

Discussion of

Blundell, Borella, Commault and De Nardi:  
**Why Does Consumption Fluctuate in Old Age and  
How Should the Government Insure It?**

Jirka Slacalek

European Central Bank

[www.slacalek.com](http://www.slacalek.com)

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The views expressed are mine  
and do not necessarily reflect those of the ECB.

# Key contributions

- ▶ Estimate how **transitory health shocks** affect consumption of older US households (65+)—subject to both health and income risk
- ▶ Decompose effects of adverse health shocks into:
  1. Drop in marginal utility of consumption (eg less travel)—Key
  2. Drop in resources (income, higher medical expenses)—Smaller
- ▶ Differences across households / consumption components:
  - ▶ Wealthier households cut on luxuries (possibly b/c of 1)
  - ▶ Poorer households cut on luxuries and necessities (also b/c of 2)
- ▶ Effect on marginal utility (1) important, more than 90% of total effect
- ▶ Distinction matters for public policy implications—public insurance

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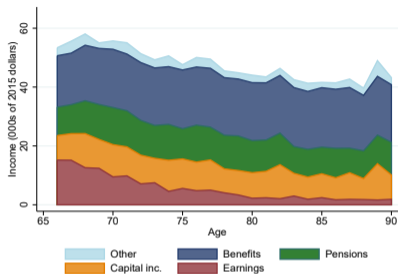
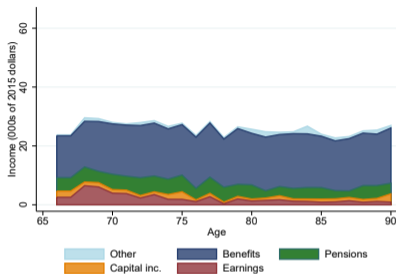
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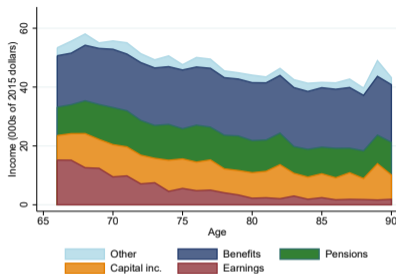
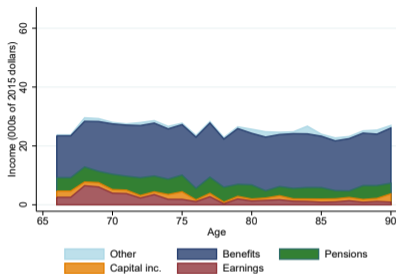
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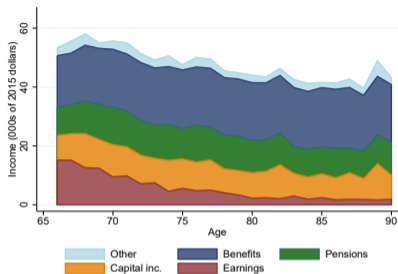
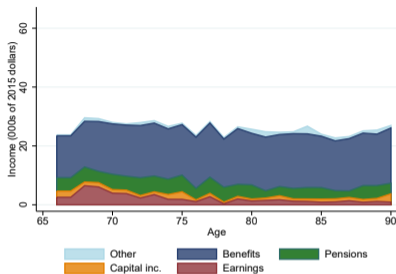
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- ▶ Health risk only affects earnings risk (not other income components); correlation(health, inc risk)  $\approx 0.15$
- ▶ Earnings risk is higher for wealthy households
- ▶ Why not look at 50+ households? (earnings matter more for them)

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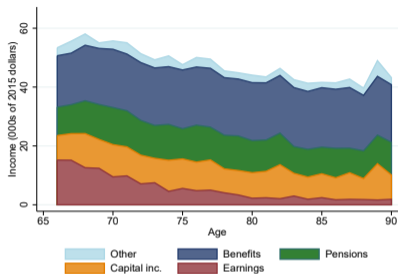
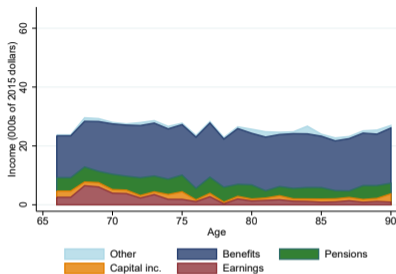
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## Various data issues

- ▶ Challenging project, need detailed data on health (subjective + objective), consumption, income, wealth—US Health and Retirement Study
- ▶ 2-year frequency  $\Rightarrow$  Transitory health shocks may last up to 2 years
- ▶ Wealth breakdown: Why not have 3 equal groups of households? (Now about 1000 poor households, 4000 wealthy)
- ▶ Role of **liquid assets** (relative to income), not net wealth for passthrough?  
Wealthy hand-to-mouth households
- ▶ Additional breakdowns: education, age (role of bequest motive for old households)
- ▶ Measurement of consumption: Some necessities might be affected via shift in utility, eg car-related; Food away from home is luxury



# Policy implications: 'How should government insure?'

- ▶ Be more explicit about the normative conclusion
- ▶ I think the conclusion is:  
Government should provide more insurance to poorer households against medical expenses + income channels. But gov't should not address marginal utility shocks.

## Other points

- ▶ Would be interesting to solve structural model numerically, to see how well approximation works
- ▶ Side note: In principle similar decomposition could be applied to the effects of covid on consumption

# Summary

- ▶ Nice, careful paper decomposing effects of health shocks
- ▶ Interesting question, important for public policy
- ▶ Would be nice to have evidence from other countries (perhaps with annual data) on public insurance against health shocks