

House Prices and Retirement Saving Behavior

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The volatility of residential real estate prices since 2001 presents a unique opportunity to estimate the causal effect of home price fluctuations on retirement savings behavior. Home price appreciation increases the wealth of homeowners. This “passive” form of saving could offset contributions to retirement accounts. We use the CoreLogic data of house prices merged with the nationally representative data from 2000-2010 waves of the Health and Retirement Study to measure how the flows of contributions to the defined-contribution (DC) plans of individuals nearing retirement are impacted by changes in house resale prices in their zip code of residence. Since the seminal models of saving predict that expected wealth gains are already fully incorporated into the saving/consumption plan, we isolate the unexpected changes in house values using autoregressive models. Estimations that account for individual fixed effects and a rich set of control variables show that a \$10K increase in the average local home resale values reduces annual contributions to the DC plans by about \$88. A \$10K unexpected increase in the average local home resale values reduces annual contributions to the DC plans by about \$240. Given that the observed evolution of prices blends both the expected and unexpected components, the greater magnitude of effect of unexpected increase in home values is consistent with economic theory. Additional tests show that the effects are caused by positive wealth surprises only, i.e., individuals do not increase contributions to their DC retirement plans when they are faced with declining home prices.

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