Precautionary Savings against Health Risks: Evidence from the Health and Retirement Study

Tansel Yilmazer, University of Missouri ¹
Robert L. Scharff, The Ohio State University ²

Abstract: Theoretical models of precautionary savings predict that uncertainty about future economic circumstances cause households to raise their stock of precautionary savings. While it has been recognized that uncertainty regarding health status and related health expenditures contribute to households’ well-being, the empirical work on the role of health risks on household savings is not complete. We explore the effect of health uncertainty on household savings using data from the Health and Retirement Study. We construct two measures of health risks utilizing the actual observations of having health problems that limit work activities and also the self-reported probability of having health problems that limit work activities. Our results do not support the hypothesis that household savings increase with uncertainty about future health risks.

¹ Tansel Yilmazer, Personal Financial Planning, University of Missouri, 239 Stanley Hall, Columbia, MO 65211, phone: 573-884-9188, email: yilmazert@missouri.edu.

² Robert L. Scharff, Department of Consumer Sciences, The Ohio State University, Campbell Hall Room 265E, 1787 Neil Ave, Columbus, OH 43210, phone: 614-292-4549, email: scharff.8@osu.edu.