

How Do Households Adjust Their Saving After Children Leave Home?

Andrew G. Biggs, **Anqi Chen**, and Alicia H. Munnell
American Enterprise Institute and Center for Retirement Research at Boston College

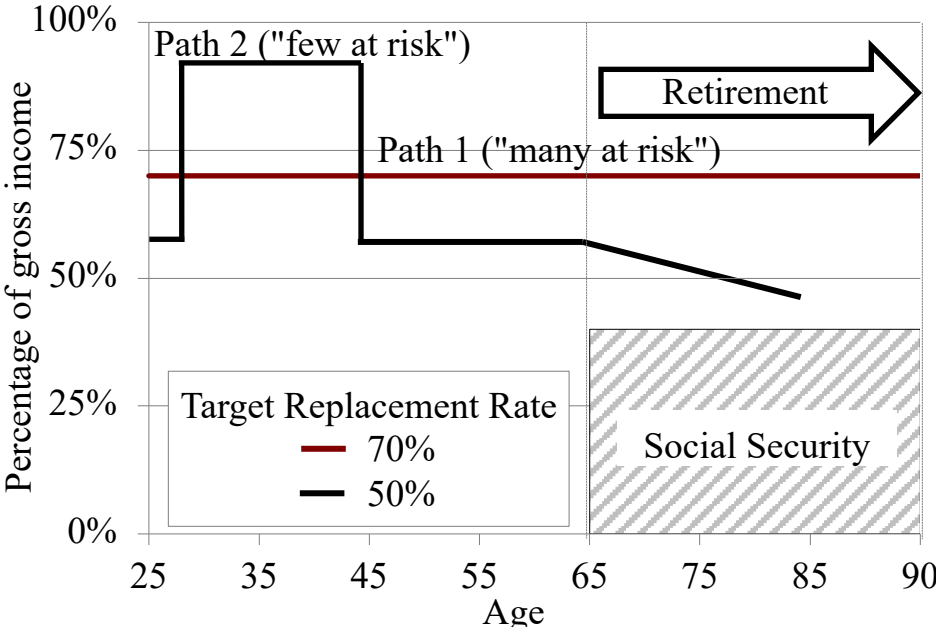
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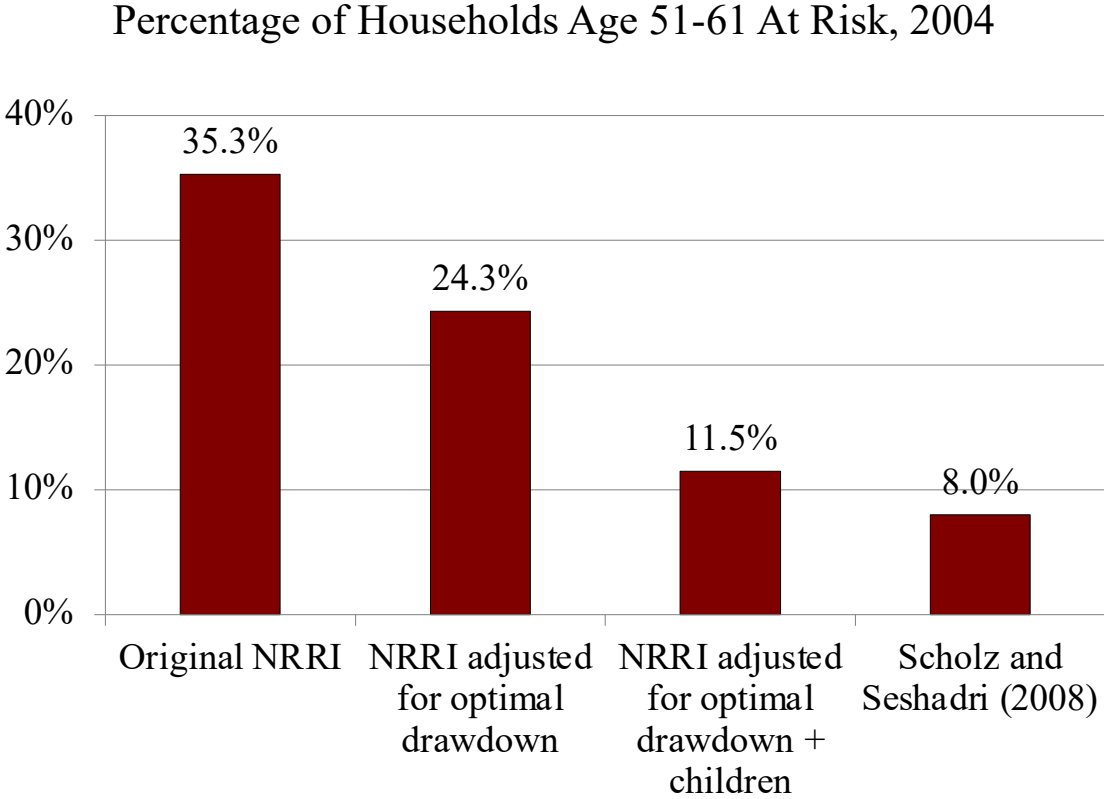
How parents adjust their savings/consumption when children “leave home” determines target replacement rates...

Household Consumption as Percent of Income, Alternative Assumptions Regarding Kids



Source: Authors' illustration.

...and explains half of difference between findings on retirement savings adequacy.



Source: Alicia H. Munnell, Matthew S. Rutledge, and Anthony Webb. 2014. "Are Retirees Falling Short? Reconciling the Conflicting Evidence." Working Paper 2014-16. Center for Retirement Research at Boston College.

Unfortunately, the evidence on how parents adjust their savings/consumption after children leave conflicts.

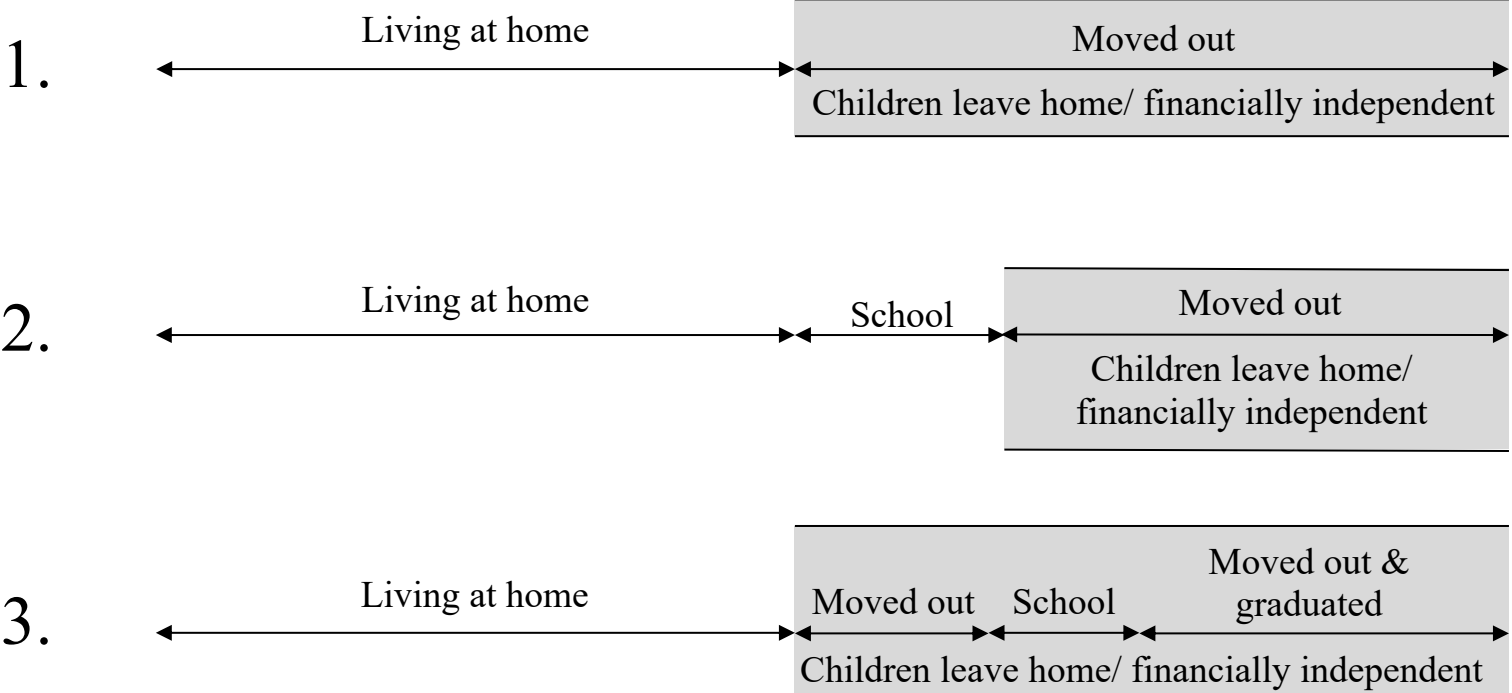
Select Empirical Studies Examining Household Consumption After Children Leave Home

Studies	Behavior after children are independent
Coe and Webb (2010)	Consumption flat \Rightarrow authors assume savings flat
Dushi et al. (2016)	W-2 401(k) savings flat
Biggs (2019)	Consumption decreases \Rightarrow author assumes savings increase

If consumption decreases and savings are flat, where do the resources go? We try to square the circle.

- **Broader measure of saving:** parents could be paying down their mortgage or other forms of debt.
- **Broader measure of consumption:** parents could continue to provide financial support for their children.
- **Examining income:** parents may also opt for more leisure and less income.

To test each hypothesis, we first defined what is meant by children “leaving home”.



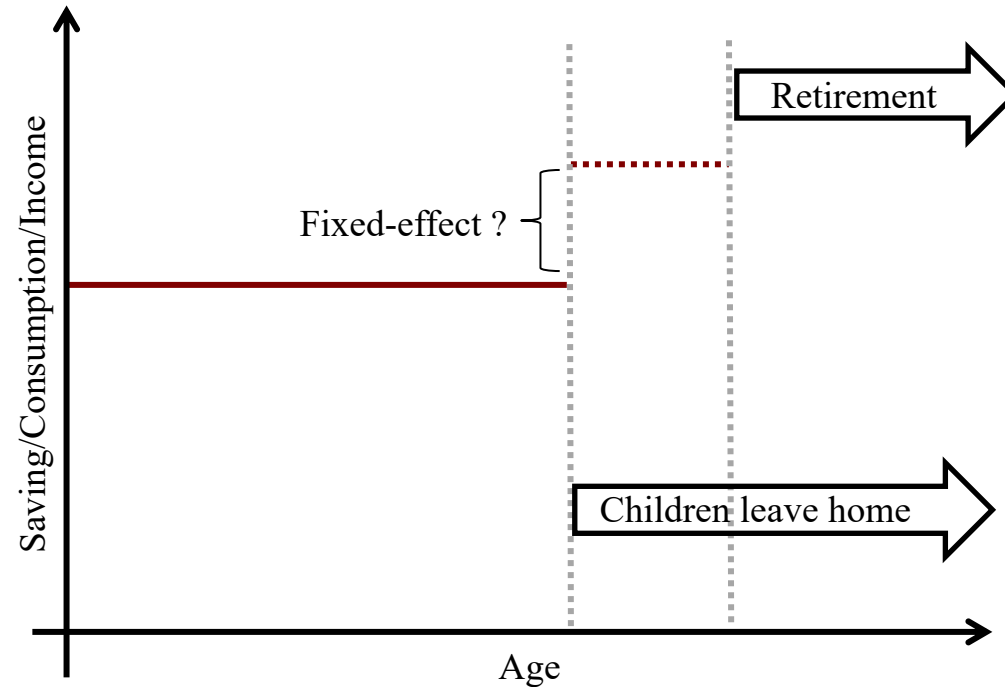
Data

- We use almost 30 years of data from the *Health and Retirement Study (HRS)*, linked with administrative earnings data.
- Since the HRS includes only older parents, we also use data from the *Panel Study of Income Dynamics (PSID)*.
- Our sample consists of households that do not change marital status during the entire observed period, works for pay at some point, and are at least 35 and not retired.

Methodology

We estimate a fixed-effect equation for: 1) broader measure of saving, 2) broader measure of consumption, and 3) income.

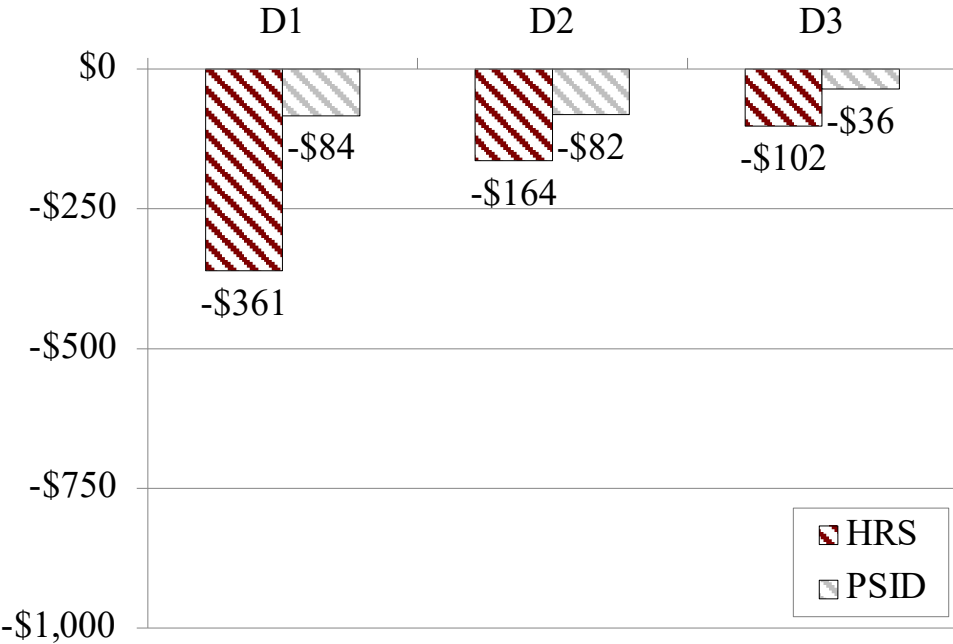
Illustration of Fixed-effect Estimate After Children Leave Home



Source: Authors' illustration.

Broader measure of saving: Perhaps parents are saving in their house ... but mortgage payments do not increase.

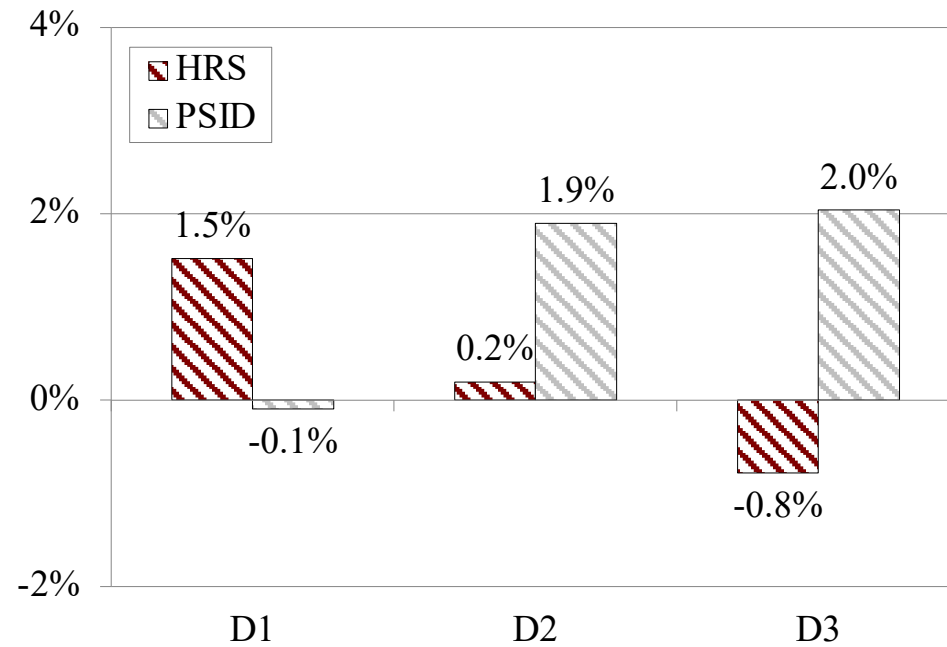
Fixed-effect Regression of Annual Mortgage Payments for Households with a Mortgage



Note: Results are not statistically significant.
Source: Authors' illustration.

And parents are not making additional ad-hoc mortgage payments either.

Fixed-effect Regression of Percent Change in Annual Mortgage Debt

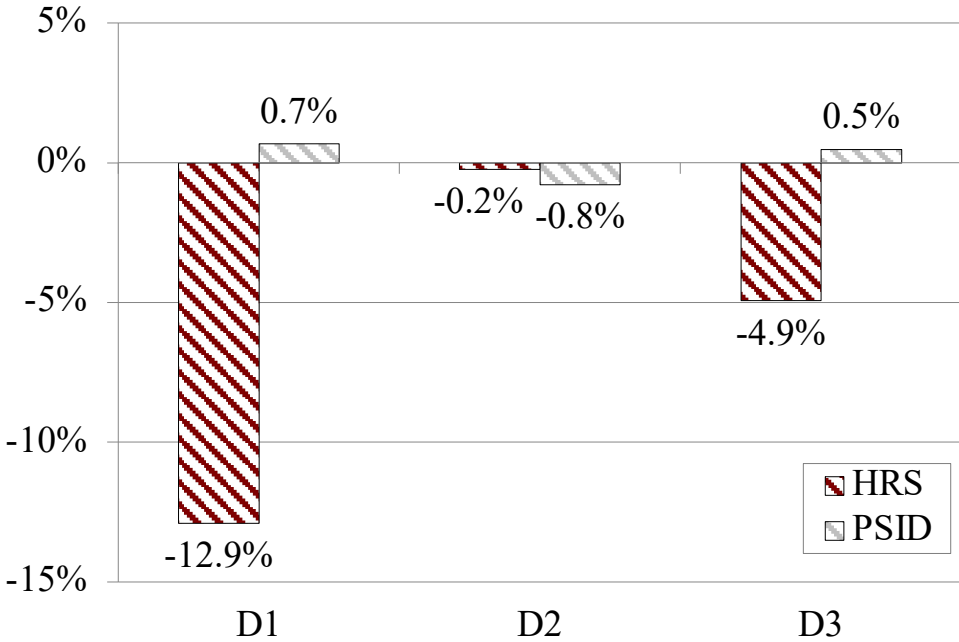


Note: Results are not statistically significant.

Source: Authors' illustration.

They are also not paying down other forms of debt.

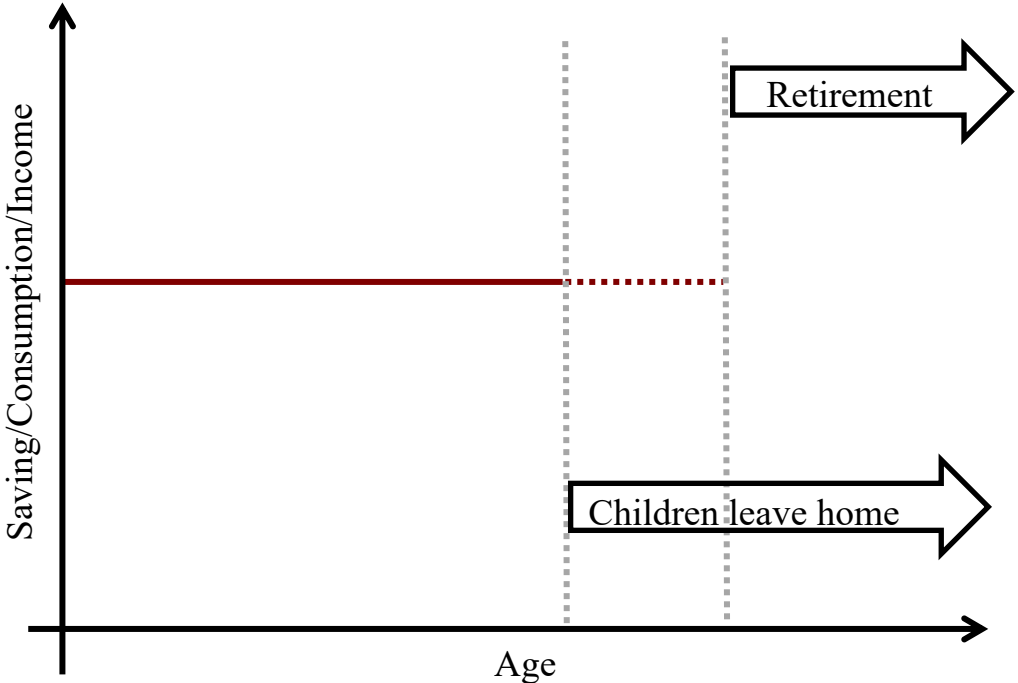
Fixed-effect Regression of Percent Change in Annual Non-Mortgage Debt



Note: Results are not statistically significant.
Source: Authors' illustration.

Broader measure of saving: parents are not saving more, confirming prior findings.

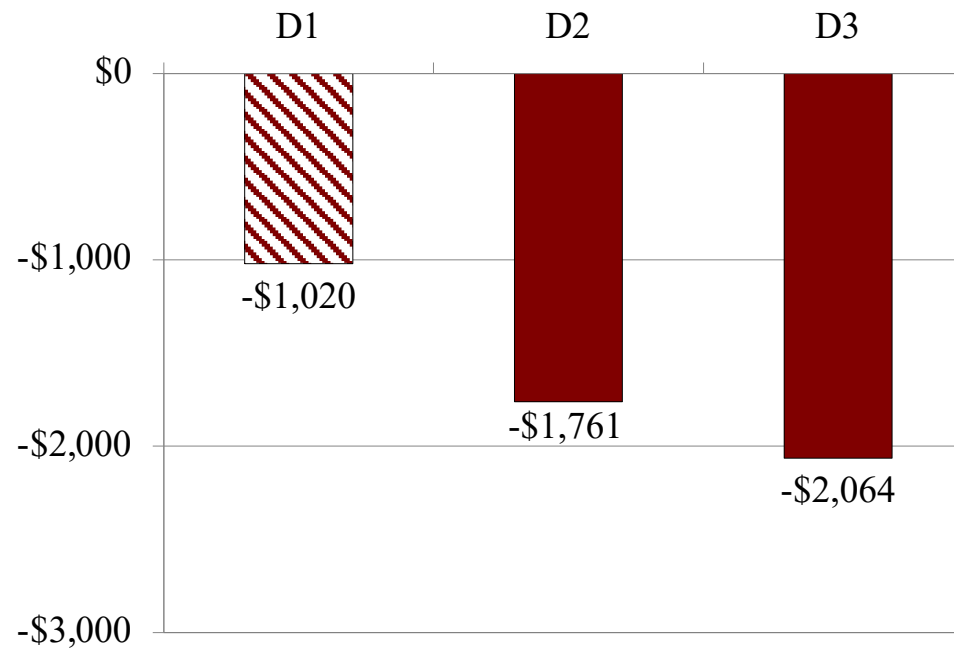
Illustration of Changes in Savings After Children Leave Home



Source: Authors' illustration.

Broader measure of consumption: Perhaps parents are still providing for their children ... but transfers actually decrease.

Fixed-effect Regression of Net Transfers to Children

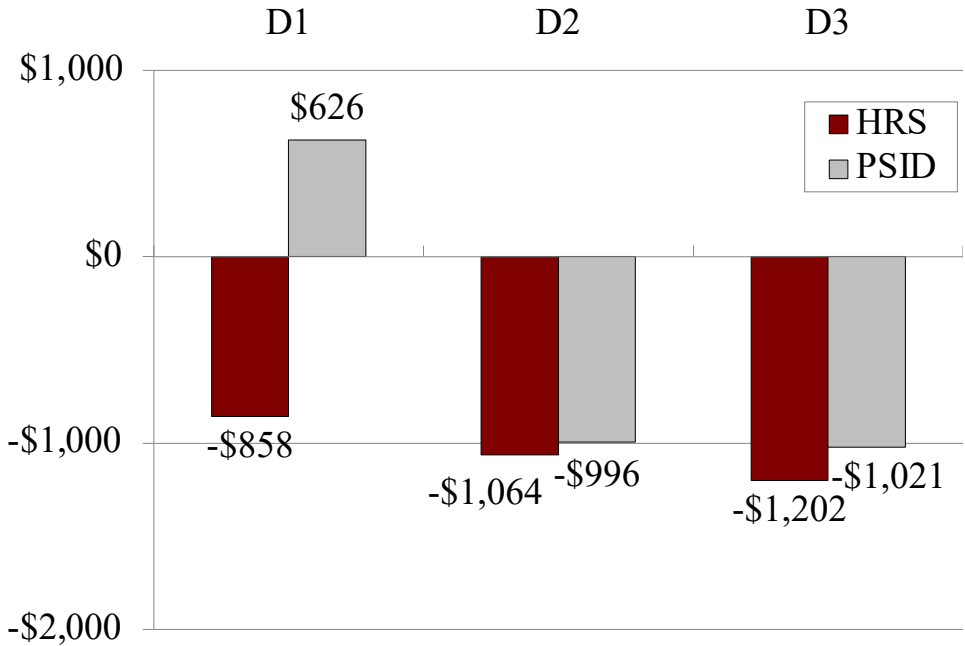


Note: Solid bars are significant at the 10 percent level or above.

Source: Authors' illustration.

Or parents may be incurring transfers to grandparents...yet total transfers are not increasing either.

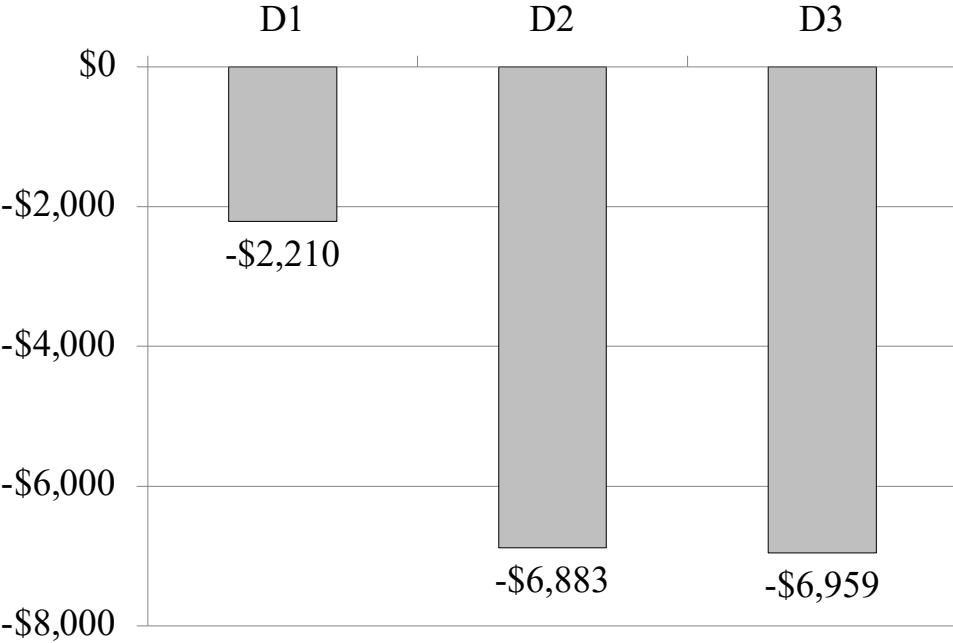
Fixed-effect Regression of Net Transfers to All Relatives



Note: Solid bars are significant at the 10 percent level or above.
Source: Authors' illustration.

Broader measure of consumption: But parents are reducing consumption, confirming prior findings.

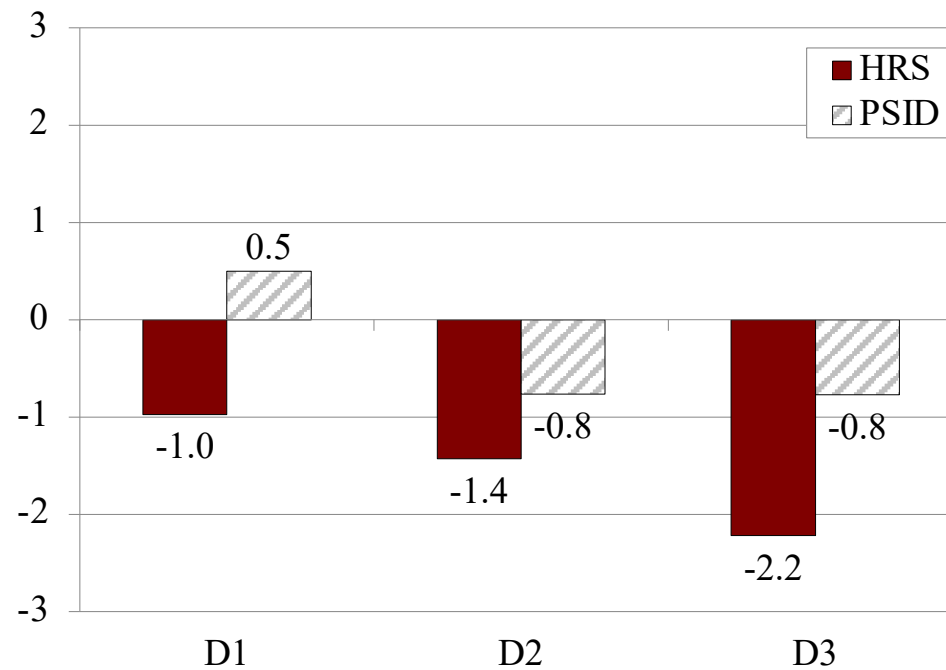
Fixed-effect Regression of Consumption



Note: Solid bars are significant at the 10 percent level or above.
Source: Authors' illustration.

Examining income: Consumption could decline and savings not increase if parents are working less.

Fixed-effect Regression of Total Household Weekly Hours Worked

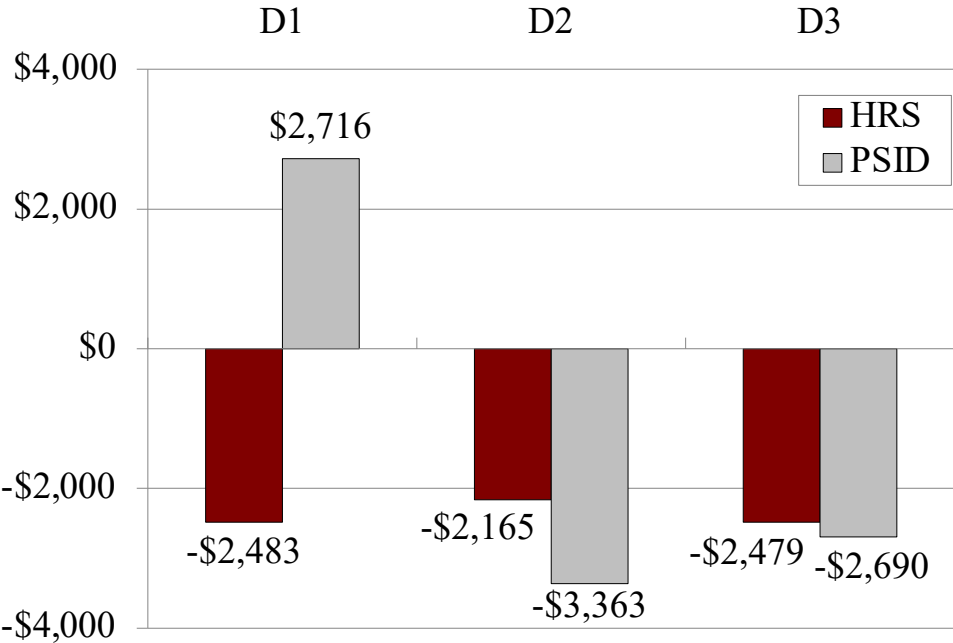


Note: Solid bars are significant at the 10 percent level or above.

Source: Authors' illustration.

And that results in less income.

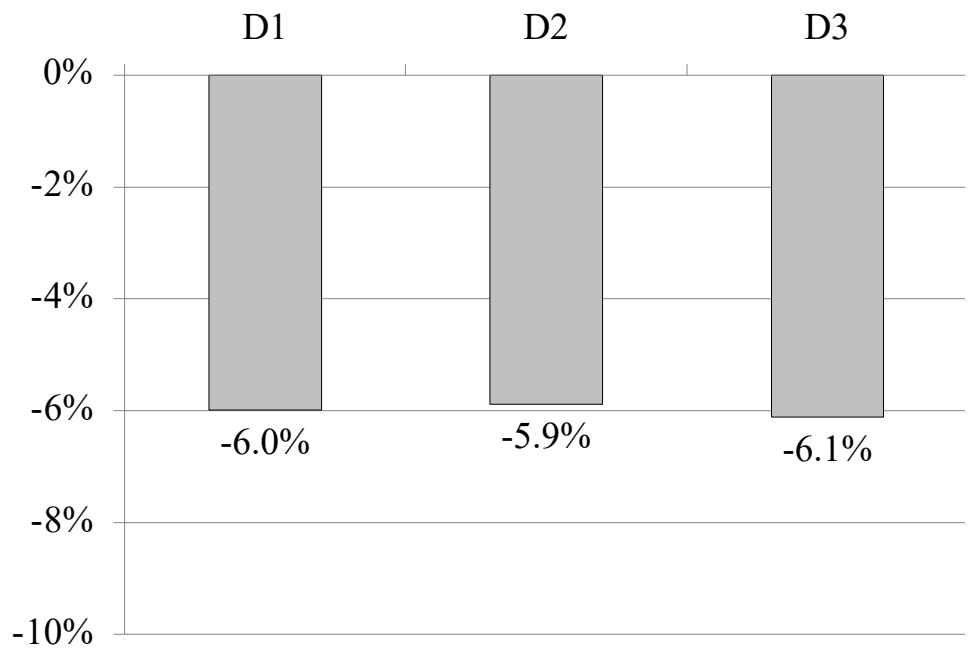
Fixed-effect Regression of Total Household Income



Note: Solid bars are significant at the 10 percent level or above.
Source: Authors' illustration.

Overall, consumption relative to income decreases by 6 percent after children leave.

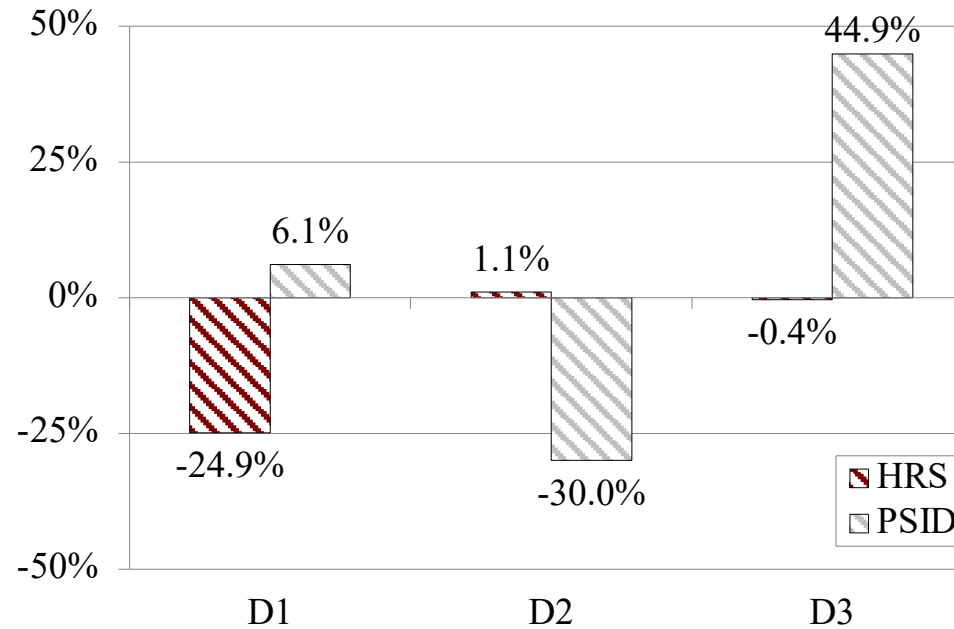
Fixed-effect Regression of Consumption relative to Income



Note: Solid bars are significant at the 10 percent level of above.
Source: Authors' illustration.

The decline in consumption relative to income, however, is not reflected in net worth and a puzzle remains.

Fixed-effect Regression of Net Worth to Income



Note: Results are not statistically significant.

Source: Authors' illustration.

Discussion: Potential limitations of HRS and PSID.

- We observe parents for an average of 8-10 years after children leave and before retirement. While this is not a trivial, we may not observe younger parents for long enough.

Average	Age when children leave	Retirement age	Years between	Years observed after children leave
HRS	57	64	7	8
PSID	53	65	12	10

- This may be why our consumption/income estimate was clear but our net worth/income estimate is not.
- A longer observation period may be needed for conclusive results and can be addressed with future work.

Discussion: Potential limitations of financial independence.

- Financial independence may be a process rather than an event. If so, any dummy variable indicating financial independence will capture only part of this process.
- Parents with more than one child may begin smaller adjustments as each child becomes independent.
- Future work can attempt to better capture children's financial independence as a process and examine how parents adjust as each child becomes independent.

Conclusion and next steps

- Prior studies have found that parents reduce consumption but do not save more after their children leave, providing conflicting evidence for our understanding of retirement adequacy.
- This paper examines three explanations for the conflicting results: 1) broader measure of saving, 2) broader measure of consumption, 3) and income.
- The results show that parents are not paying down debt faster, or transferring money to children but are working less instead.
- Overall, consumption relative to income decreases by 6 percent, but this is not reflected in higher net worth... so a puzzle remains.