

Is there a retirement consumption puzzle in Japan?

Evidence based on panel data on households in the agricultural sector

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Abstract

Taking advantage of true panel data on farm households collected by the Statistical Survey on Farm Management and Economy, this paper investigated whether a retirement consumption puzzle can be observed in Japan and, given that this is the case, what the reasons are. Our long-run panel data allow us to examine the behavior of households whose head actually retired during the observation period. Our analysis shows that households' expenditure does decline after the retirement of the household head. What is more, changes in family size or other demographic factors appear to only marginally account for the expenditure decline upon retirement. Changes in life-style/preferences after retirement also do not appear to fully explain the expenditure decline, since the decline in expenditure is strongly correlated with the magnitude of the decline in income. Further, we find that the expenditure decline is larger for households with smaller net financial assets, which implies that part of the income-expenditure correlation around retirement is probably due to unanticipated negative income shocks. However, our analysis also implies that the consumption decline at retirement in Japan is difficult to understand completely if there are no myopic households or households that lacked the discipline, which contradict the assumption of the LC/PIH.