

# **The Adequacy of Retirement Savings:**

Subjective Survey Reports by Retired  
Canadians

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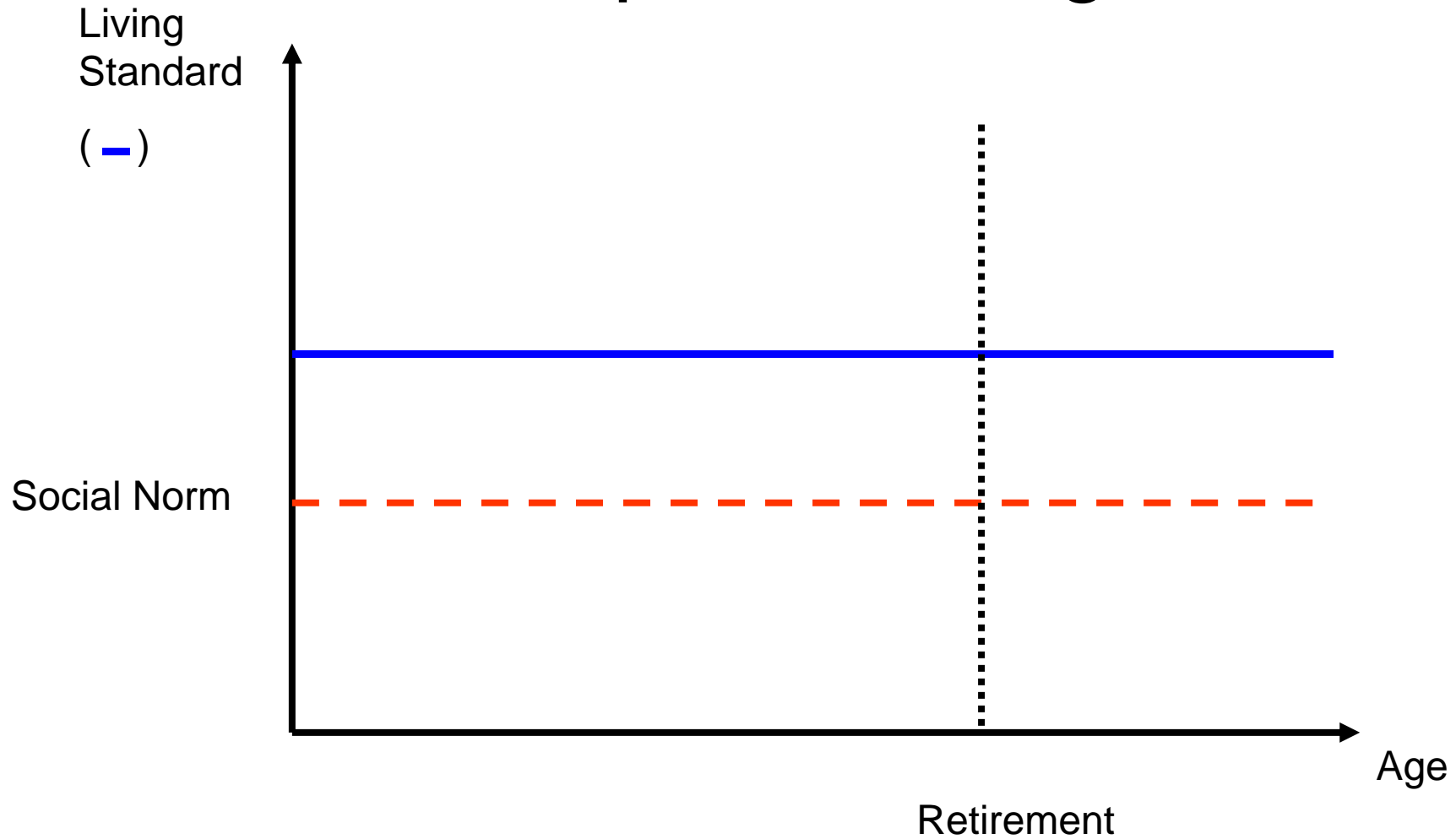
# Outline:

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

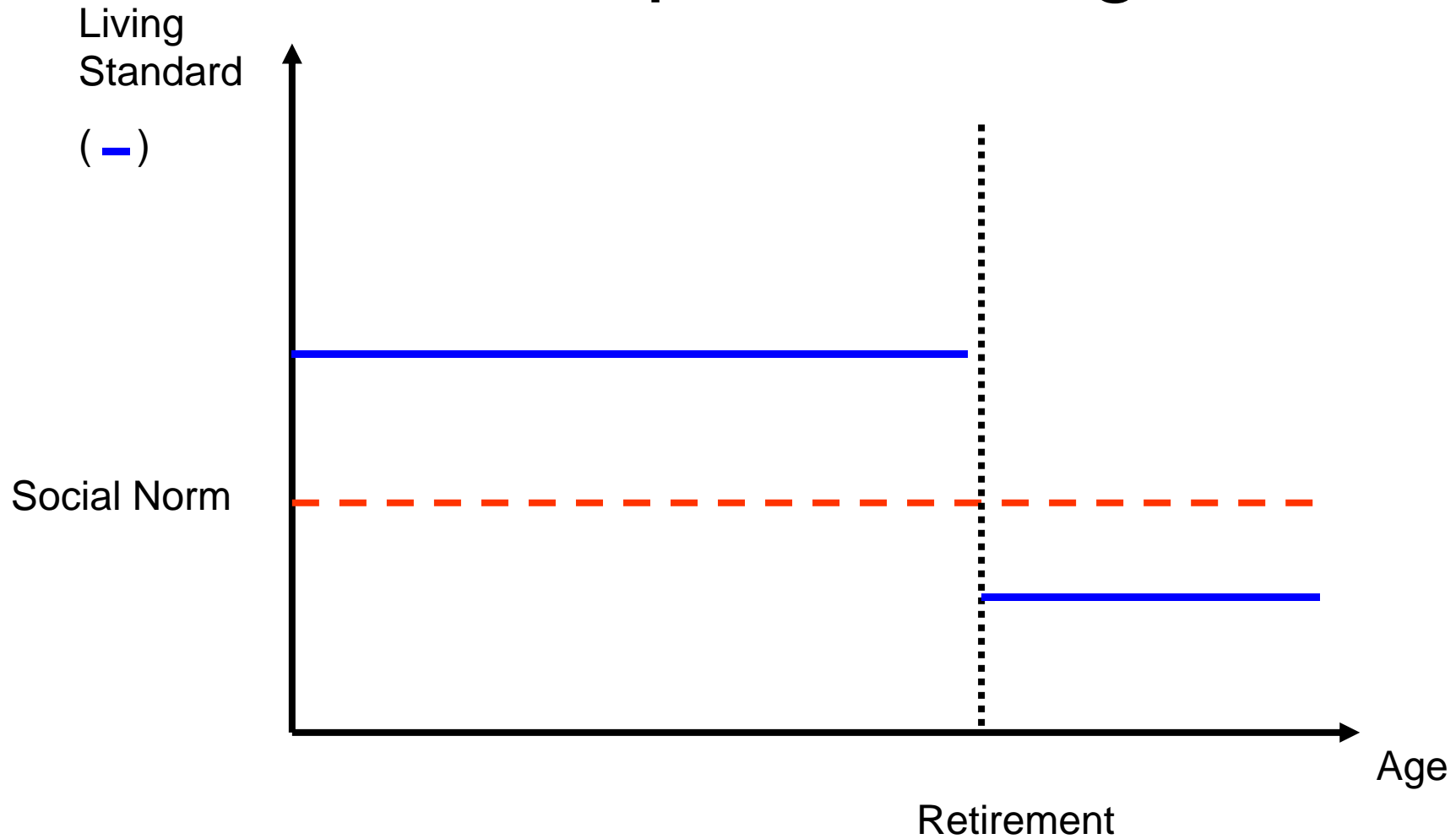
# 1. How to think about adequacy

- 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.

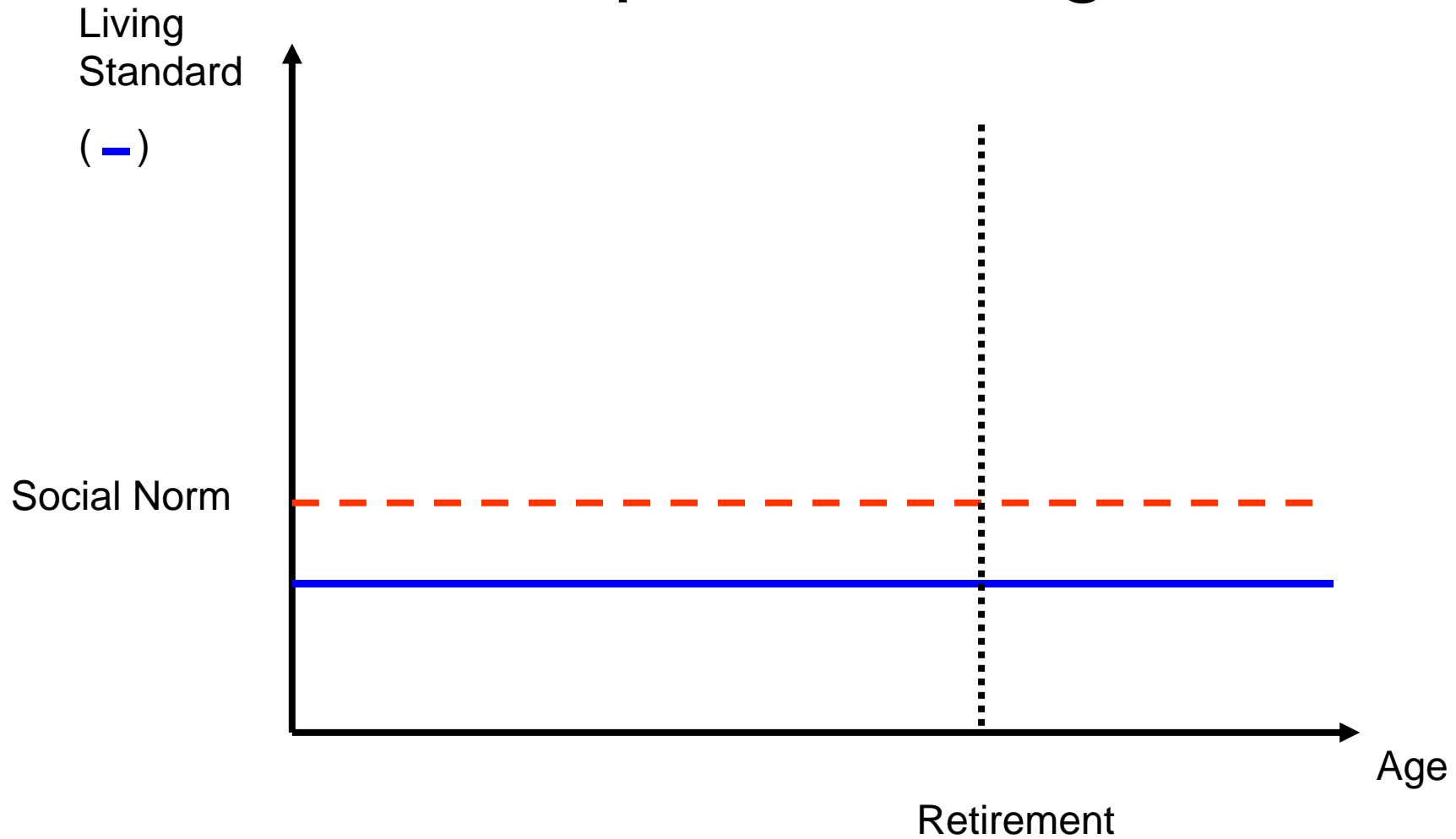
# Adequate Life-time Resources, Adequate Saving



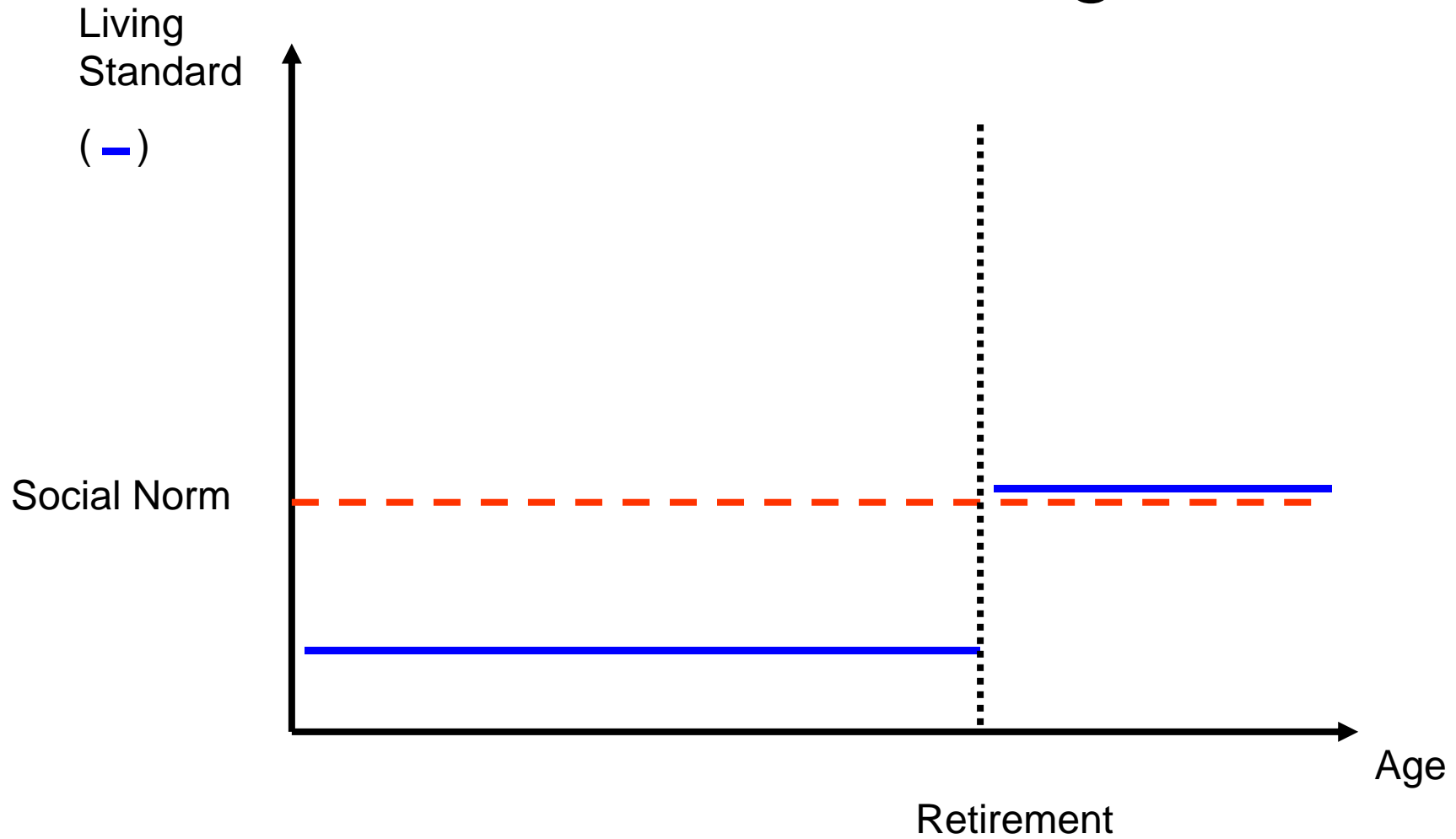
# Adequate Life-time Resources, Inadequate Saving



# Indequate Life-time Resources, Adequate Saving



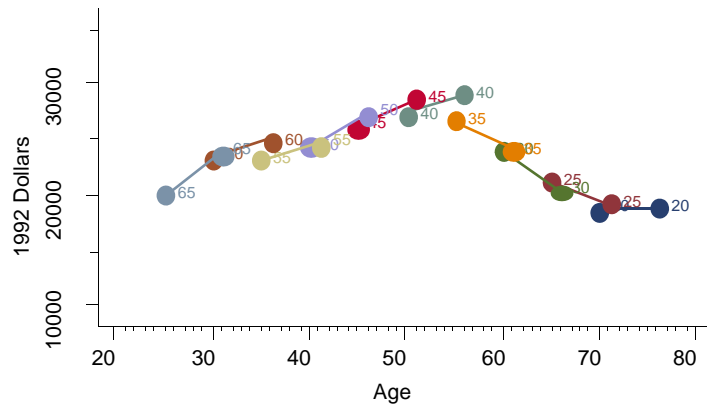
# Inadequate Life-time Resources, *Excessive Saving*



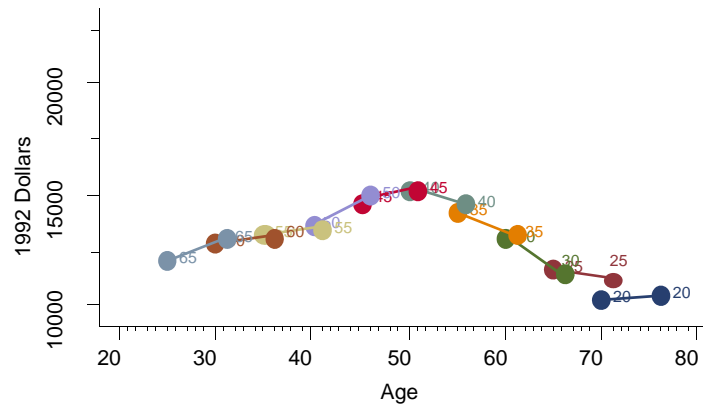
## 2. How to measure retirement living standards

- 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

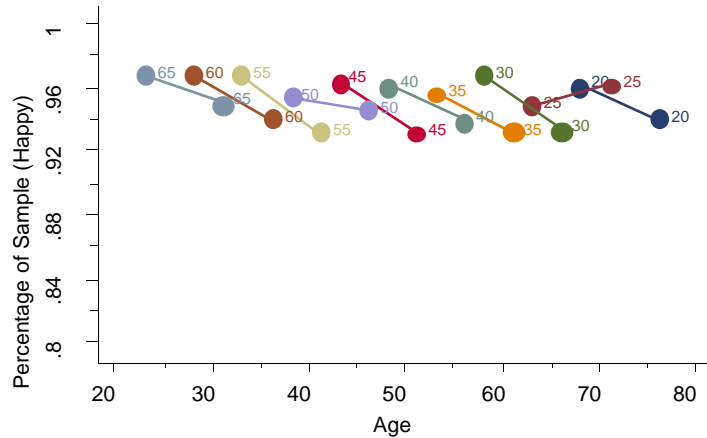




Real Equivalent Net Income



Real Equivalent Nondurable Consumption



Happiness

**Figure 1: Life Cycle Paths of Income, Consumption and Happiness**

**Income, Consumption:** 1992 Family Expenditure Survey and 1998 Survey of Household Spending

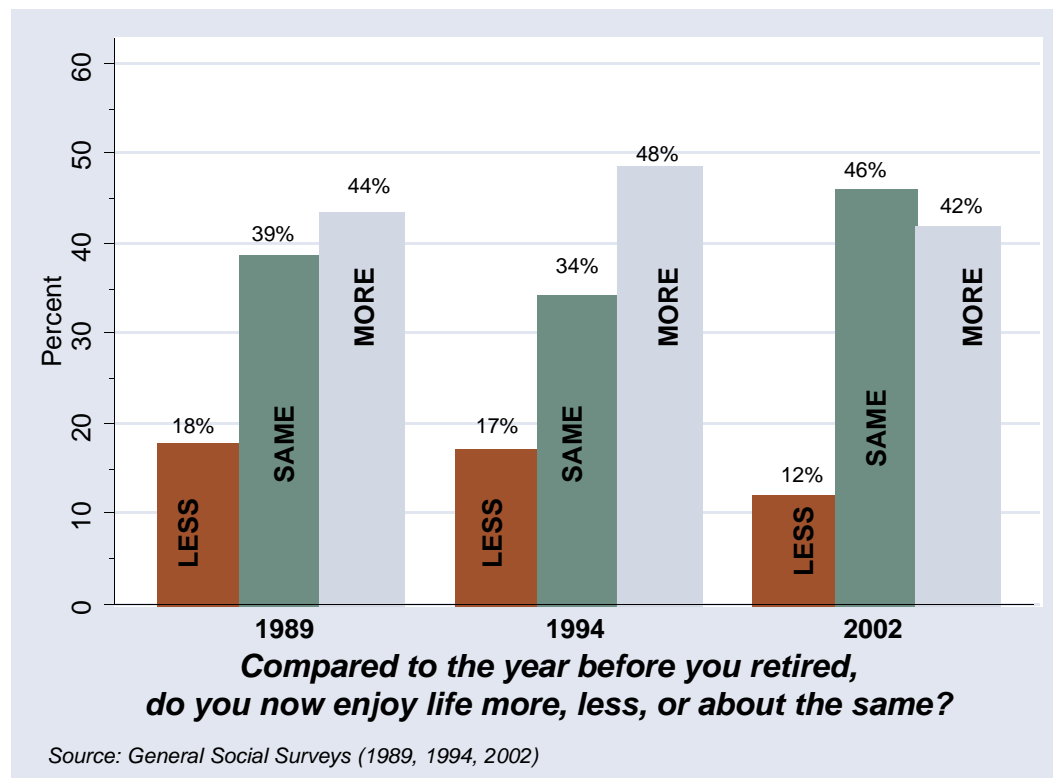
**Happiness:** 1990 and 1998 General Social Surveys

### 3. Highlights of Empirical Findings

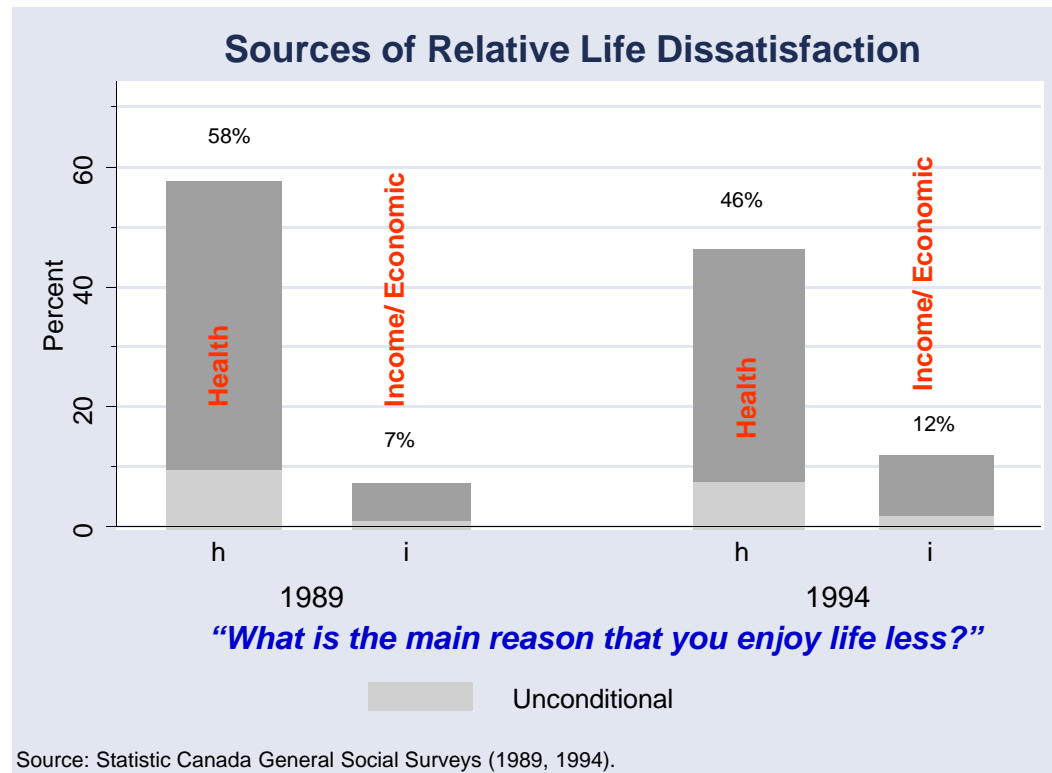
- General Social Surveys: 1989, 1994 and 2002,
  - Not longitudinal data.
- Retired respondents, aged 55 and over.
- Questions about life/financial satisfaction *relative* to the year before retirement.
- Tabulations and multivariate analyses (ordered Probit).
- Details in the paper.

- *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?*

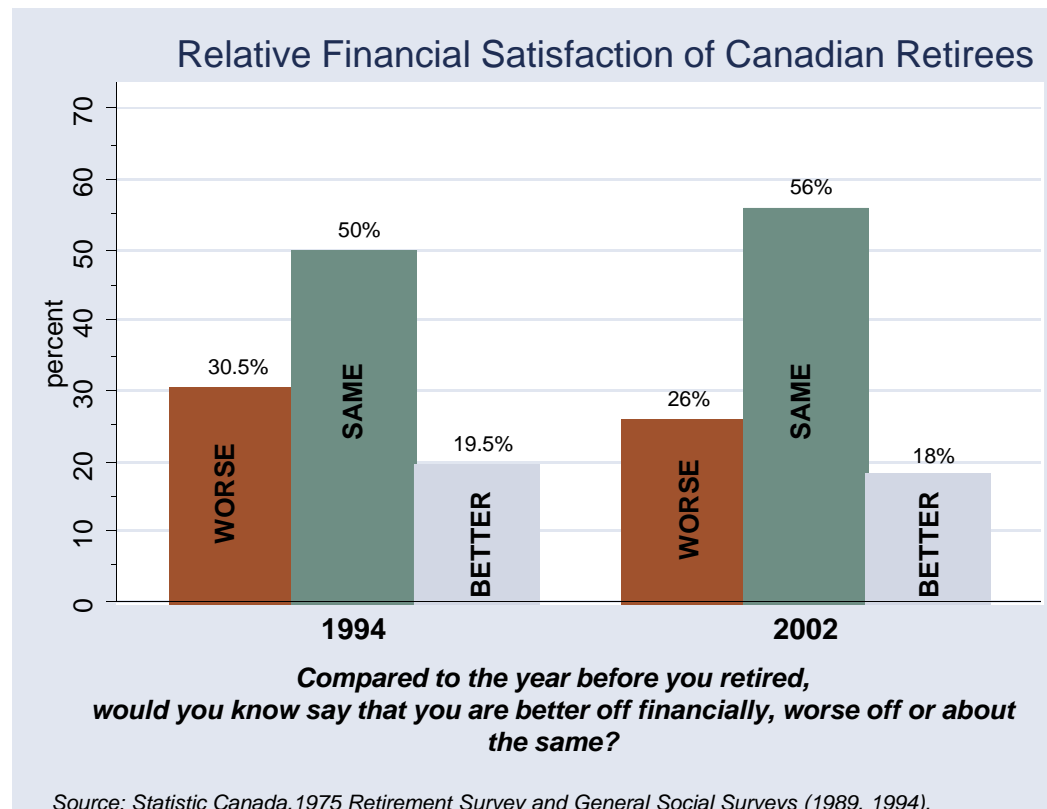
# (a) Canadians report enjoying life more than before retirement



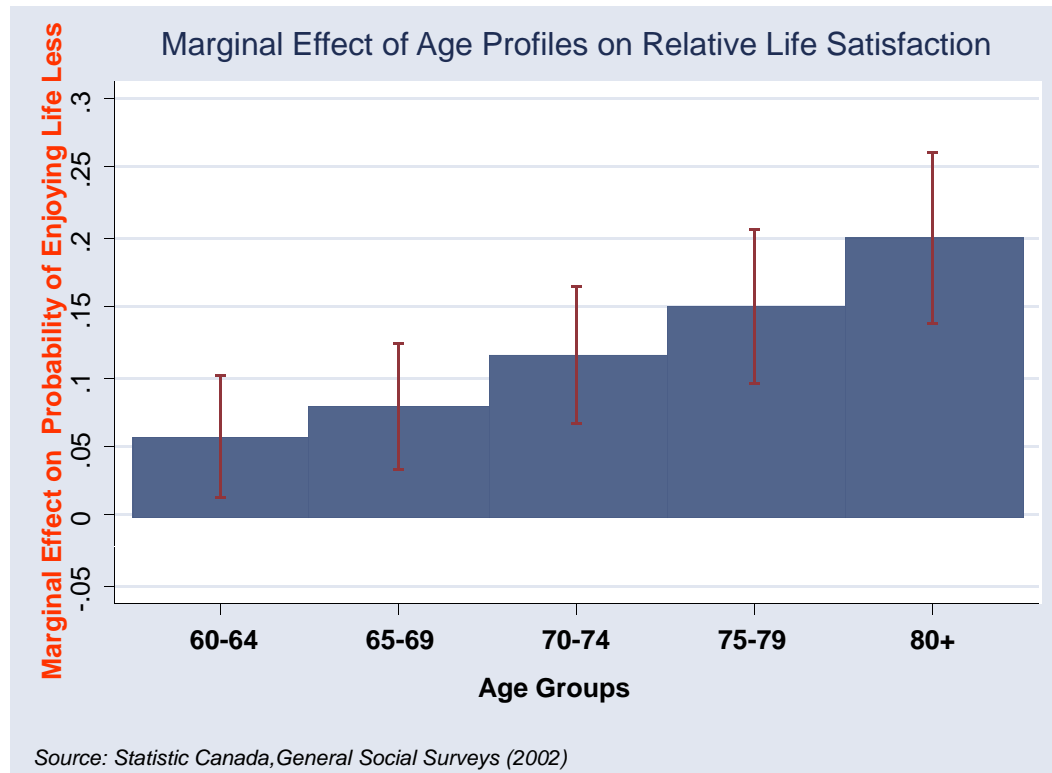
(b) Health concerns (not economic concerns) are the main source of dissatisfaction.



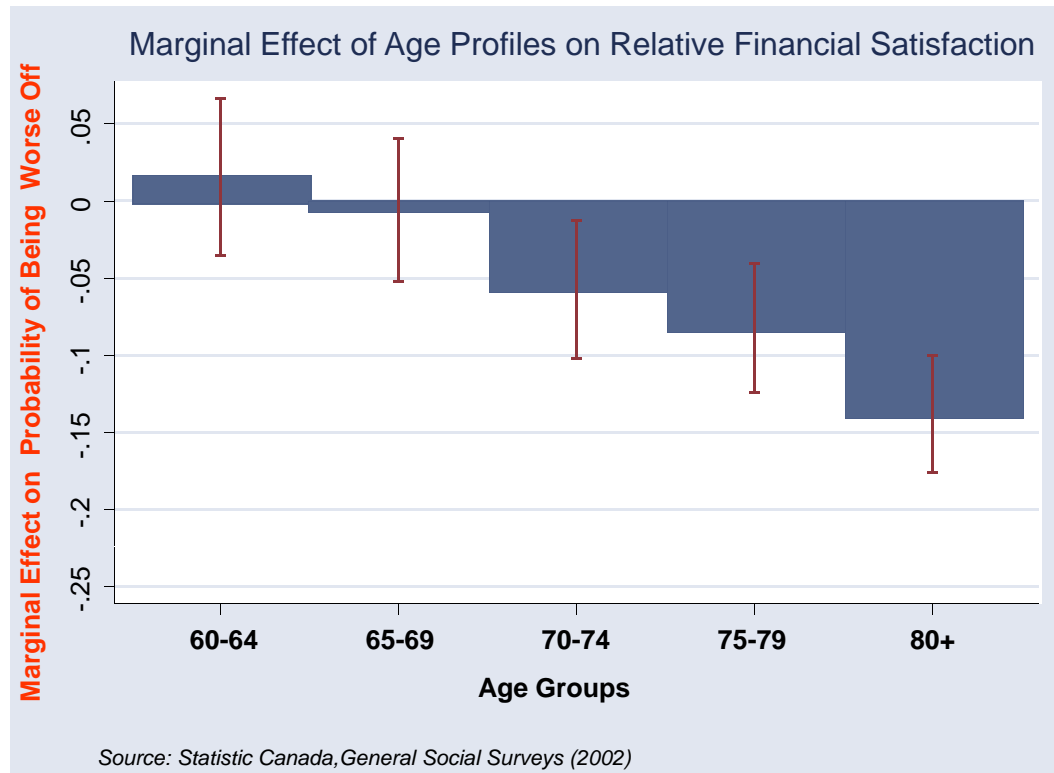
# (c) 2/3 of Canadians say they are at least as well off as before retirement



## d) Life dissatisfaction rises with age

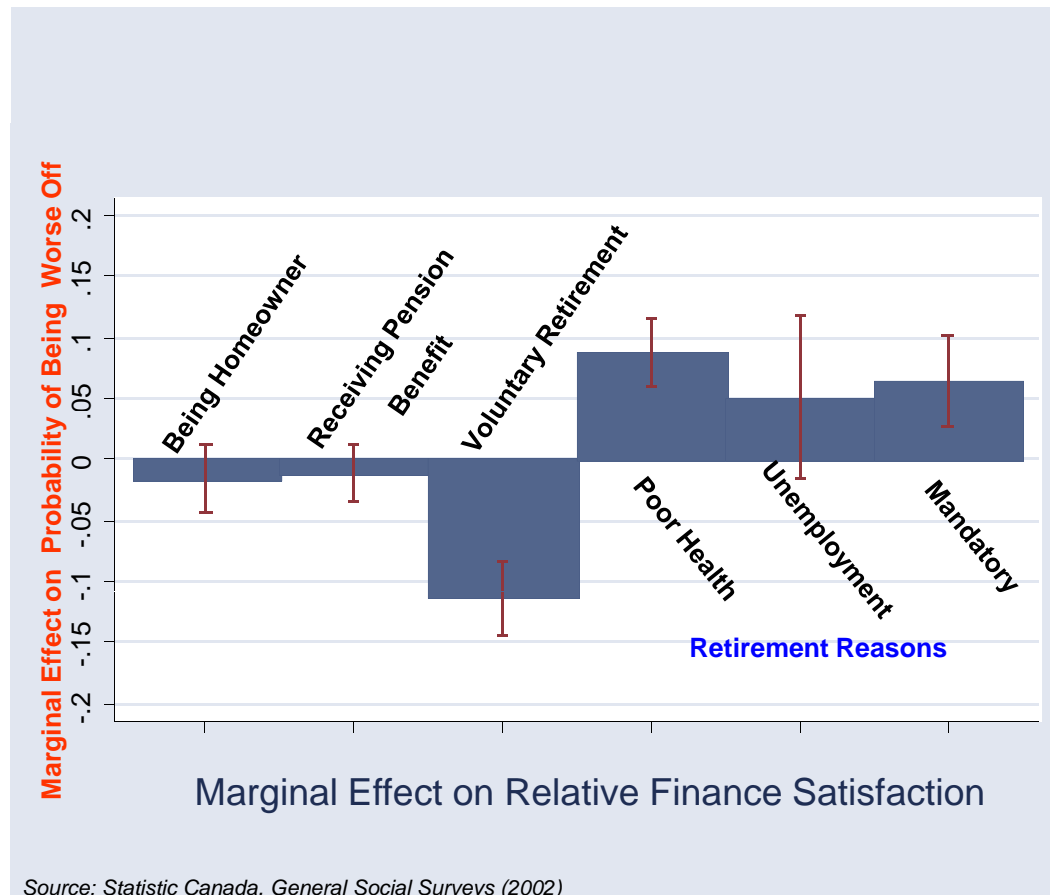


# (e) Financial dissatisfaction falls with age





# (f) Financial dissatisfaction more likely if involuntary retirement



## 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.