

Trends in Consumption Inequality among Older Adults

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Over the life-cycle, Deaton and Paxson (1994) show that the consumption inequality within a cohort of individuals grows as they age together and Aguiar and Hurst (2009) show that aggregate expenditures of an individual tend to grow and then decrease over the life-cycle. Putting these two concepts together, the consumption inequality trends among older adults seem like a particularly interesting topic for further investigation. Essentially what may be happening for these groups is that consumption inequality is increasing at the same time that overall consumption is on the decline.

We begin by estimating consumption inequality among older cohorts of individuals using data from the 1990 to 2009 Consumer Expenditure (CE) Surveys. Several broad measures of consumption inequality will be used. While we will mainly rely on the variance in the log of consumption as our primary measure, the Gini coefficient and the 90-10 percentile ratio may also be calculated. These measures are then tracked for different cohorts of older individuals over time, in order to see what happens as they age together. Once that is completed, we will move on to the next related question: What happens to this consumption inequality upon retirement?

Given the findings of Fisher and Marchand (2011) which examined the distributional impacts of the retirement consumption puzzle, we already have a hint of what might be the case for the consumption inequality of cohorts in the aggregate at retirement. That study finds that there is no change in consumption at retirement for low consumption households, a modest drop in consumption for median consumption households, and a large drop in consumption at retirement for high consumption households. This may mean that retirement does have an overall equalizing effect on the consumption inequality of a cohort, though more investigation is needed to make certain that this is the case. And, with an equalizing effect of retirement on consumption inequality, it would also be interesting to know if this continues, holds, or unravels when these cohorts are further along into the retirement period. This study will address that issue as well.

A related question to this matter is: How do these findings for consumption inequality among older adults at and after retirement match the findings for wealth inequality, as well as for earnings and income, found by Marchand (2011) using the Health and Retirement Study data? In that study, wealth inequality is shown to rise with age within a cohort until retirement, where it plateaus for a decade, and then rises at an even faster pace further into the retirement period. Is this trend the same or different for that of consumption? Why might they be the same or different?

These trends may have several important implications and may bring about several more questions which depend on the source of the consumption inequality. For example, if the change is coming from the bottom end of the distribution, it may signal that the social welfare system is

inadequate for older adults. However, if the change is coming from higher up in the distribution, then there may be less of a case for policy intervention. Other questions to consider include: What role does differential mortality play in the consumption inequality trend? What happens if consumption is defined in different ways? It may also be possible to make a distinction between those that hold private pensions and those that do not, in order to see how these consumption inequality trends may differ by pension status.