

Longevity Risk, Subjective Survival Expectations, and Individual Saving Behavior

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Abstract

Theoretical studies suggest that unexpected changes in future survival probabilities, that is, longevity risk, are important determinants of individuals' decision making about consumption, saving, allocation of assets, and retirement timing. Based on a data set that matches subjective survival expectations and savings indicators from the Survey of Health, Ageing and Retirement in Europe (SHARE) with life table data from the Human Mortality Database this study provides first empirical evidence that individuals are aware of longevity risk. The observed awareness of longevity risk translates into an increased dispersion of saving outcomes, which indicates that disagreement effects impact the underlying decision making process. We do not find that awareness of longevity risk results in a clear increase in precautionary savings, the savings reaction thus differs from what theory suggests would be an optimal response.

Keywords longevity risk, subjective survival expectations, forecast dispersion, saving behaviour

JEL classifications D14, D84, D91, H31, J11