UNIVERSITY OF MICHIGAN

Cognition, Financial Wealth, and the Effects of the Financial Crisis on the Well-Being of Older Americans

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Effects of crisis:

- Heterogeneity in impacts

- Heterogeneity of capacity for absorbing impacts

Heterogeneity: in impacts

- Financial asset gains and losses
- Housing equity
- Labor market
- Credit markets

Heterogeneity: capacity for absorbing impacts

- Level of assets
- Ability to adjust labor and saving (time to retirement)
- Cognitive capacity

CogEcon Survey

- Timing
  - CogEcon 2008: Pre-crash baseline
  - CogEcon 2009 Post-crash

CogEcon Survey

- Distinct combination of covariates
  - Wealth, portfolio composition, change in value
  - Risk preference
  - Cognition: In person and telephone follow-up
  - Financial distress
  - Effects of crisis:
    - Labor supply
    - Consumption

Financial Wealth and the Financial Crisis

	Financial Wealth, July 2008			Percent Loss in Crisis			Obs.
	Mean		Mean	25th pert.	Median	75th pert.	
Financial wealth	$514,105	$270,001	-15.3%	-29.1%	-15.0%	-0.6%	655
Lost > 10%	$624,289	$391,322	-28.7%	-35.5%	-27.4%	-19.1%	387
Lost ≤ 10%	$354,998	$120,584	4.1%	-4.5%	0.0%	3.9%	268
By fluid intelligence							
Bottom third	$363,045	$145,390	-11.9%	-24.2%	-7.6%	0.0%	162
Middle third	$474,071	$261,997	-14.5%	-28.1%	-14.5%	0.0%	256
Top third	$660,606	$387,000	-18.5%	-32.5%	-20.1%	-5.8%	237
< $10,000 wealth	$2,843	$1,251	-2.3%	0.0%	0.0%	0.0%	140

Source: CogEcon 2009 post-crash. Household data based on financial respondent. Fluid intelligence is measured by number score. Figures for financial wealth exclude those with wealth <$10,000.

House Value and the Financial Crisis

	House Value, July 2008			Percent Loss in Crisis			Obs.
	Mean		**Median**	**25th pert.**	**Median**	**75th pert.**	
Home	$324,134	$213,890	-8.9%	-15.0%	-10.0%	0.0%	719
Doesn't own home							83

Source: CogEcon 2009 post-crash.

Financial Distress Indicators

	All	Wealth lost in crisis		
		≥10%	<10%	<$10,000
Pawnshop loan, etc	1.2%	1.0%	0.8%	1.9%
Late payment	9.9%	6.0%	6.4%	25.6%
Denied credit	6.9%	3.9%	4.2%	18.7%
Foreclosure	0.6%	0.5%	0.0%	1.9%
Financial help	4.8%	2.6%	3.4%	12.2%
Cancelled credit	3.9%	3.1%	1.9%	9.6%
Reduced credit	11.4%	8.9%	10.2%	19.9%
Yes to any	24.0%	19.1%	19.5%	43.6%
Yes to 2 or more	8.4%	4.2%	5.3%	24.4%

Labor Market Status, Outcomes, and Adjustments

	All	Wealth lost in crisis		
		≥10%	<10%	<$10,000
Retired	39.5%	32.3%	44.3%	47.3%
Not retired	60.5%	67.7%	55.7%	52.7%
Increased hours	12.4%	14.3%	6.9%	13.5%
Decreased hours	19.8%	21.5%	19.4%	14.9%
No change in hours	64.4%	60.6%	70.8%	67.6%
One inc., one decr.	2.1%	2.8%	1.4%	1.4%
Lost job	10.1%	10.7%	6.8%	15.4%
Gone back to work	20.2%	22.4%	14.4%	26.0%
Change planned retirement	38.9%	45.0%	30.2%	35.3%
Mean years deferred	1.32	1.47	0.95	1.60

Change in Consumption as a Result of the Financial Crisis

	All	Wealth lost in crisis		
		≥10%	<10%	<$10,000
		Percent change		
Food at home	-1.0%	-1.1%	-0.4%	-1.8%
Food away from home	-4.5%	-4.6%	-3.1%	-6.4%
Other nondurables	-4.6%	-5.0%	-3.2%	-5.9%
Composite	-3.4%	-3.6%	-2.3%	-4.8%
		Fraction deferring purchase		
Motor vehicles	16.0%	16.4%	11.5%	22.9%

Explaining Change in Consumption

	a	b	c	d	e
Change in wealth	0.021				
	(0.009)				
Wealth < $10,000	-1.918				
	(0.551)				
Retired					
Own home					
Change in home value					
Bottom *NS* tercile					
Top *NS* tercile					
Financial distress					
R^2	0.134				

Note: Dependent variable is percent change in consumption. Regressions include demographic variables.

Explaining Change in Consumption

	f	g	h	i	j
Change in wealth	0.026				
	(0.009)				
Wealth < $10,000	-1.724				
	(0.614)				
Retired	0.543				
	(0.624)				
Own home	0.690				
	(0.628)				
Change in home value	0.016				
	(0.012)				
Bottom *NS* tercile					
Top *NS* tercile					
Financial distress					
Lost job	-2.385				
	(0.845)				
Returned to work					
Retired later					
Years deferred retirement					
R^2	0.163		_		_

Explaining Deferral of Auto Purchase: Probit, Marginal effects at means

Change in wealth	-0.001
	(0.003)
Wealth < $10,000	0.156
	(0.185)
Own home	-0.318
	(0.228)
Change in home value	-0.001
	(0.007)
Bottom *NS* tercile	-0.025
	(0.175)
Top *NS* tercile	-0.098
	(0.152)
Financial distress	0.612
	(0.195)
Lost job	0.239
	(0.229)
Returned to work	0.361
	(0.193)
Years deferred retirement	0.084
	(0.031)
Pseudo R^2	0.135