspond to their expectations about the program's future. Those who believe benefits will improve and those

who believe they will worsen both seem to act on their expectations, with optimists saving less and pessimists saving more. While this analysis says nothing about causality, this relationship is strong enough to warrant urging caution in this debate. Those who argue that the program can continue to pay benefits into the distant future with no or few changes are probably as wrong as those who insist that the program will not “be there” for today’s younger workers. Polarizing the debate not only makes it more difficult to achieve consensus, but also seems to affect some private decisions adversely.

Part I: Who Saves, How Much, and Why

Introduction

There is broad consensus that Americans do not save enough:

- o Personal saving by U.S. households has declined from 9.0 percent of disposable income in 1975 to 4.8 percent in 1996 ([Chart 1](#)).
- o The decline in saving has contributed to making the U.S. one of the world's major international debtor nations.
- o Retirement saving may be especially inadequate. One estimate suggests that members of the baby boom generation (those born between 1946 and 1964) are saving about one-third as much as they will need to maintain their pre-retirement living standards in retirement (Bernheim [1993, 1994a]).

Given the widespread inadequacy of saving, this task is an urgent research and policy priority. It is especially important to identify those groups that are not currently saving, or not saving adequate amounts. Barriers that could be overcome by an appropriately targeted informational and educational campaign could include lack of economic literacy, especially concerning income and expenditure needs in retirement (Bernheim 1994b), and inability or unwillingness to plan for needs so far in the future. Public policy changes, educational initiatives, or both could be used to increase saving among vulnerable groups.

This is the first of a two-part report that describes saving trends, assesses their causes, identifies research gaps in the understanding of saving behavior, and generates new evidence on barriers to saving and how these barriers can be overcome. Part I reviews and synthesizes research findings in the area of saving behavior. Part II uses the *Health and Retirement Study* (HRS) to evaluate the relative importance of personal characteristics, experiences, and attitudes in determining the amount of saving held by older adults.

The report begins with a discussion of key concepts in the analysis of saving. It then considers the following issues:

- o why people save;
- o who saves and who does not;
- o the impact of saving incentives on household behavior;
- o saving for retirement;
- o barriers to saving; and
- o gaps in researchers' understanding of saving.

This report begins with a broader focus than retirement saving alone; rather it looks at all saving under individuals' control. The reason for this is twofold. First, numerous studies have found that people who save in one form save in others as well. Thus, looking at a broad definition of saving can improve our understanding of why people behave as they do and what can help change their behavior. Second, savings are essentially fungible. Assets accumulated for retirement can often be spent sooner, as experience with pre-retirement lump-sum distributions from qualified plans suggests (Korczyk [1995, 1996a]). Likewise, assets accumulated--but unspent--for other purposes can be available to finance retirement. An exclusive focus on retirement saving would not reveal these relationships.

Although this report takes a broad perspective on saving issues, it excludes certain topics that have been treated extensively in the saving and retirement policy literature. First, it does not examine the literature that analyzes aggregate, or national, time series (long-term) data on saving. The Request for Proposals for this study stressed individual saving decisions and behavior. Studies using aggregate time series data have had relatively little to say about these topics (Browning and Lusardi 1996).

Second, the report focuses exclusively on studies using U.S. data. Studies of foreign experience with different policy initiatives or saving instruments can be useful in informing U.S. policy debates. Such experience can sometimes give Americans a "free look" at what could happen if the U.S. adopted a given strategy. However, if the goal is to devise policies to influence American behavior in the American legal and institutional environment, foreign experience will not be particularly useful.

Third, the report does not deal with determinants of employer-provided coverage. This is a topic that has been investigated extensively, and much is known about it.¹ Furthermore, since individuals have only limited control over whether they are covered by a pension, the pension coverage literature would not directly illuminate ways to change individual saving behavior. The report does, however, deal with individual decisions about saving in retirement income instruments, such as individual retirement accounts (IRAs) or 401(k) plans, that leave it up to the individual how much to save.

Concepts in Saving Analysis

Most people probably feel they understand saving quite well. Saving is what we do with the income we do not spend. Indeed, this definition is one of the two ways that statisticians measure aggregate saving. The difference between personal outlays and disposable personal income is the definition of saving used in the National Income and Product Accounts (NIPA). This series is considered to be the best measure of funds available for investment (Browning and Lusardi 1996). A second definition is that used in the Federal Reserve System's Flow of Funds (FOF) accounts, where saving is the household sector's net acquisition of assets (including housing) minus its net accumulation of liabilities.

But while these definitions can be simply stated, complex definitional issues are encountered

in trying to figure out how people allocate their incomes between saving and spending over their lifetimes and, through bequests, those of their survivors. For example, aggregate saving under the “income minus consumption” definition excludes the value of consumer durables such as cars, appliances, and furniture. But many people consider such purchases a component of saving because these items produce services over extended periods of time and can reduce the need for cash outlays. Also under this definition, contributions to funded government retirement plans are not included in personal income, and thus are not included in saving. Capital gains are also excluded from the definition of saving because such gains are not included in national income, though most people would probably consider increases in the value of the assets they hold a passable substitute for saving more out of their current income (Laffer 1996). The treatment of housing, and taking account of inflation, cause further problems in the measurement of saving.

Because people have so many ways to save, and because new ways are continuously being developed, changing the definition of saving also changes the time patterns of saving. When purchases of government pension assets, consumer durables, and inflation are accounted for in the definition of saving, the decline in saving cited above becomes much smaller, and a rebound in the mid-1980s is observed (Hendershott and Peek 1989). And when saving is redefined to include capital gains on housing and stocks, the saving decline of the 1980s is virtually eliminated (Skinner and Feenberg 1990).

In their exhaustive review of the literature on saving, Browning and Lusardi (1996) conclude that if one is concerned about the funds available for investment purposes, the 1980s probably saw a substantial decline compared with the 1970s. On the other hand, if one is concerned about broader measures of saving--defined to include government pension assets, consumer durables, and capital gains on housing and stocks--the decline, if any, was much smaller.

In focusing on these definitions of saving, the first part of the report does not directly deal with the likely effect of expected Social Security benefits on individual and household saving behavior. Since people whose lifetime incomes are low or moderate can expect high rates of income replacement from Social Security, many researchers argue that they are already protected against the risk of a calamitous drop in living standards at retirement (see, for example, Smith [1993], Deaton [1992], Feldstein [1974]). Not saving much on their own can be rational for such people, and explanations of private saving that do not consider expected Social Security benefits will therefore be incomplete, according to this line of argument.

While economic theory argues that Social Security wealth should help explain private saving, however, the connection in individuals' minds may be weak. Despite the post-World War II growth in private pension coverage, Social Security benefits continue to account for a major share of retirees' incomes. Yet at least some research suggests that the public does not recognize the importance of Social Security. Participants in one focus group study felt that Social Security was only supplemental to a pension program, and while they wanted their Social Security benefits to be secure, they hoped not to rely on these benefits for a major share of their retirement income (Korczyk 1990). And Smith himself, a proponent of the argument that some people do not save because they expect to rely on Social Security, “concludes that . . . [b]roadening the definition of wealth. . . does not fully resolve the puzzle of why low-income

minorities save so little (1993)” The relationship between saving and expectations about Social Security is explored further in the second part of this report.

It is also necessary in discussing saving to distinguish among savings, net worth, and wealth. “Savings” refers to the total value, or stock of assets being considered.² Saving is the way that one changes the amount of one’s savings, or the total value or stock of assets. “Net worth” is the total value of assets minus the liabilities attributable to the holder(s) of the assets. Savings can be thought of as a “gross” figure, while net worth is a “net” concept. It then follows that borrowing is “negative saving,” or dissaving, and has to be considered as an aspect of saving behavior.

“Wealth” is sometimes used interchangeably with savings and with income. But some “wealthy” families--those with high incomes--may actually have no net worth at all if their debts exceed the value of their assets. Because the term wealth can be confusing in savings analysis, it will not be used in this report.

What Do We Know About Saving?

The saving behavior of households has been the subject of extensive research and statistical analysis. This section discusses both economic theories that attempt to explain why people save and empirical evidence on saving behavior patterns.

Economic theories are essentially structured “stories” that attempt to describe consumers’ behavior and predict their responses to changes in their economic environment. In the case of saving, for example, economic theories attempt to explain *why* people save, a crucial requirement if one is to influence saving behavior.

Economic theories can tell us what to expect people to do, why people do what they do, what to ask in surveys and in statistical analysis and in developing public policies, and which policy or environmental changes are likely to lead to increased savings. For example, in one model, interest rates could be crucial to saving decisions, while in another model they could have no impact at all.

Empirical evidence can complement economic theories in two ways. First, theories can be tested and refined on real data about real people and what they do. Second, descriptive analyses --those not aimed at testing a particular theory--can both tell us important things about behavior and feed back into the development of theory.

Theories of Saving Behavior: Why Do People Save?

Modern economic thinking about why people save goes back to a list of motives proposed by John Maynard Keynes (1936).³

- o To build up a reserve against unforeseen contingencies (the precautionary motive);

- o To provide for an anticipated future relationship between the income and the needs of the individual (the life-cycle motive);
- o To enjoy interest and appreciation (the intertemporal substitution motive);⁴
- o To enjoy a gradually increasing expenditure (the improvement [of living standard] motive);
- o To enjoy a sense of independence and the power to do things (the independence motive);
- o To secure resources to carry out speculative or business projects (the enterprise motive);
- o To bequeath a fortune (the bequest motive);
- o To satisfy pure miserliness (the avarice motive); and
- o To accumulate deposits to buy houses, cars, and other durables (the downpayment motive).

Most of these motives would probably still resonate with most Americans more than 60 years after Keynes listed them. But economic research has not determined which motives are most important and whom (which economic and demographic groups, at which point in their lives) they motivate.

Theories of saving behavior can be grouped into two categories: those that rely on the household's life cycle to explain saving, and those that do not.

The life-cycle model. The basic--and very powerful--way of thinking about household saving behavior is the life-cycle model, first set forth by Franco Modigliani and Richard Brumberg (1954) and Milton Friedman (1957), and widely elaborated and expanded in the succeeding four decades. The basic concept underlying this model is that people try to balance, or smooth, their consumption over their lifetimes to avoid drastic changes in living standards. But most people can expect their incomes to fluctuate, both over short periods--due to, say, unemployment--and over the long term, due to the loss of wages in retirement. The model thus implies that the rational person will save, both for short-term needs such as a spell of unemployment or a vacation, and for long-term needs, such as maintaining living standards in old age or supporting family members after one's death. Under this model, people would be expected to save during their working careers, then deplete their assets in retirement. As a result, an aging society should save less than a younger one.

The model can also be used to explain why less-educated people save less than those with more education. People with less education could value the future less than the present (have

high discount rates), leading them to invest less in both human capital (education) and financial assets (Browning and Lusardi 1996). Saving rates among various demographic groups are discussed further below.

But there are many elements of the real world that the life-cycle model does not take into account. Some people may not have enough income to sustain life, let alone provide for the future. For some lower-wage workers, access to savings for emergencies is important and may be a reason not to “lock away” funds. Some people may have short planning horizons. They may not save simply because they place too low a value on their future well-being compared with today’s. Others may fail to spend down their assets before death because they want to leave a bequest to their heirs. Still others may face problems in maintaining a steady level of consumption because they have limited ability to borrow against future income (such as being refused credit). They may find that their consumption--and hence saving as well--varies widely over time, and, indeed, more than the life-cycle model predicts.

The life-cycle model also becomes complicated when real life cycles are considered. Consumption patterns vary by household composition, and household composition itself varies over the life cycle (single people marry; children are born, educated, then leave home). Households may find it difficult to establish stable consumption and saving patterns in the face of such changes.

While the central intuitions of the life-cycle model are very important, the model itself has not “. . . tested out very well (Courant et al. 1994).” In other words, many of the behavior patterns predicted by the model are simply hard to detect. For example, not only do many older people *not* draw down their savings, some continue to save in retirement.⁵ The life-cycle model is also fundamentally a theory of consumption, not of saving, and its implications for saving policy are weakened by this fact.

Researchers have tried to strengthen the model in several ways. Some have added features to the basic model, such as the importance of habits in determining how spending and saving respond to income changes (see, for example, Browning [1991]). Such features can help explain both cyclical and long-term changes in saving. Some have attributed the life-cycle model’s testing inadequacies to inadequate data. For example, to assess whether people save for themselves or for others, it is necessary to know the saver’s health status, expectations about life span, and economic situations of any children (Browning and Lusardi 1996). The HRS, which is used in the second part of this report, is the first survey ever to collect such data on a broad scale.

But other researchers suggest that it is not enough to expand the basic model or to devise new data sets to better test it. Rather, they suggest, a new way of looking at saving decisions is needed. Some of these researchers are proponents of the psychological theory of saving.

Psychological theory. The psychological approach to saving focuses on behavioral patterns, rather than assuming that the individual is trying to achieve an optimal pattern of lifetime consumption. This approach to explaining saving can incorporate a number of influences on saving that the standard life-cycle model does not. One such factor is economic attitudes based

on financial experience. For example, Bernheim (1991) suggests that the generations that did not experience the Great Depression are less worried about the future and less inclined to save than those that have experienced such financial hardship.

Shefrin and Thaler (1988) make certain assumptions about behavior:

- o People find it hard to exercise self-control. They will therefore use devices such as pension plans, rules-of-thumb (put aside \$25 per week, save x percent of take-home pay), and forced saving mechanisms such as escrow accounts for property taxes, Christmas clubs, or intentional over withholding of income taxes.
- o People keep mental accounts that separate income from wealth or saving, and are less tempted to spend out of “savings” than out of “income” Saving rates can therefore be influenced by the way different types of household receipts are described or characterized.

Another psychological factor that can be particularly important to retirement income policy is the relative “spendability” of various types of income. Shefrin and Thaler argue that the easier the consumer finds it to access certain types of income, the more likely that income is to be spent. For example, it is easy to access--and therefore spend--interest income, but much harder to access undistributed corporate profits or accumulated defined benefit pension plan rights.

Under this approach, both the form and the timing of income can influence how much people will save. For example, income--whether from work or received as an inheritance--is more likely to be spent if received as cash than as shares of stock or increases in contributions to a pension plan, since cash is easier to spend (the savings impact of various types of pension plans is discussed further below). And bonuses or tax refunds are more likely to be saved than an equivalent amount of income (or reduction in taxes) spread evenly throughout the year.

The psychological approach opens up policy options for increasing saving that are not encompassed in the life-cycle theory. For example, the income tax rule requiring 20 percent withholding from pre-retirement pension distributions not directly rolled over by a trustee into an individual retirement account (IRA) should increase saving out of such distributions, even though the rule does not apply to subsequent withdrawals from an IRA, simply because spending the distribution becomes more trouble if it is transferred to an IRA rather than received as a check. Likewise, it could make sense as a saving policy to pay a larger share of compensation as bonuses, rather than periodic paychecks, and then allow higher 401(k) plan contributions out of these bonuses, to take advantage of the lower “spendability quotient” of such payments.

The psychological approach to saving behavior could also support banning all pre-retirement pension distributions, or, equivalently, making IRA rollovers mandatory for all such payments. Many observers--especially employers concerned with making sure their plans pass the tax code’s non-discrimination tests--have argued that foreclosing employees’ access to pension contributions until retirement would reduce their participation in discretionary plans such as 401(k) plans. But if the psychological approach is the correct explanation of saving behavior,

such a policy change, if properly communicated, would “reframe” 401(k) contributions as “wealth” rather than “income,” and provide employees with needed self-control support. Both effects could serve to increase, rather than decrease, retirement saving.

The psychological model of saving has not been as extensively tested as the life-cycle model, but new data sets such as the HRS are likely to lend themselves to such tests.

Evidence on Saving Behavior

One way to choose among explanations of saving behavior is to see how well they “fit the facts” (Browning and Lusardi 1996). Eight data sets⁶ are commonly used in empirical saving studies. These data sets differ in whom they study, how frequently, and how well (see [Appendix A for a summary](#)). However, certain common patterns that emerge across data sets deserve attention in policy development. This section discusses evidence on both saving rates (saving as a percentage of income) and asset holdings by type of household.

Saving rates. One measure of people’s saving behavior is the share of their income they don’t consume. Saving rates calculated by Bosworth, Burtless, and Sabelhaus (1991) using the Federal Reserve Board’s *Survey of Consumer Finances* give some general support to the life-cycle hypothesis of saving. Saving rates are higher among households headed by persons ages 25 to 34 (13.6 percent of income) than among older groups, and decline to only 2.5 percent among households with a head age 65 or older ([Table 1](#)).

Marriage and family status--important elements of the life cycle--also influence saving patterns. Married people save more (9.4 percent to 15.4 percent of income) than single people (1.2 to 11.9 percent of income), whether or not children are present ([Table 1](#)). This difference reflects both economies of scale (two spend less than twice as much as one) and complementarities in production (I’ll mow the lawn, you cook dinner) inherent in marriage (Smith 1995a). Regardless of marital status, people with children save less than those without, with single parents saving only 1.2 percent of income.

Many of the popular myths about saving are not supported by the facts, however. Some have argued that saving rates have been depressed by the behavior of the baby boom generation. Possible explanations are that this generation is more self-indulgent, less forward-looking, more income-constrained (especially younger boomers), or simply less worried about the future than its elders.

However, the baby boomers, who would have been concentrated in the first two age groups in [Table 1](#), saved *as much or more* than older groups, and their saving rate showed the smallest relative decline from the behavior of the same age groups 20 years earlier. In other words, saving is declining among all age groups, and is not an artifact of demographic patterns.

Likewise, while the percentage of single parents--who save the least of any family type--has been growing, this factor also cannot be held accountable for a large share of the decline in saving. As Bosworth, Burtless, and Sabelhaus (1991) note, the incomes of single parents are too

low for their increased prevalence to affect saving rates. Furthermore, unlike other family types, single parents increased their saving rate between 1963 and 1985 (Table 1).

Since higher-income people save more than lower-income people, the growth in income inequality observed during the 1980s and since should have increased saving, especially among the highest-income groups. But the decline in saving is found in all income groups.

Asset holdings. Saving rates tell us what people do with their income; asset holdings tell us what they do with their savings. The *Survey of Consumer Finances* (SCF), which has been conducted periodically since 1962 and in its current form every three years since 1983, provides a fairly comprehensive picture of who has what.

The first feature of asset holdings that should be noted is that the asset distribution is very unequal. The mean, or average, value of net worth (assets minus liabilities, including value of home) shown in Table 2 is total net worth for each group, divided by the number of households in the group. The median is the value of net worth at which half the population has more and half has less. The closer the mean and median value are to one another, the more even the distribution of net worth across households. The farther apart these values are, the greater the number of high wealth holders. In 1995, mean net worth in the U.S. was \$205,900, while the median was \$56,400, or about 73 percent less (Table 2).

Demographic and economic characteristics of households account for much of this inequality. Average net worth increases steadily with the age of the household head until ages 55 to 64, the last decade before retirement for most people. Average net worth declines after age 65, though it remains higher than among the under-45 group.

Net worth increases rapidly with income, rising from an average of \$45,600 among households with family incomes below \$10,000 to \$1,465,200 among those with family incomes of \$100,000 or more (Table 2). However, it is important to note that even among the lowest-income households, many people save, and some people save a great deal more than others.⁷ While the mean net worth for all families is just over four times the median, among the lowest-income families the mean is more than nine times the median. Household incomes can vary widely over time, and the household in the lowest group today may not have been there yesterday, and may not be there tomorrow. Even so, it is clear that behavior varies widely, even among people with the same characteristics.

Educational attainment of family head is also related to net worth. Education can serve two functions in influencing saving patterns. First, it is a proxy for lifetime income. Thus, people with more education may be influenced in their saving not just by their current income but by what their education leads them to expect in the future. Second, education can be a proxy for overall financial literacy. People who are more financially literate may be expected to save more than others because they are better able to envision future financial goals and ways of accomplishing them than those who are less literate. For example, research conducted by AARP has found some indications that women with less education are less likely to follow up on financial education materials than those with more education (Sprouse 1996).⁸ In the SCF,

families whose head had at least some college had nearly two and one-half times the average net worth of those with a high school diploma or less in 1995 (Table 2).

The race of the family head affects net worth in the direction one might expect given continuing racial and ethnic income disparities. Average net worth of white non-Hispanic families (\$244,000) was more than three times that of non-white or Hispanic families (\$74,400). However, this disparity was less than those observed by age, income, or education, suggesting, again, that some people save in every economic and demographic group.

The 1995 results represent a significant movement toward greater equality compared with 1989. Between 1989 and 1995, the median net worth of non-white and Hispanic families increased by a factor of nearly two and one-half, while that of white non-Hispanic families declined (Kennickell, Starr-McCluer and Sunden 1997). Policy makers thus need to understand not only why some people have less than others, but also why some people are moving to close the gap.

An interesting feature of saving patterns, and one that will be discussed further throughout this report, is the relationship between homeownership status and net worth. Homeowning households outnumbered renters by almost two to one in 1995 (Table 2). Housing is the single most important asset of all families, but also accounts for the single largest share of debt. Yet overall average net worth of homeowning families was seven times that of renters, far more than would be accounted for by average home equity. Homeowners thus appear to save more than renters even after the asset value of the home is considered.

One of the major policy concerns about the decline in saving is that people who do not save enough can expect to have a difficult time in retirement. Declines in saving that are not offset by increased social security benefits--an unlikely prospect given that program's fiscal problems--could ultimately lead to a re-improvement of older persons, rolling back their hard-won income gains of the last three decades.

It is therefore interesting to examine the asset patterns of people who are at or near the end of their working lives. The *Health and Retirement Study* (HRS) is a national panel study focusing on respondents ages 51 to 61 in 1992 and their spouses, who will be reinterviewed at intervals over a 12-year period. It is intended to generate detailed information on the finances, health, experiences, and attitudes of people anticipating or in the early stages of retirement.⁹

The HRS shows that marital status and ethnic background continue to be important in determining financial status as households age. For example, average net worth among all households was \$238,500 (Table 3). But averages by marital status ranged from a low of \$85,300 among separated persons to a high of \$288,400 among married couples. While married households are generally better-off than single households, important differences among single households occur. As a group, never-married persons had higher net worth (\$166,100) than the formerly married (\$85,300 to \$119,500). Dissolution of marriage thus seems to reduce savings. These costs could include the need to establish two households, as well as the loss of the economies of scale of daily life that marriage can bring.

Differences in household net worth by ethnic background were greater than observed in the broader SCF population. African American households had 27 percent and Hispanic households 30 percent of the mean net worth of whites (calculated based on data in [Table 3](#)).¹⁰

When both marital status and ethnic background are considered, some highly vulnerable groups can be identified. Among both African Americans and Hispanics, separated and never-married persons have far lower net worth than any other group, and their relative position is far worse than that of similarly situated whites. For example, average net worth for separated whites was 45 percent that of married households, compared with 16 percent for similarly situated African Americans and 8 percent for Hispanics. Among never-married persons the comparison with whites is even more stark: whites have 70 percent as much net worth as married households, compared with 19 percent for African Americans and 29 percent for Hispanics (calculations based on data in [Table 3](#)).

The HRS data fail to show one of the patterns that might have been expected based on conventional wisdom. It has long been believed that widows--many of whom might not have had a significant work history or pension claims in their own right--are most at risk of poverty as they age. In the HRS, however, widowed households are better off than separated households regardless of ethnic group, and better off than both separated and never-married African American and Hispanic households.

To gain further insight into the implications of these patterns for women, [Table 4](#) presents mean and median net worth of unmarried householders by marital status and gender. All forms of being single--divorce or separation, widowhood, and never marrying--are better for men than for women. For women, however, widowhood (\$112,700 average net worth) is more financially rewarding than either divorce (\$82,100 average net worth) or never marrying at all (\$92,400 average net worth).

These data should not be used to draw conclusions about the fairness of the divorce process, since they do not control for either the duration of the marriage or the years since the divorce. Longer marriages accumulate more assets, while assets decrease the longer the interval since the divorce (Smith 1995a). What these data do suggest is that those formerly married, never-married African Americans and Hispanics, and women who fall into these categories may need special attention--in education, policy, or both--with respect to accumulating and maintaining assets.

Saving for Retirement

Overall saving levels are important because they tell us how savings are distributed, how people accumulate them over the course of their lives (assuming successive age cohorts behave similarly), and who is accumulating more and who less. But some forms of saving are specifically dedicated for retirement, and deserve special attention in saving policy discussions. Many people need more encouragement to save for retirement than for short-term goals, since retirement is so remote that it is difficult to envision. Dedicated savings are more likely than other types of assets to be retained for retirement, not only because substantial tax penalties

attach to using them earlier, but also, if the psychological theory of saving is correct, because people with such savings think about them differently from the way they think about savings not “labeled” for retirement.

Who Saves for Retirement

The SCF allows an examination of how certain types of retirement savings are distributed among different types of households. It contains data on savings in IRAs, Keoghs, and employer-provided plans from which withdrawals or loans can be made. Using this definition, 43 percent of households held one or more of these forms of savings in 1995, with a median value of \$15,600 (Table 5). Retirement savings are thus much more narrowly distributed in the population than savings in general. Some of the economic and demographic patterns observed in the analysis of savings as a whole emerge in the analysis of retirement savings as well.

Retirement savings increase with age. The percentage with retirement savings increases with age. For example, only 39 percent of families with a head under age 35 have retirement savings, but this share rises to a high of 54 percent of those with a head age 45 to 54 (Table 5). This result is somewhat lower than those achieved in other studies. For example, an Employee Benefit Research Institute (EBRI) poll conducted by the Gallup Organization found that 46 percent of respondents under age 35 and nearly three-quarters of those age 35 or older had begun to save for retirement (EBRI 1992).

The increase in retirement savings with age echoes the rapid increase in net worth over the life cycle (Table 2). Both average and median net worth and median retirement savings continue to increase until age 64 (Tables 2 and 5). However, while older households (those with a head age 65 or older) have considerable net worth compared with their younger counterparts, they are less likely to hold retirement savings; only 35 percent of families with a head age 65 to 74 and 17 percent of those with a head over age 74 have such savings (Table 5). Yet households that do have such savings continue to hold substantial amounts compared with those under age 65.

It is important to note that while older households are more interested in retirement saving than younger ones, nearly 4 in 10 households with a head younger than 35 reported some form of retirement savings (Table 5). It is axiomatic in saving policy and analysis that one is never too young to start saving. While some analysts believe many people of all ages do not save enough (see later in this section), it is clear that many younger people understand the need to save at least something.

Retirement savings increase with income. Both the share of SCF respondents with retirement savings and the value of those savings increase with income. Only 6 percent of households with incomes below \$10,000 report retirement savings, for example, compared with 85 percent of those with incomes of \$100,000 or more (Table 5). The median value of retirement savings also increases with income.

The SCF yields a lower prevalence of retirement savings across all income groups than an older, smaller survey conducted for AARP by Princeton Survey Research Associates (PSRA) in

1994. That survey found that fewer than half of households with incomes under \$30,000 had begun to save for retirement (Table 6). This result is consistent with the SCF results for this income group. However, the PSRA survey found that upwards of 80 percent of people with incomes of \$30,000 or more had begun to save for retirement, a figure higher than reported in the SCF, and that 69 percent of people at all income levels, compared with 43 percent in the SCF, had begun saving for retirement. The *1997 Retirement Confidence Survey* (RCS), a recurrent telephone survey of 1,000 respondents, likewise found that 69 percent of respondents had begun saving for retirement (EBRI et al. 1997). All three surveys show a sharp rise in the prevalence of retirement savings with income.

These three surveys, along with the EBRI poll cited earlier, are subject to differing levels of reliability. The SCF and the RCS collected actual data on asset holdings (the SCF in far more detail), while the PSRA survey asked respondents whether they held any such savings and the EBRI poll asked about retirement savings set aside last year. Data on actual holdings would tend to be more reliable for three reasons:

- o Most people don't know exactly how much their assets are worth and in what form they hold these assets. Asking for actual data can help refresh their memories by requiring them to look at records.
- o People responding to a general question about retirement savings might include savings that they have mentally designated for long-term needs, whether or not such savings are held in a formal retirement account of some type. While such a question might yield a better picture of what people think about their assets, it would generally yield a higher rate of "retirement" saving than a more narrow question about the legal form in which assets are held.
- o There is no way to tell whether people who answered "yes" to the PSRA or RCS question had in mind vested benefits in employer-sponsored defined benefit plans. Such benefits are not included in the SCF definition of retirement savings considered here, since they are not under the respondent's direct control.

Racial and ethnic saving disparities are narrower in retirement saving than in all saving. Retirement saving in the form of employer-sponsored pensions is more a function of one's employment situation than of one's ability or willingness to save out of current income. Therefore, one might expect to find narrower racial and ethnic disparities in retirement savings than in savings as a whole.

The SCF data bear out this expectation. While the median net worth of white non-Hispanic households was nearly four and one-half times that of non-white or Hispanic households, the median retirement savings of white non-Hispanic households were less than two times those of non-whites and Hispanics (calculations based on data in Tables 2 and 5). White non-Hispanic families were more than 1.6 times as likely as non-whites and Hispanics to hold retirement savings in the first place, however.

Homeowners save more for retirement. The finding reported earlier that homeowners have higher net worth than renters is not of itself surprising (though the size of the difference may be), as home equity is included in the measure of net worth. It also makes sense that homeowners would save more than renters since they need reserves to maintain mortgage payments during hard times as well as to cover unpredictable home repairs.

However, retirement savings do not suffer from this confusion, as they are segregated in separate accounts. And retirement savings are not directly usable for mortgage payments or home upkeep. Yet homeowners are both more likely to save for retirement--52 percent of homeowners but only 26 percent of renters do so--and save more than renters do (Table 5). Again, data on savings suggest that there are complementarities among various assets.

Is It Enough?

Data on both total savings and savings for retirement clearly suggest that saving behavior knows no demographic or economic bounds. While some people save more than others, at least some savers are found in all economic and demographic groups.

But do they save enough? Special concern has focused on the baby boom, in part due to its size. While this question has generated considerable controversy, the most realistic answer is, "Probably not." Several studies arrive at different conclusions of the size of the shortfall, however.

The baby boom is saving one-third of what it should. Bernheim (1993, 1994a) has developed a widely quoted analysis of the baby boom generation's saving patterns. Using a computer simulation model that projected lifetime consumption needs for different groups of people, he compared those needs with actual saving behavior. In the spirit of the life cycle approach to saving, the model assumes that people will want to maintain a constant level of consumption--in other words, an unchanged living standard--in retirement. People can generally maintain their pre-retirement living standard in retirement with a lower income because certain expenses decline and because their need to save decreases.

Bernheim then calculated how much specific households would need to set aside to maintain their consumption levels in retirement, accounting for differences in household composition, different saving needs among those who do and those who do not have coverage under a traditional employer-sponsored defined benefit plan, and what people can expect to earn on their investments. He found that if the baby boom relies only on the savings specifically designated for retirement, it is saving only 16 percent of what it needs, while if it uses all its assets other than housing to pay for retirement, it is saving 56 percent of the required amount (Bernheim 1994a). Under a midpoint assumption--they use all their retirement savings and some of their overall savings to finance retirement--he concludes that the baby boom is saving about 36 percent of what it should (Table 7). Put another way, his estimates suggest that the baby boom must almost triple its saving rate to be able to maintain its current consumption level in retirement.

Among the demographic and economic groups Bernheim considered, married couples with a

traditional pension were the best off, with most approaching 50 percent of what they should be saving. Single men and single women with traditional pensions were the next best-off group, with 32 to 47 percent of the amounts they would need to maintain an unchanged living standard. The least well-off group were single men without traditional pensions, whose assets ranged from 19 to 27 percent of the required amount, depending on their incomes.

Up to two-thirds of the baby boom are saving at least as much as they should. Gale (1997a) takes issue with Bernheim's analysis and results. Bernheim's adequacy index, Gale argues, measures not the adequacy of total resources to total retirement needs, but the ratio of "other assets" to the part of total retirement needs not covered by Social Security or pensions. But for some people, Social Security and pensions will cover nearly all their retirement income needs. Thus, Gale argues, a savings adequacy index of 33 percent is consistent with a wide range of post-retirement replacement rates, depending on each individual's accumulation of Social Security benefits and pensions.

Based on a total-resources analysis, Gale concludes that one-third of the baby boom is doing well by any measure, one-third is doing poorly by any measure, and one-third is on the edge. Thus, up to two-thirds are saving as much as they should be, but up to two-thirds are at risk in the sense that any deterioration in their situation--or even a lack of improvement--could make it impossible for them to maintain their living standard in retirement.

The baby boom can expect to be better off than its parents. A report by the Congressional Budget Office (CBO) took yet a different approach to assessing saving adequacy. CBO found that the retirement incomes of most baby boomers in retirement are likely to exceed those of their parents by a large margin as long as average real wages grow (CBO 1993). CBO argued that real wage growth, a more highly educated work force, and higher labor force participation by women will raise real retirement incomes, in part by making more saving possible during the baby boom's pre-retirement years. Thus, if the baby boom is satisfied to match or outdo its parents, its savings may not be as far off track as Bernheim believes.

While CBO's intergenerational comparison is interesting, the baby boom's ability to maintain its own preretirement living standards--not those of its parents--may be the only standard of savings adequacy that ultimately counts. As Bernheim has argued in Congressional testimony, if the baby boom faces a significant drop in its living standards upon retirement, it will take little consolation from the fact that it is better off than a generation that, by that time, will have been dead some 25 years.

Vulnerable Groups of the Future

Whether or not one takes the position that baby boomers as a group will achieve their retirement income goals, it is clear that some baby boomers will not do as well as others.

The poorly educated. CBO found that households headed by a person age 25 to 34 in 1989 (33 to 42 today) with less than a high school diploma are losing ground in real income terms compared with their counterparts 30 years earlier. These persons are less likely than others to

have employer pensions--or even to work in firms where they are offered (Korczyk 1994b). CBO expects these people to rely heavily on Social Security benefits and even public assistance in their retirement years.

Lack of financial literacy--regardless of educational attainment--may be a root cause of inadequate retirement preparation. Cutler (1996) has found that most Americans have more confidence in their ability to buy a television or an automobile than in their ability to buy a mutual fund or make other financial decisions. Furthermore, many do not know that employers who offer a pension are not also required to offer retiree health insurance; that many employer pension plans are integrated with Social Security, reducing the amount of benefits participants will receive; or that retirees are not eligible for Medicare benefits until age 65.

Single parents. Single-parent households, especially those headed by women, are more than three times as prevalent in the baby boom generation as in that of the baby boom's parents (CBO 1993). Single mothers face special obstacles to saving. If they work, their incomes are usually lower than men's. They may have spotty work histories due in part to the demands of raising children alone. And, when it comes time to retire, many will not have the option of claiming Social Security benefits based on a husband's longer and higher earnings.

Non-homeowners. This report has already discussed the higher net worth and higher retirement savings of homeowners. Homeownership--or its lack, especially among mature households--also seems to be a marker for poverty in retirement. CBO found that the median value of wealth for non-homeowners ages 55 to 64--on the eve of retirement if not already retired--in 1989 was \$800, while that for homeowners was \$115,000. Whether this relationship means that those who are better-off buy homes or that those who buy homes feel that they must save more is not important. What is clear is that people who do not own homes may not own much else, either.

Racial and ethnic groups. Pension coverage rates differ by race. African American and white baby-boomers were almost equally likely to be covered by a pension plan based on their own employment (46 percent for the former, 47 percent for the latter) in 1988 (Lewin-VHI, Inc. 1994). Hispanic baby boomers were significantly less likely to have a pension, with only 35 percent covered. But when pension coverage was expanded to include that derived from a spouse's employment, the coverage rate for whites rose to 62 percent, for African Americans to 54 percent, and for Hispanics to 47 percent. Thus, while the added safety net of the family boosts coverage for all ethnic groups, it increases racial inequality in pension coverage.

Do Saving Incentives Work?

If policy makers want people to save more, they have two choices. One is to require people to save more, perhaps in the form of some type of mandatory accounts. The second is to encourage increased saving, usually through tax incentives. While efforts to mandate saving--mandatory pension plans are one option--have long been discussed in this country, none has been enacted. Thus, efforts to increase saving come down to evaluating the efficacy of incentives.

characteristics, experiences, attitudes--that can influence saving behavior. Such understanding can improve choices among alternative saving policy incentives, the design of such incentives, and the design of educational efforts targeted to specific groups.

Part II: A Closer Look at Savings Among Older Adults

Introduction

This report is the second part of a two-part report on saving behavior and patterns of U.S. households. The first part examined the economic and survey literature on saving. That report identified several research gaps in the understanding of saving behavior, including the relative importance of personal characteristics, experiences, and attitudes in determining how much people save. Understanding the relative importance of these factors can suggest which types of saving initiatives are likely to work and who is likely to respond.

This report uses the first (1992) wave of the *Health and Retirement Study* (HRS) to fill in some of these gaps.²⁰ It evaluates the relative impact of personal characteristics, experiences, and attitudes on several components of household net worth: housing, financial assets, and balances in 401(k) and 403(b) retirement plans. The next section of the report briefly describes the HRS, followed by sections explaining the results of the HRS analysis. The final section summarizes the policy implications of the report as a whole.

The Health and Retirement Study

The HRS is a national panel study focusing on respondents ages 51 to 61 in 1992 and their spouses (7,600 households and more than 12,600 persons representing 23.6 million people). It is intended to generate detailed information on the finances, health, experiences, and attitudes of people anticipating or in the early stages of retirement. The HRS, conducted by the University of Michigan Institute for Social Research under contract to the National Institute on Aging, provides data for investigating a broad range of issues affecting older adults. The baseline data were gathered in 1992 through in-home, face-to-face interviews. Follow-up interviews will be conducted by mail and telephone every second year for 12 years.

The survey asks about the personal characteristics of respondents who have experienced certain financial transitions and about the impact of these events on the respondents and their families. The survey also asks about respondents' financial attitudes, plans, and expectations.

The HRS was selected for this analysis because it is a rich database that can provide more detail than other sources on why some people save more than others. The HRS does not include those ages 40 to 50, one group targeted for the AARP saving initiative. However, the HRS asks about many things that happened to respondents in their 40s and earlier. It also contains information about how they feel about it, and about their expectations for the future. Individuals' attitudes and their disposition to plan for the future can make a great deal of difference in the efficacy of educational materials targeted to them. Further, unlike many databases that cover a broader range of demographic groups, the HRS contains data on respondents' current assets.

Women and Saving in the HRS

An important research and policy issue in the analysis of saving is the saving opportunities available to women. More women than ever before are working, and pension coverage among women is rising (Korczyk 1994a). Yet women continue to earn less than men, and their pension coverage rates continue to lag behind men's. Lower earnings and pension coverage rates, combined with divorce rates of roughly 50 percent, can leave many older women at considerable financial risk.

Despite women's greater vulnerability in retirement, previous retirement studies had not paid adequate attention to women (Juster undated). The HRS was designed to permit an increased focus on women in many retirement issues, including the decision about when to retire.

However, the amount of attention that can be paid to women in saving analysis is limited by the structure both of the underlying population and of the survey itself. More than 81 percent of the HRS population--those ages 51 to 61 in 1992--were part of a couple household (virtually all married) at the time of the survey. This rate is far higher than the marriage rate for the adult population as a whole (63 percent for men and 59 percent for women in 1992). Discussing most types of assets by gender for couple households is not very meaningful. HRS results on assets by gender for unmarried persons, in turn, were discussed in the first part of this report (see discussion of results reported in Smith [1995a]).

The analysis of saving patterns and attitudes by gender is further complicated by the way certain questions were asked. Certain questions about families, income, and assets were asked only of certain groups in the HRS, restricting the types of tabulations that can be conducted:

- o Questions on family structure and intra-family transfers were asked only of single persons and women in couple households.
- o Questions on income and assets--including housing net worth, IRAs and Keoghs, and other assets--were asked only of single persons and the (self-reported) financially knowledgeable partner of a couple household. The personal characteristics, experiences, and attitudes of persons reporting these assets are therefore those of the respondent. The respondent may differ in important ways from his or her spouse, and these differences are not considered here.
- o Questions on 401(k) and 403(b) plan balances were asked only of people who were employed at the time of the survey, including both men and women. The survey base for these questions is thus different from the base for housing, IRAs and Keoghs, and other assets.

Thus, the only types of asset tabulations by gender that make sense are those for single persons (reported earlier) and those for employment-related pensions.

Profiles in Thrift

The HRS analysis presented above was limited to bivariate analysis (two-way tables), in part because the time horizon for the present project did not allow for the development and testing of a multivariate model of saving behavior. Multivariate analysis takes account of the simultaneous impact of several variables on a dependent variable. The mathematical structure of the analysis would reflect the researcher's assumptions about how the underlying variables interact in determining behavior. Bivariate analysis, in contrast, largely leaves to the reader the task of assessing the relative importance of the various influences on saving behavior being considered.

To give a multivariate flavor to the present analysis and show, at least to a limited extent, how various influences on saving interact, we constructed several profiles of high savers in low-saving groups. The purpose of constructing these profiles was to gain further insight into the extensive differences in behavior in otherwise-similar groups.

High savers in low-saving groups were selected for profiling due to the focus of the AARP saving initiative. One of the goals of that initiative is to identify and devise strategies for overcoming barriers to saving. High savers in low-saving groups would seem to have faced and overcome such barriers. Their characteristics and attitudes would thus offer useful insights.

Five low-saving groups were selected for analysis:

- o those with a high school education or less,
- o those with household incomes under \$20,000,
- o African Americans,
- o Hispanics,²⁸ and
- o formerly married persons (those separated, divorced, or widowed).

In each group, only the top savers--those with above-median assets--were considered. For each group, average scores on five of the top influences on saving behavior (income, longevity expectations, financial planning time horizon, and expectations that Social Security benefits will become more generous and less generous) were calculated.

The results show that high savers resemble each other, regardless of their other economic or demographic characteristics. In all but the low-income group, for example, high savers had average household incomes between \$40,000 and \$50,000 (Table 19). This range is well above the median household income of roughly \$35,000 for the HRS as a whole (unpublished HRS tabulations).

High savers in low-saving groups also share key financial attitudes. In all the groups considered, the typical high saver gave himself or herself a moderate to high chance of living to

age 75, planned ahead to the next few years in financial matters, thought there was little chance that Social Security benefits would become more generous in the future, and attached a moderate probability to reductions in Social Security benefits. The majority of HRS respondents as a whole shared the attitudes of high savers on their likely longevity and on the future of Social Security benefits. But 29 percent of all HRS respondents--regardless of income--said they planned ahead only a year or less in financial matters and 38 percent said they planned ahead five years or more (unpublished HRS tabulations). High savers in low-saving groups thus have a stronger disposition than many HRS respondents to think ahead.

These profiles in thrift suggest that educational materials about saving and about planning for retirement could be targeted not only to who people are--by family or marital status or ethnic background, for example--but also to how they think about key financial issues. Attitudes clearly cut across demographic and economic categories, and account for some of the differences in behavior among otherwise similar individuals and households.

Conclusions

The HRS analysis reinforces certain conclusions about barriers to saving reached in the first part of the report. Certain groups with lower savings throughout their work lives reach the eve of retirement with significantly fewer assets than their peers:

- o single persons, including both those formerly married and those never married;
- o African American and Hispanic households;
- o people with a high school education or less; and
- o people with lower incomes.

The HRS analysis shows that even though people save more as they age, age does not level differences in saving patterns, even within narrowly defined groups. In nearly all economic and demographic groups, there are some people who do not save at all, some who save just a little, and some who save a great deal.

The report also adds new insights based on the experiences and attitudes of people who are nearing or in the early stages of retirement. By the time they reach their 50s and early 60s, many people can expect to experience various events that can reduce their earning capacity and upset their financial planning. People who experience unemployment in their 40s or 50s, those who are forced--either by on-the-job or personal circumstances--to retire earlier than they would have preferred, and those who experience a decline in health or a work-reducing disability may find it especially difficult to plan for retirement. People in industries that are cyclically sensitive or shrinking, or in physically demanding occupations, should therefore be especially aware of the need for adequate retirement planning.

The relationship between savings on the one hand and personal expectations, attitudes, and

opinions on the other yields further insight both into why people do what they do and how their decisions could be influenced. The HRS results suggest that people know when their financial situation is bad. Surveys also suggest that they may be receptive to messages about ways to improve their financial situation. For example, the *1997 Retirement Confidence Survey* found that 86 percent of people offered pension education material by their employer take advantage of it, and that most either begin to save or change their saving behavior as a result of such information (EBRI et al. 1997). Likewise, an AARP-funded study found that older African-American and Hispanic adults with modest incomes find it difficult to save money but want clear, concise information about how to develop strategies for saving and investing (Princeton Survey Research Associates 1996).

People with the longest personal planning horizon save the most. But there may be limits on how far into the future people are willing to look. The HRS results suggest that distant events--such as the possibility one will live to age 85--may look less real and inspire less planning than those that are more imminent. Consequently, educational materials that break up the future into "bite-sized" pieces may be more useful than materials with a more comprehensive perspective.

An important debate in saving theory concerns the degree to which people save for their own lifetimes compared with the needs and lifetimes of their heirs. The HRS suggests that feelings about the importance of leaving an inheritance are not consistently related to household saving patterns. Those who plan to leave an inheritance have saved more than those who don't, but this relationship may simply reflect the fact that high savers have more to leave rather than implying any relationship between saving and bequest plans.

As the nation begins the most intense debate ever on the future of the Social Security program, it is important to note that the saving patterns of HRS respondents track closely with their expectations about the program's future. Those who believe benefits will improve and those who believe they will worsen both seem to act on their expectations, with optimists saving less and pessimists saving more. While the present analysis says nothing about causality, this relationship is strong enough to warrant moderation in the coming debate over the program's future direction.

Notes

¹ For an analysis of recent pension coverage trends, see Korczyk (1994a).

² These assets could belong to an individual household, a group or category of households, or an entire economy.

³ Keynes's list is reproduced here, along with one contemporary addition (the final bullet) and explanatory designations based on Browning and Lusardi (1996).

⁴ It would be possible to think of this as the investment motive; consume less today to have more tomorrow.

⁵ The "pure" life cycle model does not demand that people spend all their money during their lifetimes, however. Rather, it predicts that most savings will be undertaken for the purpose of

smoothing consumption over the life cycle. For example, Modigliani (1988), an originator of the theory, estimates that life-cycle savings are about 80 percent of all wealth, while Kotlikoff (1988), a critic of its central premises, puts this share at a much lower 20 percent.

⁶ The Survey of Consumer Finances, the Consumer Expenditure Survey, the Panel Study of Income Dynamics, the Health and Retirement Survey, the Asset and Health Dynamics Survey, the Survey of Income and Program Participation, the National Longitudinal Survey, and the Longitudinal Retirement History Survey (this survey is no longer fielded).

⁷ Life-cycle theories suggest that saving rates should be independent of the level of lifetime income. This is a common-sense notion: no matter how much or how little one earns, one would want to save to avoid a precipitous decline when one is no longer able to work.

⁸ But more educated people may need information, too. In a study of participants in the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), the principal pension plan for many private college and university faculty, Bodie and Crane (1997) found that while individual asset allocations are consistent with the recommendations of experts and of economic theory, respondents do not appear to manage their assets across retirement and non-retirement accounts to maximize tax efficiency.

⁹ The second part of the present report provides more detailed HRS results.

¹⁰ The HRS and the SCF define net worth similarly (see footnotes to Tables 2 and 3).

¹¹ This figure differs from the results of the SCF discussed earlier because it includes all pension plans, whether or not they are under individual control, and because the household sector as defined in the flow of funds also includes non-profit organizations.

¹² There could be ancillary benefits to both the participant and society from subsidizing retirement savings even if no new saving occurs. Retirement savings should be invested for the long term, increasing the stability of financial markets. Similarly, even if pension participants save no more, in the end, than they would have without the subsidy, both society and pension participants could be better off if segregating the savings in a dedicated retirement account ensures that the savings are available when people are no longer able to work. However, even if such benefits are posited, one is justified in asking whether they are worth the tax subsidies accorded to retirement savings.

¹³ The model, its implications for the pension-savings offset, and its complications are summarized in Korczyk (1992).

¹⁴ See studies reviewed in Korczyk (1992).

¹⁵ Poterba, Venti and Wise (1994a, 1994b, 1995, 1996a, 1996b); Venti and Wise (1986, 1987, 1990a, 1991, 1992, 1995, 1996); Wise (1987).

¹⁶ Engen and Gale (1993, 1997); Engen, Gale, and Scholz (1994, 1996a, 1996b).

¹⁷ IRAs became available to all households in 1982.

¹⁸ It is not likely, however, that households would reduce their contributions to employer-sponsored pension plans to finance IRAs, as EGS suggest. Even in a plan that does not match employee contributions, employer plans still have certain advantages over IRAs, the most prominent being higher contribution limits.

¹⁹ After all, the tax reform debate began with a search for new federal revenue that could be used to reduce the federal deficit (Birnbaum and Murray 1987). Yet the tax law itself was revenue neutral, leading most observers to expect further attempts at deficit reduction that would result in tax increases.

²⁰ The tabulations were ably performed by Glenn G. Hassell of Digital Solutions.

²¹ However, there is evidence that even low-income retirees are reluctant to tap into their housing equity, whether by selling their homes or borrowing against them using reverse annuity mortgages (see for example, Venti and Wise [1999b]).

²² Table 9 underreports home ownership rates as it includes only respondents with positive home equity.

²³ Since IRAs can be used for rollovers from employer-sponsored plans as well as for current retirement saving, some of the variation in IRA holding would reflect past pension, not IRA, participation.

²⁴ These assets include recreational and other vehicles, checking and savings accounts, money market funds, certificates of deposit, government savings bonds and other Treasury securities, stock, mutual funds, investment trusts, business equity, bonds and bond funds, and real estate (including second homes but not primary residences).

²⁵ The present analysis is based on the public use database, which includes sampling weights and imputations for missing data. Korczyk (1996b) was based on the beta tape, which did not include imputations for missing data.

²⁶ The present report does not discuss one type of intra-family support discussed in Korczyk (1996b): shared living arrangements where the arrangement was undertaken primarily to assist the parents. The public use tape reported such arrangements differently from the beta tape, and we were unable to obtain documentation of these variables from the University of Michigan in time to perform the empirical analysis within the deadline constraints of the present report. The incidence of such arrangements is small, however--1.3 percent on a weighted basis--and does not add much to an understanding of individual influences on saving.

²⁷ Balances in 401(k)/403(b) plans are not presented because the survey reports these balances on an individual basis while family help is reported on a household basis.

²⁸ African American and Hispanic households were combined in the analysis to increase cell size.

Table 1. Saving Rates and Trends by Age, Family Type, and Income Quintile, 1963-1985 ^{a/}

Group	Saving as Percent of Income	
	<u>1983-1985</u>	<u>Change from 1963</u>
Age of household head		
25-34	13.6	-1.1
35-44	10.1	-1.2
45-54	10.3	-6.9
55-64	10.6	-3.6
65 and over	2.5	-8.7
Family type		
Married with children	9.4	-5.1
Married without children	15.4	-0.5
Single with children	1.2	1.6
Single without children	11.9	-3.6
Income quintile ^{b/}		
First	-2.4	-2.1
Second	-2.9	-10.8
Third	10.0	-5.4
Fourth	9.9	-3.6
Fifth	12.5	-4.0

^{a/} Data shown are based on the Federal Reserve Board *Survey of Consumer Finances*. Bosworth, Burtless, and Sablehaus (1991) also present saving rate data from the *Consumer Expenditure Survey* (CES). The CES data show similar age patterns as well as declines over time.

^{b/} To calculate saving rates by income quintiles, the survey population was ranked by income and then divided into five groups of equal size. The first quintile thus represents the poorest 20 percent of the population, the next quintile the next poorest group, etc.

Source: Bosworth, Burtless, and Sablehaus (1991).

Table 2. Net Worth by Family Characteristics, 1995 (in thousands of dollars) a/

Group	Percent of Families	Mean <u>b/</u>	Median <u>b/</u>
All families	100	205.9	56.4
Age of family head			
Under 35	25	47.2	11.4
35-44	23	144.5	48.5
45-54	18	277.8	90.5
55-64	13	356.2	110.8
65-74	12	331.6	104.1
75 and older	10	276.0	95.0
Family income			
Less than \$10,000	16	45.6	4.8
\$10,000 to \$24,999	27	74.6	30.0
\$25,000 to \$49,000	31	119.3	54.9
\$50,000 to \$99,999	20	256.0	121.1
\$100,000 and over	6	1,465.2	485.9
Education of family head			
High school or less	51	119.1	41.1
Some college or graduate	49	294.6	80.7
Race of family head			
White non-Hispanic	78	244.0	73.9
Nonwhite or Hispanic	23	74.4	16.5
Housing status			
Owner	65	295.4	102.3
Renter	35	42.2	4.5

a/ Net worth includes the value of individual retirement accounts and defined-contribution plans from which loans or withdrawals can be made, but not defined benefit plans, future Social Security benefits, or plans with no loan or withdrawal provisions.

b/ See text for definitions.

Source: Kennickell, Starr-McCluer, and Sunden (1997).

Table 3. Net Worth by Marital Status and Race, 1992 (in thousands of dollars) a/

Marital Status	All		White		African American		Hispanic	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
All	238.5	99.5	263.7	115.0	71.6	24.8	79.7	29.7
Married	288.4	132.2	303.6	141.1	120.4	58.7	106.6	50.0
Partner	218.2	56.5	271.8	91.0	44.0	3.0	64.6	5.0
Separated	85.3	7.6	136.5	30.3	18.8	0.6	8.6	<u>b/</u>
Divorced	117.6	33.7	132.5	38.7	45.7	13.0	36.9	4.8
Widowed	119.5	47.3	146.7	65.2	36.3	11.0	50.2	8.5
Never married	166.1	35.0	213.6	52.3	23.2	<u>b/</u>	31.1	0.5

a/ Net worth includes the value of individual retirement accounts and Keogh plans but not other employer plans or future Social Security benefits.

b/ Less than \$500.

Source: Smith (1995a).

Table 4. Net Worth of Unmarried Householders by Marital Status and Gender, 1992
(in thousands of dollars)

Marital Status <u>a/</u>	Male		Female	
	<u>Mean</u>	<u>Median</u>	<u>Mean</u>	<u>Median</u>
Divorced or separated	162.0	35.0	82.1	22.9
Widowed	170.5	43.6	112.7	46.0
Never married	248.1	39.5	92.4	30.8

a/ Assets of couple households are not tabulated by gender as each member of the household is assumed to have an equal claim on the household's assets.

Source: Smith (1995a).

Table 5. Retirement Savings by Household Characteristics, 1995^{a/}

Group	Percent with Retirement Savings	Median Value (in thousands of dollars) ^{b/}
All families	43	15.6
Age of family head		
Under 35	39	5.2
35-44	52	12.0
45-54	54	25.0
55-64	47	32.8
65-74	35	28.5
75 and older	17	17.5
Family income		
Less than \$10,000	6	3.5
\$10,000 to \$24,999	24	6.0
\$25,000 to \$49,999	53	10.0
\$50,000 to \$99,999	70	23.0
\$100,000 and over	85	85.0
Race of family head		
White non-Hispanic	47	17.5
Nonwhite or Hispanic	29	9.6
Housing status		
Owner	52	20.0
Renter	26	5.6

^{a/} Retirement savings include individual retirement accounts (IRAs), Keogh accounts, and employer-provided pension plans from which withdrawals or loans can be made.

^{b/} Median based only on families having retirement savings.

Source: Kennickell, Starr-McCluer, and Sunden (1997).

Table 6. Availability of Retirement Savings by Income Group, 1994 a/

	All Respondents	Percent with Savings	Percent without Savings
All families	100	69	31
Under \$10,000	100	27	73
\$10,000 to \$29,999	100	46	54
\$30,000 to \$49,999 <u>b/</u>	100	80	19
\$50,000 to \$99,999 <u>b/</u>	100	87	10
\$100,000 or more	100	94	6

a/ Based on the question “Do you personally have any money saved for your own retirement?”

b/ Detail does not add to total because some persons did not know.

Source: Princeton Survey Research Associates (1994).

Table 7. Index of Saving Adequacy for the Baby Boom Generation, 1994 (in percents)

Households by Type and Income	Retirement Savings as Percent of Required Amount <u>a/</u>	
	<u>With Traditional Pension b/</u>	<u>Without Traditional Pension c/</u>
Married Couples		
\$20,000 to \$40,000	46	24
\$40,000 to \$60,000	43	26
\$60,000 to \$100,000	40	26
Over \$100,000	47	32
Single Men		
\$20,000 to \$40,000	37	19
\$40,000 to \$60,000	37	21
\$60,000 to \$100,000	32	23
Over \$100,000	43	27
Single Women		
\$20,000 to \$40,000	36	24
\$40,000 to \$60,000	47	25
\$60,000 to \$100,000	31	24
Over \$100,000	39	27
All		36

a/ Adequacy is measured as the midpoint of amounts needed under both optimistic and pessimistic assumptions. Under the optimistic assumption, households are assumed to intend to use all household assets other than housing equity to finance retirement. Under the pessimistic assumption, households are assumed to use only retirement savings to finance retirement.

b/ Traditional pensions exclude 401(k) plans and other tax-deferred salary reduction plans.

c/ Persons without traditional pensions may have 401(k) plans or other tax-deferred salary reduction plans.

Source: Bernheim (1994).

Table 8. Do 401(k) Plans and IRAs Increase Savings?: A Summary of the Opinions

Researchers	401(k) Plans	IRAs
Engen, Gale, and Scholz	No new savings	No new savings
Hubbard and Skinner	Mostly new savings	\$0.26 or more new savings per \$1 contributed
Poterba, Venti, and Wise	Mostly new savings	Mostly new savings

Source: Engen, Gale and Scholz (1996b); Hubbard and Skinner (1996); Poterba, Venti and Wise (1996b).

Table 9. Personal Characteristics and Saving in the HRS (in percents and thousands of dollars)

Characteristic	Net Worth Housing			Net Worth Non-Housing						
	% w/Assets	Mean	Median	IRAs/Keoghs			Other			
% w/Assets				Mean	Median	% w/Assets	Mean	Median	% w/Assets	Mean
Marital Status										
Married	88%	89.3	65.0	49%	50.8	25.0	99%	205.9	50.0	
Separated/divorced/widowed	57%	69.6	47.0	28%	32.6	16.0	89%	80.6	12.0	
Never married	50%	72.9	60.0	31%	29.4	20.0	87%	115.5	19.0	
Ethnic Background										
White	80%	87.3	65.0	46%	46.3	20.0	97%	179.7	40.0	
African American	54%	48.5	37.1	13%	39.3	18.0	81%	53.0	9.9	
Hispanic	52%	69.8	48.0	10%	24.1	10.0	81%	75.5	8.9	
Other	63%	97.6	71.0	29%	43.0	14.0	93%	140.3	30.0	
Education										
High school or less	73%	68.1	50.0	31%	38.6	20.0	92%	107.0	20.0	
Some college or college graduate	81%	104.4	75.0	56%	51.7	25.0	99%	242.7	65.0	
Income ^{a/}										
Under \$20,000	54%	56.5	40.0	17%	30.9	15.0	85%	60.9	60.4	
\$20,001 - \$35,000	76%	71.9	50.0	35%	35.7	20.0	99%	92.6	20.5	
\$35,001 - \$50,000	87%	76.7	60.0	47%	34.6	20.0	99%	101.4	32.5	
\$50,001 or greater	91%	109.4	82.0	65%	57.3	30.0	100%	325.6	105.0	

^{a/} Income from all sources.

Source: Tabulations of HRS public use data, Wave 1.

Table 10. Personal Characteristics and 401(k)/403(b) Balances in the HRS
(in percents and thousands of dollars)

Characteristic	401k/403b Balances		
	<u>% with Assets</u>	<u>Mean</u>	<u>Median</u>
Gender			
Male	19%	65.3	22.0
Female	12%	24.1	10.0
Marital Status			
Married	16%	49.3	18.5
Separated/divorced/widowed	14%	39.2	12.0
Never married	14%	75.5	20.0
Ethnic Background			
White	16%	50.6	18.0
African American	8%	20.0	10.0
Hispanic	8%	18.3	6.8
Other	15%	32.4	20.0
Education			
High school or less	11%	29.1	12.0
Some college or college graduate	22%	63.9	20.0
Income ^{a/}			
Under \$20,000	4%	9.5	4.0
\$20,001 - \$35,000	16%	17.8	10.0
\$35,001 - \$50,000	20%	29.4	14.0
\$50,001 or greater	28%	81.9	30.0

^{a/} Includes only wage or salary of plan participant.

Source: Tabulations of HRS public use data, Wave 1.

Table 11. Financial Events and Saving in the HRS (in percents and thousands of dollars)

Financial Event	Net Worth Non-Housing								
	Net Worth Housing			IRAs/Keoghs			Other Assets		
	<u>% w/Assets</u>	<u>Mean</u>	<u>Median</u>	<u>% w/Assets</u>	<u>Mean</u>	<u>Median</u>	<u>% w/Assets</u>	<u>Mean</u>	<u>Median</u>
Giving family support	73%	82.4	60.0	43%	40.2	20.0	96%	147.5	28.8
Receiving support	48%	19.9	35.0	12%	28.9	20.0	90%	95.0	3.5
Job loss	69%	69.6	50.0	36%	36.4	20.0	95%	85.2	19.1
Forced retirement	68%	80.5	57.0	30%	59.8	30.0	90%	110.4	23.2
Change in health	63%	68.3	48.0	24%	45.0	20.0	88%	106.0	13.2
Disability	63%	67.6	45.0	23%	42.7	20.0	87%	89.3	12.0

Source: Tabulations of the HRS public use data, Wave 1.

Table 12. Financial Events and 401(k)/403(b) Balances in the HRS (in percents and thousands of dollars)

Financial Event	401k/403b Balances		
	<u>% w/Assets</u>	<u>Mean</u>	<u>Median</u>
Giving family support	<u>a/</u>	<u>a/</u>	<u>a/</u>
Receiving support	25%	70.70	19.00
Job loss	14%	18.20	7.00
Forced retirement	1%	54.50	24.00
Change in health	9%	40.60	15.00
Disability	5%	44.00	15.00

a/ Not applicable; see text.

Source: Tabulations of HRS public use data, Wave 1.

Table 13. Personal Experiences, Expectations, and Saving in the HRS (in percents and thousands of dollars)

Category	Net Worth Housing			Net Worth Non-Housing					
	% w/Assets	Mean	Median	IRAs/Keoghs			Other		
	% w/Assets	Mean	Median	% w/Assets	Mean	Median	% w/Assets	Mean	Median
Financial status relative to 2 years ago									
Much better off	78%	86.7	66.0	49%	55.6	25.0	98%	295.6	71.5
Somewhat better off	80%	90.0	65.0	48%	48.2	25.0	97%	206.7	50.8
About the same	77%	84.3	60.0	42%	45.2	20.0	94%	147.6	32.0
Somewhat worse off	74%	80.1	54.5	37%	43.7	20.0	94%	127.9	20.0
Much worse off	59%	65.4	46.0	21%	28.9	17.0	89%	95.3	6.6
Expected financial status in 2 years									
Much better off	75%	87.5	60.0	41%	58.6	25.0	97%	227.4	51.0
Somewhat better off	76%	82.2	60.0	40%	42.4	20.0	96%	172.5	35.7
About the same	77%	82.7	61.0	43%	47.9	20.0	94%	154.5	30.9
Somewhat worse off	76%	92.2	66.0	41%	35.9	20.0	93%	127.3	26.6
Much worse off	66%	97.2	60.0	30%	42.3	20.0	87%	148.2	12.4
Previous large unexpected expenses									
Yes	72%	73.6	50.0	33%	33.1	16.0	96%	121.5	20.2
No	78%	88.9	66.0	46%	50.5	25.0	94%	187.0	41.0

Source: Tabulations of the HRS public use data, Wave 1.

Table 14. Personal Experiences, Expectations, and 401(k)/403(b) Balances in the HRS (in percents and thousands of dollars)

Category	401(k)/403(b) Balances		
	<u>% with Assets</u>	<u>Mean</u>	<u>Median</u>
Financial status relative to 2 years ago			
Much better off	25%	70.7	19.0
Somewhat better off	25%	64.2	20.0
About the same	15%	46.2	19.7
Somewhat worse off	11%	40.1	10.0
Much worse off	5%	44.3	13.0
Expected financial status in 2 years			
Much better off	19%	69.5	20.0
Somewhat better off	20%	54.8	18.0
About the same	15%	49.8	15.0
Somewhat worse off	13%	52.8	20.2
Much worse off	6%	66.1	13.0
Previous large unexpected expenses			
Yes	17%	45.9	15.0
No	17%	58.4	20.0

Source: Tabulations of HRS public use data, Wave 1.

Table 15. Future Orientation and Saving in the HRS (in percents and thousands of dollars)

Category	Net Worth Housing			Net Worth Non-Housing					
	% w/Assets	Mean	Median	IRAs/Keoghs			Other		
	% w/Assets	Mean	Median	% w/Assets	Mean	Median	% w/Assets	Mean	Median
Expect to live to 75+									
Low (0 - 3)	70%	65.4	48.0	29%	37.9	18.0	92%	114.4	17.1
Moderate (4 - 6)	76%	80.5	60.0	42%	42.5	20.0	96%	135.2	30.0
High (7 - 10)	78%	89.4	66.0	46%	49.7	23.0	96%	192.1	42.0
Expect to live to 85+									
Low (0 - 3)	76%	75.5	55.5	39%	43.0	20.0	95%	138.6	27.0
Moderate (4 - 6)	79%	91.0	65.0	47%	50.6	23.0	97%	177.1	44.0
High (7 - 10)	74%	87.1	66.0	42%	45.8	20.0	94%	188.2	35.0
Financial planning time horizon									
Next few months	64%	73.4	49.0	38%	36.2	15.0	91%	98.4	12.2
Next year	72%	79.8	60.0	45%	49.7	20.0	95%	122.9	25.3
Next few years	78%	79.5	62.0	56%	40.7	20.0	96%	148.2	35.5
Next 5-10 years	82%	86.0	65.0	61%	44.1	21.0	98%	185.6	47.0
Longer than 10 years	81%	108.5	74.0	70%	72.2	30.0	96%	297.0	68.5
Important to leave inheritance									
(BOTH) Very important	73%	90.0	65.0	49%	44.2	22.0	93%	211.8	35.5
(BOTH) Somewhat important	78%	84.1	60.0	57%	46.3	20.0	96%	167.1	35.0
(BOTH) Not at all important	74%	74.1	56.0	54%	44.6	20.0	94%	115.3	27.0
R and spouse differ	91%	126.3	75.0	57%	62.7	30.0	100%	297.6	57.0
Plan to leave inheritance									
Yes, definitely	85%	113.7	87.5	61%	60.9	30.0	98%	442.2	113.5
Yes, probably	89%	105.3	76.0	63%	57.8	30.0	98%	225.5	86.5
Yes, possibly	82%	94.8	70.0	58%	50.2	25.0	97%	200.9	51.5
Probably not	76%	71.3	52.6	54%	34.0	20.0	96%	82.0	25.1
No, definitely	62%	58.5	45.0	43%	34.1	15.0	89%	65.1	12.4

Source: Tabulations of the HRS public use data, Wave 1.

Table 16. Future Orientation and 401(k)/403(b) Balances in the HRS
(in percents and thousands of dollars)

	401k/403b Balances		
	% w/Assets	Mean	Median
Expect to live to 75+			
Low (0 - 3)	11%	46.0	14.0
Moderate (4 - 6)	15%	43.2	15.0
High (7 - 10)	18%	49.7	20.0
Expect to live to 85+			
Low (0 - 3)	15%	48.7	15.9
Moderate (4 - 6)	17%	49.8	18.0
High (7 - 10)	16%	42.7	15.0
Financial planning time horizon			
Next few months	8%	28.2	13.0
Next year	13%	33.2	18.0
Next few years	16%	46.3	15.0
Next 5-10 years	21%	48.1	19.0
Longer than 10 years	17%	81.6	20.0
Important to leave inheritance			
(BOTH) Very important	13%	67.2	17.0
(BOTH) Somewhat important	18%	54.2	18.0
(BOTH) Not at all important	18%	43.0	18.0
R and spouse differ	19%	87.5	28.0
Plan leave inheritance			
Yes, definitely	20%	93.1	24.0
Yes, probably	20%	73.7	23.0
Yes, possibly	17%	57.2	18.0
Probably not	17%	38.5	20.0
No, definitely	14%	30.9	12.0

Source: Tabulations of HRS public use data, Wave 1.

Table 17. Opinions About the Economy and Saving in the HRS (in percents and thousands of dollars)

Characteristic	Net Worth Housing			Net Worth Non-Housing						
	% w/Assets	Mean	Median	IRAs/Keoghs			Other			
				% w/Assets	Mean	Median	% w/Assets	Mean	Median	
Expect house prices to increase more than inflation										
Low (0 - 3)	84%	72.8	52.0	46%	45.2	20.0	97%	159.6	41.0	
Moderate (4 - 6)	79%	85.1	65.0	46%	44.6	20.0	97%	163.9	36.8	
High (7 - 10)	64%	96.0	68.0	32%	51.0	24.0	92%	167.2	24.5	
Expect Social Security to become more generous										
Low (0 - 3)	80%	85.7	63.0	46%	45.7	20.0	97%	160.9	39.0	
Moderate (4 - 6)	72%	78.2	60.0	35%	48.4	22.0	94%	172.1	25.1	
High (7 - 10)	60%	77.0	54.0	22%	45.2	15.0	86%	146.7	19.0	
Expect Social Security to become less generous										
Low (0 - 3)	73%	74.9	56.0	35%	45.8	22.0	93%	147.4	29.2	
Moderate (4 - 6)	77%	83.5	60.0	41%	46.1	20.0	95%	163.3	30.0	
High (7 - 10)	78%	87.3	65.0	46%	46.5	21.0	96%	168.6	38.6	
Expect a major depression within 10 years										
Low (0 - 3)	80%	93.2	66.0	48%	50.0	25.0	96%	235.2	50.0	
Moderate (4 - 6)	57%	82.3	62.0	32%	46.7	20.5	69%	155.5	40.0	
High (7 - 10)	70%	79.8	56.0	34%	42.9	20.0	93%	128.9	22.8	
Expect double-digit inflation within 10 years										
Low (0 - 3)	78%	80.4	65.0	45%	40.2	20.0	96%	187.7	42.4	
Moderate (4 - 6)	80%	85.4	64.7	46%	48.6	25.0	97%	168.4	40.8	
High (7 - 10)	73%	83.5	57.0	36%	46.4	20.0	94%	150.3	26.0	

Source: Tabulations of the HRS public use data, Wave 1.

Table 18. Opinions About the Economy and 401(k)/403(b) Balances in the HRS (in percents and thousands of dollars)

	401(k)/403(b) Balances		
	<u>% with Assets</u>	<u>Mean</u>	<u>Median</u>
Expect house prices to increase more than inflation			
Low (0 - 3)	16%	43.4	18.0
Moderate (4 - 6)	17%	50.6	16.0
High (7 - 10)	14%	49.4	15.0
Expect Social Security to become more generous			
Low (0 - 3)	18%	45.0	18.0
Moderate (4 - 6)	13%	58.3	15.0
High (7 - 10)	7%	57.9	14.0
Expect Social Security to become less generous			
Low (0 - 3)	13%	40.1	12.0
Moderate (4 - 6)	14%	52.9	15.0
High (7 - 10)	19%	48.2	20.0
Expect a major depression within 10 years			
Low (0 - 3)	20%	66.6	20.0
Moderate (4 - 6)	16%	43.2	15.0
High (7 - 10)	13%	36.1	14.0
Expect double-digit inflation within 10 years			
Low (0 - 3)	18%	44.7	18.0
Moderate (4 - 6)	16%	53.3	20.0
High (7 - 10)	14%	43.0	15.0

Source: Tabulations of HRS public use data, Wave 1.

Table 19. Profiles in Thrift: High-Saving Households in Low-Saving HRS Groups ^{a/}

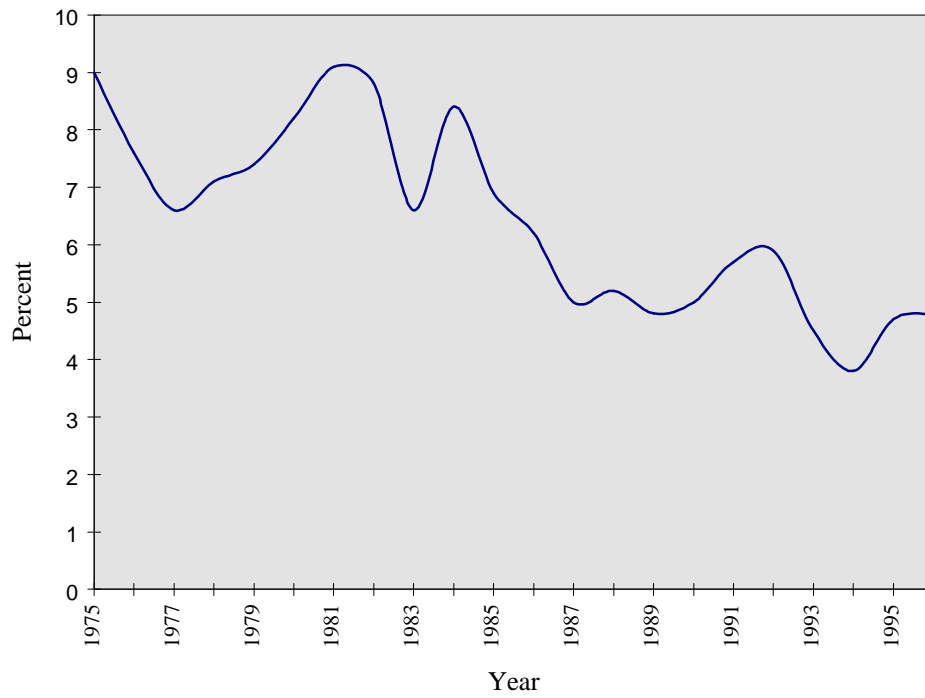
Profile	Average Income ^{b/}	Expect to Live to Age 75 or Older	Financial Planning Time Horizon	Chances Social Security Will Become More Generous	Chances Social Security Will Become Less Generous
High school education or less	\$45,563	Moderate/high	Next few years	Low	Moderate
Household income under \$20,000	\$11,483	Moderate/high	Next few years	Low	Moderate
African American or Hispanic	\$49,881	Moderate/high	Next few years	Low	Moderate
Separated/divorced/widowed	\$41,074	Moderate/high	Next few years	Low	Moderate

^{a/} Descriptions apply to households with above-median savings in the groups profiled.

^{b/} Income includes that from all sources, including transfer payments if applicable.

Source: Tabulations of HRS public use data, Wave 1.

Chart 1. Saving as a Share of Personal Disposable Income, 1975-1996



Source: Executive Office of the President (1997).

Appendix A. A Summary of U.S. Savings Data Sets

Data Set	Period	Major Features
Survey of Consumer Finances	1962/63; 1983/86/89; 1992	Large attrition, oversampling of rich, pension provider surveys included
Consumer Expenditure Survey	1960/61; 1972/73; 1980-present	Measurement errors in income
Panel Study of Income Dynamics	1968-present	Active and passive saving
Health and Retirement Survey	1992-present	Only older respondents
Asset and Health Dynamics Survey	1993-present	Only very older respondents
Survey of Income and Program Participation	1984-present	Overlapping panels, only some components of wealth
National Longitudinal Survey	Various, depending on survey	Various specific cohorts followed
Longitudinal Retirement History Survey	1969-1979 (bi-annual)	Aged 58-63 in 1969

Source: Adapted from Browning and Lusardi (1996).

Appendix B. Incidence of Financial Transitions Among HRS Respondents, 1992

Financial Transition	Percent Experiencing Event	Percent Who Were Also Asked Net Worth Questions
Help to parents or children	51.3 <u>a/</u> , <u>b/</u>	59
Financial help from family or friends	1.2 <u>a/</u>	100
Unemployment in past 10 years	23.4 <u>c/</u>	69
Forced retirement	9.9 <u>c/</u>	74
Change in health in past year	11.9 <u>c/</u>	71
Work-reducing disability	20.5 <u>c/</u>	70

a/ These percentages are based on households.

b/ This percentage is equivalent to 33.3 percent of respondents.

c/ These percentages are based on individuals.

Source: Tabulations of HRS public release data, Wave 1.

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