

Saving and Portfolio Allocation Before and After Job Loss

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Summary

Research questions:

Examine households saving behavior and portfolio rebalancing in the years preceding unemployment

Do households draw on private savings during the unemployment spell?

Findings:

Some precautionary saving and portfolio rebalancing towards safer assets *prior* to unemployment

Norwegian households decumulate on their financial wealth, *following* an unemployment shock

On average not permanent effects on financial wealth

Data

Annual tax data on pensionable income and financial wealth (bank deposits, bonds, stocks, funds) for all Norwegians

Thirteen years (1995-2007); *track individuals for 9 years around job loss*, from U-4 through U+4

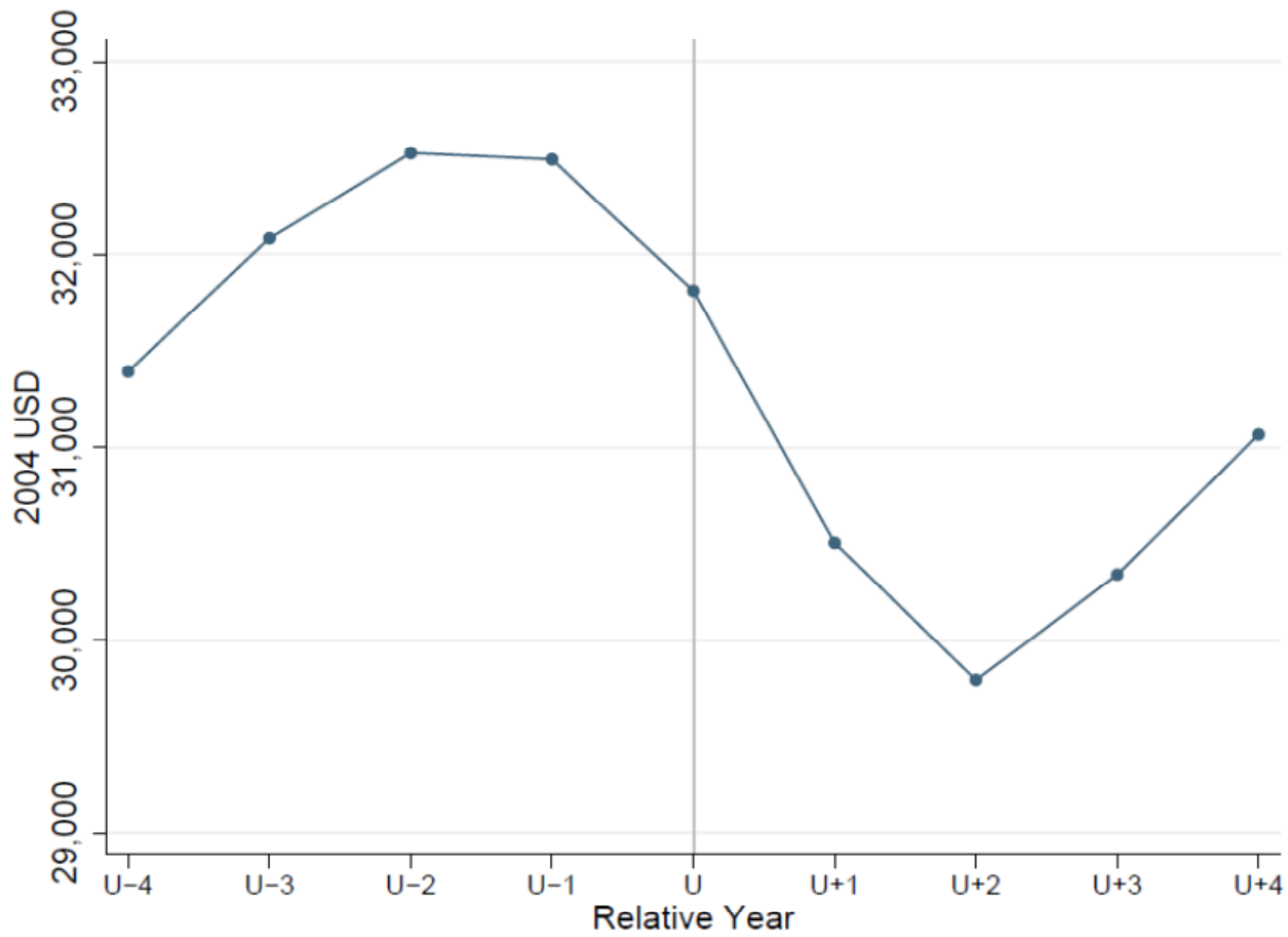
Gruber (2001) uses SIPP *survey* data, observing wealth only *once before and once after* job loss

$$Y_{it} = a_i + \beta(RY_{i,t}) + \gamma_t + \varepsilon_{it}$$

Timing of events

- “A household is defined as unemployed in a year if the man receives unemployment benefits”
- Value of assets is measured in the end of the year
- Unemployment duration is ignored (e.g., equal treatment between a household that stays 3-month unemployment versus its counterpart that receives unemployment benefits for 2 years)

Financial Wealth Around Unemployment



Selectivity issues

Baseline sample:

Couples, with men aged 30 to 58 years old at the time of job loss, that have experienced their first unemployment spell between 1995-2007, and have at least 4 years of continued employment before the job loss

- selected sample

Some discussion in ftn.24, p.19

- left censoring
- right truncation

Reverse causality

“Indeed, we may even imagine that a worker could be saving *because* he is planning to make himself become unemployed, in which case it is not the anticipation of (involuntary) unemployment that causes saving, but the saving that causes the unemployment.”

Fixed effects – ‘placebo regressions’: not sufficient

Need to think of an instrument

Specification I

$$Y_{it} = a_i + \beta(RY_{i,t}) + \gamma_t + \varepsilon_{it}$$

- Outcomes: ‘Male income’; ‘Financial wealth’; ‘Safe assets’; ‘Risky assets’ (in levels)
- Present results with logs (or IHS)
- For risky assets: Risky portfolio shares
 - both active portfolio re-allocations and passive dis-saving not fully captured by time fixed-effects
- “we focus on cases of male unemployment, as this will have a more significant impact on the households’ financial situation” --> results upper bound (alternative: at least one household member becomes unemployed)

Specification II

- Focus on financial wealth, excluding real estate (rather unlikely to liquidate)
 - Home equity extraction
 - Significant background wealth component
- Financial wealth excludes DC plans and private pension wealth
 - Significant household wealth component
 - Major form of stockholding for households
- Control for region fixed-effects, industry fixed effects (?)

‘Placebo’ regression

- Placebo sample of households who have not experienced unemployment during the period under examination
- Randomly assign a year of job loss
- Use the whole sample (i.e., both those who have experienced and those who have not experienced unemployment)
- Construct age-education cells
- Randomly reshuffle the incidence of unemployment *within* each cell
- (Suggestive) evidence for the relevance of unobserved factors that correlate with age and education

Concluding remarks

“(our)...results suggest that *the average household is indeed able to foresee the upcoming unemployment spell, and is then both able and willing to prepare for those rainy days*”

- Are the current findings likely to extend to other countries? (Norway: low unemployment rates, very generous UB scheme, well developed Social Security system)
- Policy recommendations?

Extensions

- “Finally, we need to caution that our findings are all based on sample averages and thus do not rule out the possibility that some of the poorest households suffer considerably during unemployment or do end up with permanently lower wealth afterward.”
 - Run a series of quantile regressions
- Look also at single households
- Exploit information on the duration of unemployment