Population Aging, Household Savings, and Portfolio Choice
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Key Empirical Challenge

- Important question: Impact of aging population on asset market equilibrium

- Problem: Global asset market equilibrium, tough to tease out one source of variation

- Empirical work is difficult: (Almost) everything is endogenous, time varying market conditions may confound analysis

Central Empirical Findings

- Significant age-related decline in saving rate: 30% for ages 30-45, 26% for 45-60

- Gross financial assets rise with age around and after retirement (to 70+)

- JGB holdings by households are very small

- Stocks + mutual funds represent about 13% of household financial assets in 2014

- Almost 80% of household financial assets are demand and time deposits; declining over time

# Related Evidence from the US: Elderly Preserve Non-Pension Assets

- Overall financial asset profile is flat or rising (note impact of strong equity market in last two decades)
- Ameriks/Zeldes (2004) found modest if any decline in equity share at older ages
- Limited evidence on oldest old
- Growing emphasis on precautionary motives and bequest plans for high net worth group

Median Assets Each Year by LYO, Persons 70+ in 1993
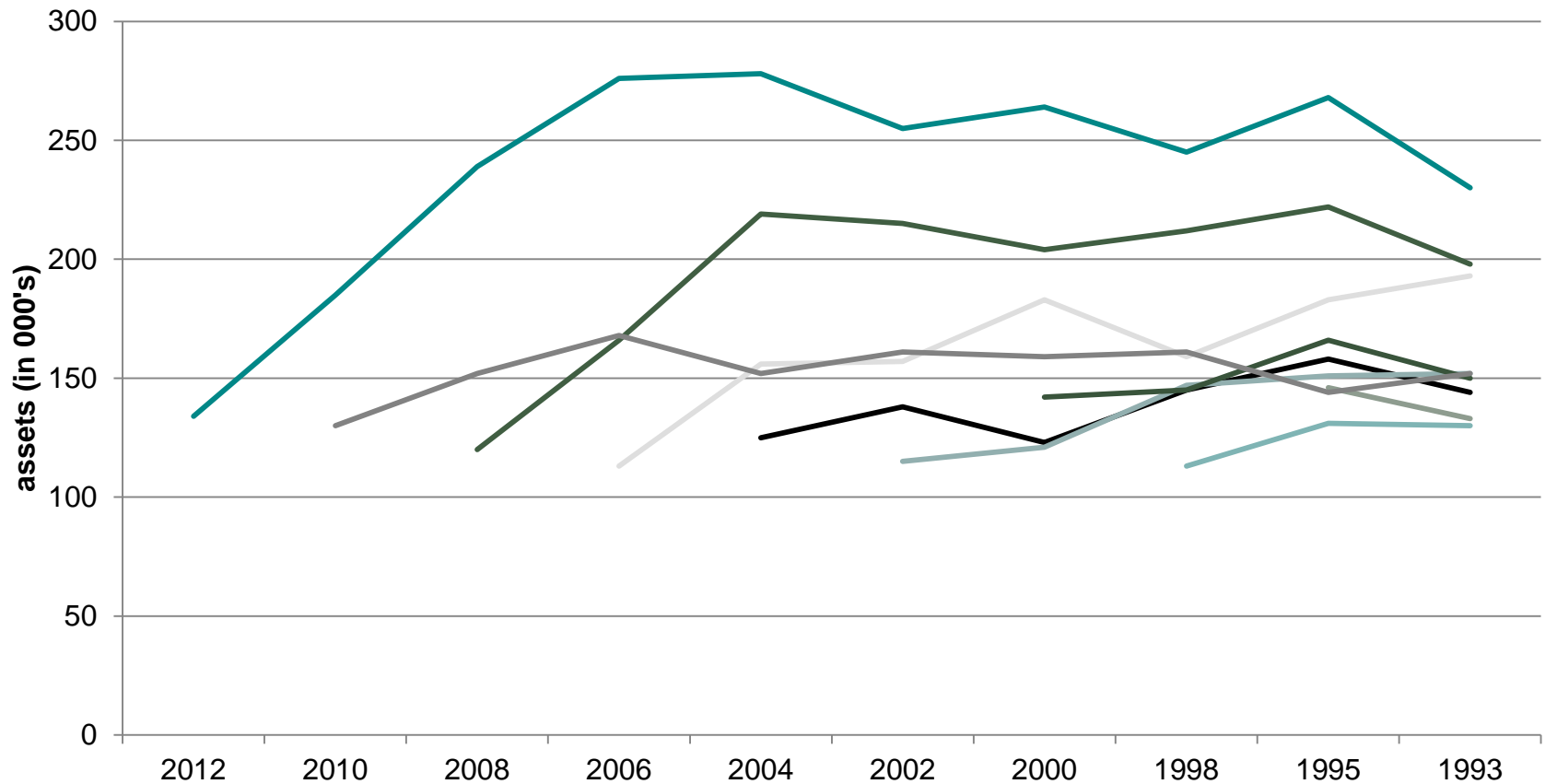
Median Assets Each Year by LYO, Persons 56-61 in 1992
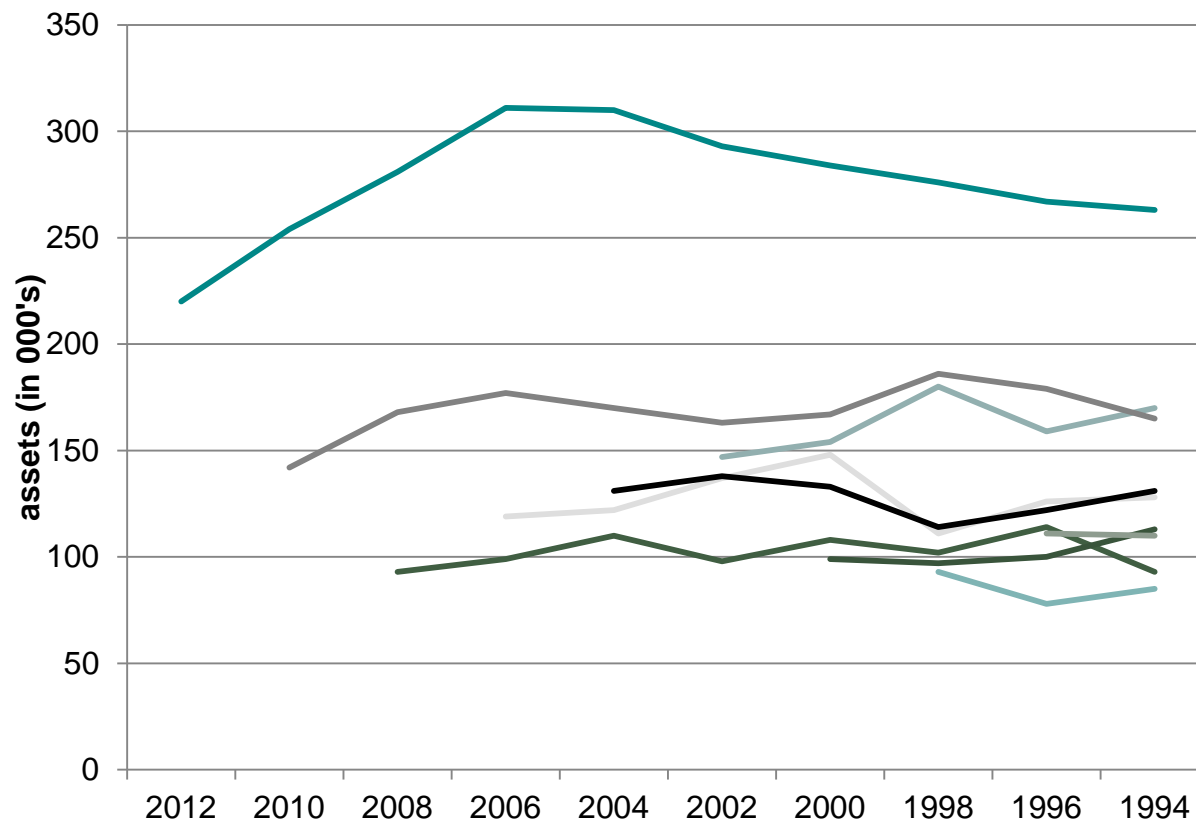
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US Stock Ownership Patterns: Extensive Margin: SCF

Year	44-55	56-67	68-79	80+
Direct Stock Ownership				
1989	22.1%	19.7%	19.9%	19.7%
2001	22.4	26.5	21.5	18.5
2013	14.4	16.4	18.0	14.6
Any Stock Ownership (Including Retirement Accounts, Mutual Funds)				
1989	45.3	36.0	27.9	23.6
2001	57.5	55.3	38.5	31.4
2013	54.7	55.6	43.7	30.1

Total Stock Holding/Financial Assets

Year	44-55	56-67	68-79	80+
1989	34%	26%	28%	25%
2001	59	56	56	47
2013	55	50	49	47

Sorting Out Age, Cohort, and Time Effects

- Age = Year observed – Year of birth
- Share = α + β*Age + γ*Year + δ*Birth Cohort is not identified
- If constrain one effect to zero, can estimate the other two
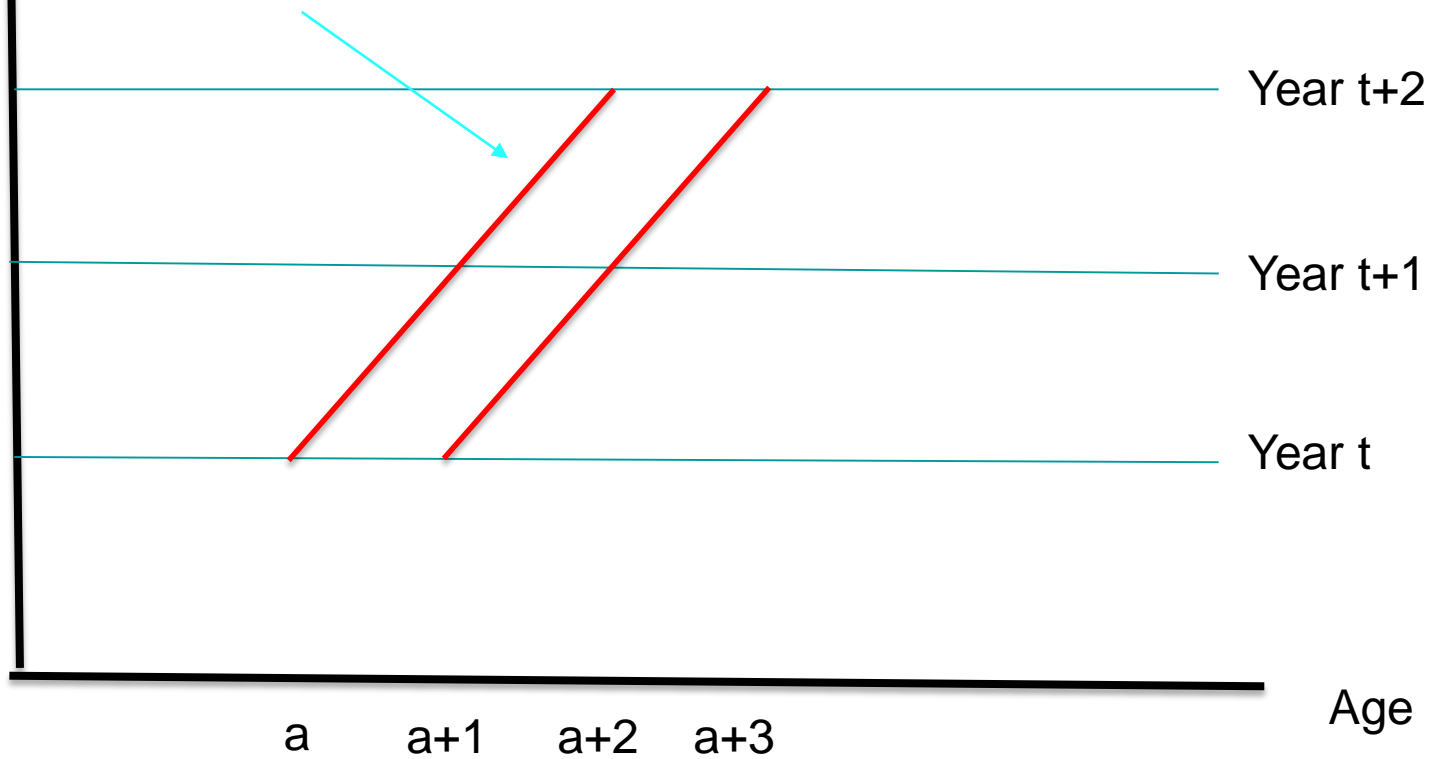- All three seem plausible a priori

Time and Age Effects

Portfolio
Share

Year t+2

Year t+1

Year t

Age
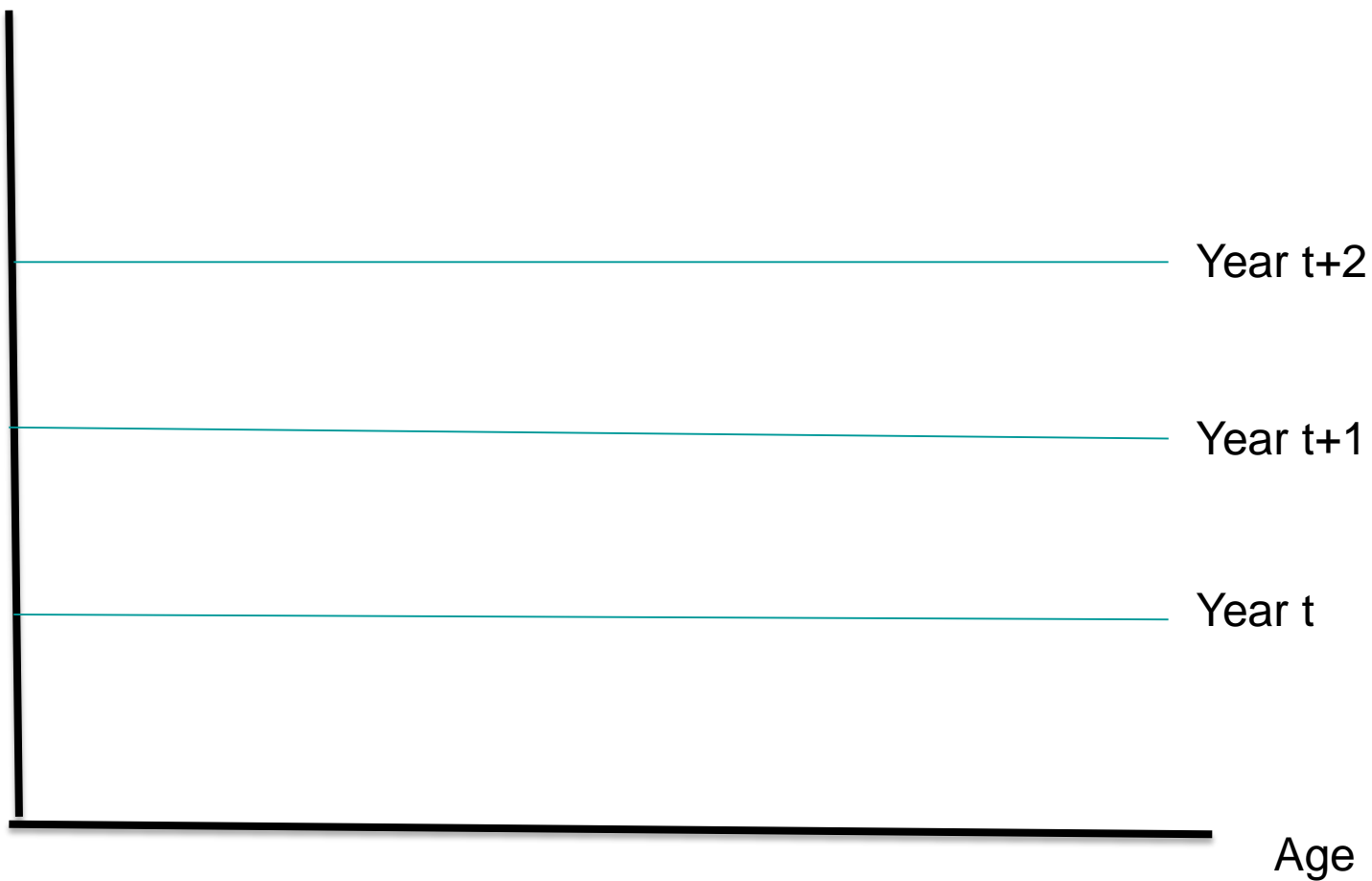
Cohort and Age Effects

Portfolio Share

Positive Age-Share Effect

Year t+2

Year t+1

Year t

a   a+1   a+2   a+3

Age

Intriguing Issue of Corporate Saving / Household Saving Link

- Do households "pierce the corporate veil"?

- Corporate saving → Stock price increase → Wealth effect on consumption

- Is this the same as consumption effect of dividends?

- U.S. policy 1936-37: Encourage corporate payout with "undistributed profits tax"

Rate of Return Effects of an Aging Society

- What are the demographic drivers? Domestic or global aging?
- GE models suggest modest potential decline in returns, sensitive to:
  - Human capital investment
  - Growth rate of developing nations
  - Closed vs. open financial markets