How Households Evolve after Retirement?
: the Effects of Retirement on the Consumption, Wealth, and Portfolio Choice

With baby-boomers which consist of 14.6% in a population in Korea approaching retirement and the fast progress of aging, the issue of retirement is becoming a topic of increasing concern. From 2010, the baby-boomers (1955~1963) started to retire their major jobs so the preparedness of these households to finance consumption during retirement is a really big concern for the society in Korea. Many people believe that the impact of the baby-boomers retirement on our society and economy will be enormous since the rational household may adjust their economic behaviors such as consumption, wealth accumulation, and the portfolio choice. However, the serious academic research on this issue has been done a little due to the lack of appropriate dataset in Korea.

Here we analyze the household’s economic behaviors such as consumption, asset holding, and portfolio change before and after the retirement of the head in households using the household panel data although the time span is relative short for this kind of research. Here we aim to provide some implications for the financial market and the policy related to the retirement and aging in Korea. Specifically we use KReIS (Korean Retirement and Income Study) and KLoSA (Korean Longitudinal Study of Ageing) which are the major panel data for the retirement study in Korea to find out how the household economically evolve after the retirement in the respect of their consumption, asset
holding and portfolio changes applying the panel data method not the cross sectional comparison. The most previous studies would do the simple descriptive analysis of retirement issues using the cross sectional data, which only can provide the indirect implications for the impact of retirement for the financial market since events of the retirement would not happen to the same households when we use this type of data. When we use the panel data which collect the same households information as time goes by we are able to analyze the same households behaviors change after the retirement and get the more accurate implications for the industry and the market as well as the policy makers.

Below are the summary of our findings using the panel data to analyze the household’s consumption changes after the retirement in Korea.

Firstly, total consumption expenditure changes after the retirement were not statistically significant. According to the life cycle/permanent income hypothesis (LCPIH), if households are rational and foresighted, then their consumption should not change upon expectedly retiring. Contrary to this hypothesis, however, some empirical investigations have concluded that household consumption falls at the time of retirement, even when retirement is expected. This fall in consumption at retirement is referred to as the "retirement-consumption puzzle" and has led to researchers to call into question the standard rational expectations life cycle model. Our empirical findings appears to partly support the LCPIH.

Secondly, comparing the changes of consumption items before and after the retirement, it shows that the results are item specific,
especially, decreases in food and educational expenses would statistically significant although medical expenses seem to be increased after their retirements. However, when we control the households heterogeneity and retirement is well foresighted, this kind of change would not be statistically significant.

Thirdly, when we use the synthetic long-time panel to analyse the long-run impact of retirement on the households consumption, it seems to be decreased as the period of retirement is getting longer. Since the time span of the panel data is relatively short (less than 5 years) to analyse the long run impact we constructed the synthetic panel data and the results imply that the short run and long run impacts of the retirement would be different.

Fourthly, we investigate how the retiring households sensitively react the income change in the respect of the consumption. Most of middle and old aged households are very sensitive to income changes, which imply that there might be liquidity constraints in these households. Base on the theory of the liquidity constraint hypothesis and using the related empirical model, we investigate whether the retirement would strengthen this constraint and the empirical results show that the retirement appears not to affect the excess sensitivity of these households. However, when we diversify the households into the income level, the poor households seems to be somewhat sensitive to the income change after the retirement.

Compared to the studies on the consumption change after the retirement, there would be a relatively few studies on the retirement impact on the asset holdings and the portfolio choice in Korea. Using the similar empirical strategy we investigate the Korean households
wealth accumulation and portfolio behaviors. Belows are the major findings.

Firstly, we investigate the impact of retirements on the inequality. Based on the Gini index, we find that the distribution of the households which are already retired would be worse than the distributions of not-retired households in Korea. When we analyze this using the sub category of the assets, we find that the distribution of the financial asset would be worse than the other assets.

Secondly, similarly to the results of the consumption changes in the previous chapters, there seems to be no significant changes in the level of asset holdings after the retirement. It is somewhat different to the prediction of the LCPIH. However, the long run results support this prediction so we argue that the long run and short run effect would be somewhat different. More rigorous work can be done when we get the more longer time span panel data set.

Based on the several surveys about the people’s conception on the retirement and aging, we find that the people’s concern on the retirement and aging is getting serious compared to the other OECD countries and this kinds of uncertainty of the aging and retirement life seem to affect the economic behaviors of the households, especially, portfolio choice. Our final empirical findings show that health risk would affect the portfolio choice, which causes the households hold less risky asset in their asset portfolio composition.