The Adequacy of Retirement Savings:

Subjective Survey Reports by Retired Canadians

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Outline:

1. How to think about the adequacy of retirement savings
2. How to measure living standards
3. Highlights of empirical findings
4. Conclusions
1. How to think about adequacy

- Defining adequacy is difficult

- Our perspective:
  1. Diminishing marginal value of additional expenditure in any period implies a desire for a `smooth’ evolution of living standards,
  2. Adequate saving for retirement is not necessarily the same as adequate living standards in retirement.
Adequate Life-time Resources, Adequate Saving
Adequate Life-time Resources, Inadequate Saving
Inadequate Life-time Resources, Adequate Saving
Inadequate Life-time Resources, 

*Excessive Saving*

![Graph showing inadequate lifetime resources and excessive saving.](image-url)
2. How to measure retirement living standards

• Prospectively: convert wealth stock to flow of income or expenditure (annuity)
• Retrospectively: observe income or expenditure
• Problems:
  – How to adjust for changing needs (household size, health,..)
  – How to adjust for time/money tradeoffs
  – How to deal with housing
• Alternative: subjective self-reports
**Figure 1: Life Cycle Paths of Income, Consumption and Happiness**

**Income, Consumption:** 1992 Family Expenditure Survey and 1998 Survey of Household Spending  
**Happiness:** 1990 and 1998 General Social Surveys
3. Highlights of Empirical Findings

- General Social Surveys: 1989, 1994 and 2002,
  - Not longitudinal data.
- Retired respondents, aged 55 and over.
- Questions about life/financial satisfaction relative to the year before retirement.
- Tabulations and multivariate analyses (ordered Probit).
- Details in the paper.
• Compared to the year before you retired, do you now enjoy life more, less, or about the same?

• Compared to the year before you retired, would you now say that you are better off financially, worse off or about the same?
(a) Canadians report enjoying life more than before retirement

Compared to the year before you retired, do you now enjoy life more, less, or about the same?

(b) Health concerns (not economic concerns) are the main source of dissatisfaction.


“What is the main reason that you enjoy life less?”

Unconditional
(c) 2/3 of Canadians say they are at least as well off as before retirement.
d) Life dissatisfaction rises with age

Source: Statistic Canada, General Social Surveys (2002)
(e) Financial dissatisfaction falls with age

![Bar graph showing the marginal effect of age profiles on relative financial satisfaction. The x-axis represents different age groups: 60-64, 65-69, 70-74, 75-79, 80+. The y-axis represents the probability of being worse off. The graph indicates a decrease in financial dissatisfaction as age increases. Source: Statistic Canada, General Social Surveys (2002).]
(f) Financial dissatisfaction more likely if involuntary retirement

Marginal Effect on Probability of Being Worse Off

Marginal Effect on Relative Finance Satisfaction

Source: Statistic Canada, General Social Surveys (2002)
4. Conclusions and Policy Implications

• Distinguish between adequacy of life-time resources and adequacy of retirement preparations.

• Retirement income/expenditure data should be interpreted with care.
4. Conclusions and Policy Implications (Cont’d.)

• Involuntary retirement, especially due to reasons of ill-health, looks like a promising target for policy development.