Life Course Research of Middle and Old-Aged Persons (Part 2) — Panel Study Results on Household Finances (1999)

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Introduction

NLI Research Institute is currently conducting a 10-year panel study of middle and old-aged persons. The study consists of five surveys in total, conducted at two-year intervals. The first survey was conducted in 1997, and the second one in 1999.

Unlike the sample study method, which is takes a snapshot of a cross section at a given point in time, the panel study method follows the same participants over a period of time to examine the life events that occur, and how they impact the attitudes and behavior of individuals (and families).

Part 1 of the panel study results, released last month, analyzed changes in daily life from 1997 to 1999. This paper (Part 2) reports on changes in the financial situation of households. Part 3 will address changes in employment.

The participants in the panel study were born between 1933 and 1947, which means that they ranged in age from 52 to 66 in 1999. Salaried workers have begun retiring, while some self-employed persons are winding down their careers. Long-term care is also starting to become a real concern for the participants and their parents, and some are already engaged in it. Thus two major life events now confronting this generation — job separation (including retirement) and long-term care — are starting to alter lifestyles and have a serious impact on household finances.

To present a picture of the financial condition of families of this generation, below we outline changes in household finances from 1997 to 1999, and analyze how job separation and long-term care are affecting household finances.

1. Outline of Household Finances

(1) Decline in Household Income

Monthly[1] household incomes[2] declined overall, from a median value[3] of 420,000 yen in 1997 (mean: 522,000 yen) to 365,000 yen (mean: 434,000 yen) in 1999.

Taking advantage of the panel method's ability to track individual households, we found that income declined (by at least 50,000 yen) in 40.5 percent of households, and increased (by at least 50,000 yen) in 29.8 percent (Figure 1).

Thus despite the overall decline in income, not all households encountered a decrease; rather, more households encountered a decrease than an increase. The median change in income for individual households was -10,000 yen (note that this is not equal to the change in median income between 1997 and 1999).

Figure 1 Change in Household Income

(%) (¥)

Sample size (n)	Decrease		No change	Increase		99–97 median change	Nov. 99 median household income
	¥200,000+	¥50,000~ ¥199,999	< ¥50,000 increase or decrease	¥50,000~ ¥199,999	¥200,000+		
383	16.4	24.0	29.8	23.2	6.5	–10,000	365,000
	40.5			29.8			

(2) No Change in Consumption Spending

On the other hand, no significant change was found in consumption expenditure.[4] The median consumption in 1999 was unchanged at 200,000 yen (the mean consumption was 235,000 yen, compared to 245,000 yen in 1997).

At the individual household level, 32.0 percent of households saw no change (meaning an increase or decrease of less than 50,000 yen), compared to 33.0 percent who decreased consumption, and 35.0 percent who increased consumption.

Thus while consumption did not change at the aggregate level, offsetting changes in consumption did occur (the median value of change was zero yen). Indeed, almost 70 percent of households changed their level of consumption (Figure 2).

Figure 2 Change in Consumption Spending

(%)

Sample size (n)	Decrease		No change	Increase	
	¥200,000+	¥50,000~ ¥199,999	<¥50,000 increase or decrease	¥50,000~ ¥199,999	¥200,000+
460	7.0	26.1	32.0	27.4	7.6
	⓪ 33.0			35.0	

(¥)

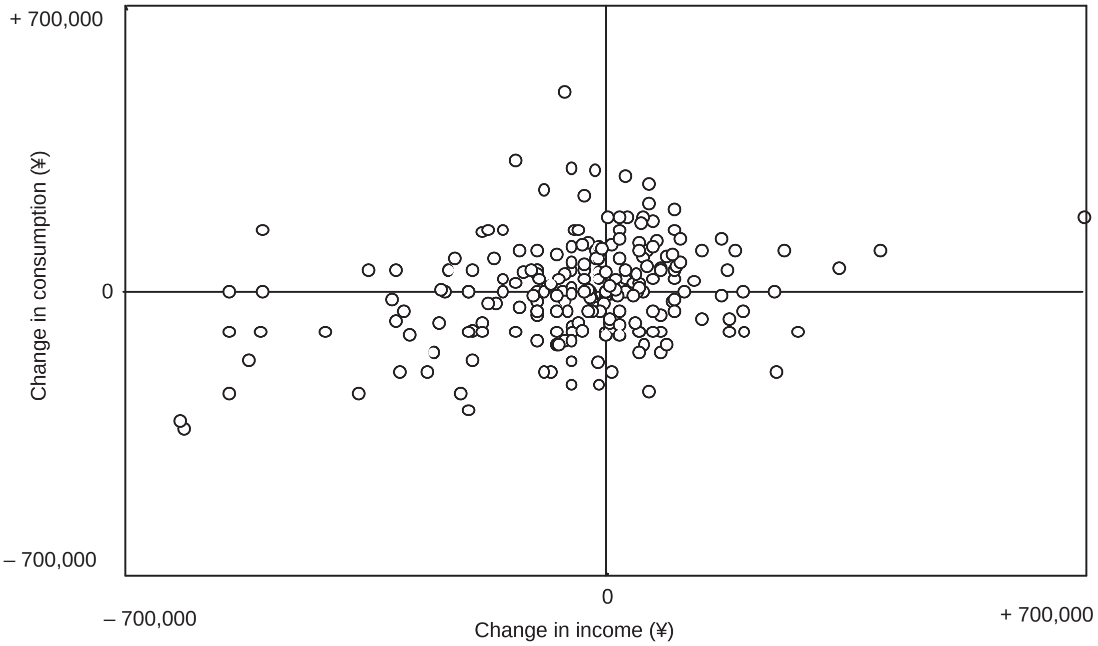
99–97 median change	Nov. 99 median consump-tion
0	200,000

(3) Relationship Between Income and Consumption

As we have seen, many households saw their financial situation change from 1997 to 1999. We now look at whether changes in income are correlated with changes in consumption.

In Figure 3, change in income is plotted on the horizontal axis against change in consumption on the vertical axis. No pattern emerges that suggests any kind of relationship (correlation coefficient 0.00192). In other words, households with lower incomes did not necessarily reduce consumption.

Figure 3 Distribution of Changes in Household Income and Consumption



Having outlined the general financial situation of households, we next focus on changes in household finances among participants who experienced two major life events — job separation and long-term care — since the 1997 survey.

2. Change in Household Finances Due to Job Separation

(1) Job Separation Caused Significant Decrease in Household Income

Here we analyze the household financial situation of participants who experienced job separation for any reason including retirement.

The age group of the participants (52 to 66 years old as of 1999) is particularly prone to job separation; we found that 12.8 percent were newly separated (they had been working as of 1997).

The median household income of these newly non-working households in 1999 was 290,000 yen, considerably lower than the 446,000 yen for working households.

In fact, 66.7 percent of the new non-working households experienced an income decline in the two-year period, with the median change being -195,000 yen. Clearly, the decline in income accompanying job separation is large (Figure 4).

Figure 4 Household Income and Change in Employment Status

(%) (¥)

	Sample size (n)	Decrease		No change	Increase		99–97 median change	Nov. 99 median household income
		¥200,000+	¥50,000~ ¥199,999	<¥50,000 increase or decrease	¥50,000~ ¥199,999	¥200,000+		
Hold same job	222	10.8	27.9	27.9	27.0	6.3	–1.0	450,000
		38.7			33.3			
Changed jobs	23	17.4	17.4	21.7	30.4	13.0	1.0	330,000
		34.8			43.5			
Became unemployed	57	47.4	19.3	22.8	7.0	3.5	–19.5	290,000
		66.7			10.5			
Became re-employed (was unemployed before)	16	6.3	18.8	31.3	37.5	6.3	4.0	380,000
		25.0			43.8			
Remained unemployed	56	5.4	19.6	50.0	16.1	8.9	0.0	290,000
		25.0			25.0			

(2) Consumption Also Declined

We next examine whether the decline in income from job separation also caused consumption spending to decrease.

In the past two years, 45.5 percent of these households had decreased their consumption, with the median consumption spending being 203,000 yen. The median change in consumption was -20,000 yen, which is smaller than the decline in income (Figure 5).

Job separation can reduce consumption by reducing the need to spend on things such as entertainment and apparel, and well as by suppressing consumption through the income effect.

Thus households who experienced job separation show a significant decrease in income, and a slight decrease in consumption as well.

Figure 5 Consumption and Change in Employment Status

(%) (¥)

<table>
<tr><th rowspan="2"></th><th rowspan="2">Sample size (n)</th><th colspan="2">Decrease</th><th>No change</th><th colspan="2">Increase</th><th rowspan="2">99 – 97 median change</th><th rowspan="2">Nov. 99 median consump-tion</th></tr>
<tr><th>¥200,000+</th><th>¥50,000~ ¥199,999</th><th><¥50,000 increase or decrease</th><th>¥50,000~ ¥199,999</th><th>¥200,000+</th></tr>
<tr><td rowspan="2">Holds same job</td><td rowspan="2">286</td><td>7.0</td><td>27.3</td><td rowspan="2">30.1</td><td>28.0</td><td>7.7</td><td rowspan="2">0.0</td><td rowspan="2">200,000</td></tr>
<tr><td colspan="2">34.3</td><td colspan="2">35.7</td></tr>
<tr><td rowspan="2">Changed jobs</td><td rowspan="2">25</td><td>8.0</td><td>20.0</td><td rowspan="2">32.0</td><td>40.0</td><td>0.0</td><td rowspan="2">0.4</td><td rowspan="2">260,000</td></tr>
<tr><td colspan="2">28.0</td><td colspan="2">40.0</td></tr>
<tr><td rowspan="2">Became unemployed</td><td rowspan="2">55</td><td>12.7</td><td>32.7</td><td rowspan="2">25.5</td><td>18.2</td><td>10.9</td><td rowspan="2">–2.0</td><td rowspan="2">203,000</td></tr>
<tr><td colspan="2">45.5</td><td colspan="2">29.1</td></tr>
<tr><td rowspan="2">Became re-employed (was unemployed before)</td><td rowspan="2">25</td><td>12.0</td><td>12.0</td><td rowspan="2">40.0</td><td>24.0</td><td>12.0</td><td rowspan="2">1.2</td><td rowspan="2">200,000</td></tr>
<tr><td colspan="2">24.0</td><td colspan="2">36.0</td></tr>
<tr><td rowspan="2">Remained unemployed</td><td rowspan="2">64</td><td>0.0</td><td>18.8</td><td rowspan="2">43.8</td><td>31.3</td><td>6.3</td><td rowspan="2">3.0</td><td rowspan="2">215,000</td></tr>
<tr><td colspan="2">18.8</td><td colspan="2">37.5</td></tr>
</table>

3. Change in Household Finances Due to Long-term Care

(1) Significant Income Decline in Households with Long-term Care

We next analyze the financial situation of households with persons needing long-term care.

In 1999, of the 6.6 percent of households with long-term care, 2.3 percent were continuing users from 1997, while the other 4.3 percent were new.

For new households using long-term care, the median household income was 337,000 yen, slightly below that of households without long-term care (370,000 yen). As many as 66.7 percent of the new households experienced an income decline in the past two years (Figure 6).

Figure 6 Household Income and Long-term Care Status

(%) (¥)

	Sample size (n)	Decrease		No change	Increase		99-97 median change	Nov. 99 median household income
		¥200,000+	¥50,000~ ¥199,999	< ¥50,000 increase or decrease	¥50,000~ ¥199,999	¥200,000+		
Family member needs care (1999)	23	17.4	43.5	17.4	21.7	0.0	–7.0	348,000
		60.9			21.7			
Also needed care in 1997	5	0.0	40.0	20.0	40.0	0.0	–4.6	384,000
		28.0			40.0			
Did not need care in 1997	18	22.2	44.4	16.7	16.7	0.0	–14.0	337,000
		45.5			29.1			
Family member does not need care (1999)	350	16.0	22.3	30.9	23.7	7.1	–1.0	370,000
		24.0			36.0			

Compared to the median change in income for all households with long-term care (-70,000 yen), that of new households with long-term care was an astonishingly large -140,000 yen.

One factor causing income to decline among households with long-term care is the high job separation rate of these households. In the past two years, 31.8 percent of these households experienced job separation, while an even larger 41.2 percent of new households did so (Figure 7).

Although long-term care may not be the only reason for job separation, it undoubtedly lessens the incentive to keep working and is a contributing factor.

Figure 7 Long-term Care Status and Employment Status

	Sample size (n)	Cointinuously employed	Changed jobs	Job separation	Re-employed	Not working
Family member needs care (1999)	22	40.9	4.5	31.8	4.5	18.2
Also needed care in 1997	5	60.0	0.0	0.0	20.0	20.0
Did not need care in 1997	17	35.3	5.9	41.2	0.0	17.7
Family member does not need care (1999)	342	61.4	6.1	13.7	4.4	14.3

(2) Consumption Increased in Households with Long-term Care

On the other hand, compared to households without long-term care, whose median consumption spending was 200,000 yen, new households consumed 210,000 yen, and continuing households even more at 250,000 yen.

The median change in consumption of new households was 30,000 yen, while that of continuing households was 50,000 yen (Figure 8).

Considering that consumption remains unchanged for households without long-term care, the added burden of expenses associated with long-term care thus appears to be quite substantial.

Factors that cause expenditures to rise for households with long-term care include not only direct costs for care and medical expenses, but indirect costs such as for eating at restaurants because family members are diverted from normal household chores.

Figure 8 Consumption and Long-term Care Status

(%) (¥)

<table>
<tr><th rowspan="2"></th><th rowspan="2">Sample size (n)</th><th colspan="2">Decrease</th><th>No change</th><th colspan="2">Increase</th><th rowspan="2">99–97 median change</th><th rowspan="2">Nov. 99 median consump-tion</th></tr>
<tr><th>¥200,000+</th><th>¥50,000~ ¥199,999</th><th><¥50,000 increase or decrease</th><th>¥50,000~ ¥199,999</th><th>¥200,000+</th></tr>
<tr><td rowspan="2">Family member needs care (1999)</td><td rowspan="2">30</td><td>3.3</td><td>30.0</td><td rowspan="2">20.0</td><td>40.0</td><td>6.7</td><td rowspan="2">4</td><td rowspan="2">23.5</td></tr>
<tr><td colspan="2">33.3</td><td colspan="2">46.7</td></tr>
<tr><td rowspan="2">Also needed care in 1997</td><td rowspan="2">12</td><td>0.0</td><td>33.3</td><td rowspan="2">8.3</td><td>50.0</td><td>8.3</td><td rowspan="2">5</td><td rowspan="2">25</td></tr>
<tr><td colspan="2">33.3</td><td colspan="2">58.3</td></tr>
<tr><td rowspan="2">Did not need care in 1997</td><td rowspan="2">18</td><td>5.6</td><td>27.8</td><td rowspan="2">27.8</td><td>33.3</td><td>5.6</td><td rowspan="2">3</td><td rowspan="2">21</td></tr>
<tr><td colspan="2">33.3</td><td colspan="2">38.9</td></tr>
<tr><td rowspan="2">Family member does not need care (1999)</td><td rowspan="2">405</td><td>6.9</td><td>25.7</td><td rowspan="2">32.3</td><td>27.4</td><td>7.7</td><td rowspan="2">0</td><td rowspan="2">20</td></tr>
<tr><td colspan="2">32.6</td><td colspan="2">35.1</td></tr>
</table>

(3) The Dissaving Tendency of Households with Long-term Care

In light of the increased consumption spending of households with long-term care, we examined whether they were spending out of their savings.

We found that as many as 38.9 percent of new households with long-term care were dissaving, compared to 23.6 percent for households without long-term care (Figure 9). Thus the additional cost burden of long-term care appears to be impacting not only the cash flow of households but their asset holdings as well.

As we have seen, households with long-term care are encountering lower incomes and higher expenditures. Long-term care is thus taking a toll not only physically and emotionally, but financially as well.

Figure 9 Dissaving and Long-term Care Status

	Sample size (n)	Now doing so	Not now, but intend to later	Not now, and not later	Don't know
Family member needs care (1999)	23	34.8	26.1	8.7	30.4
Also needed care in 1997	5	20.0	20.0	20.0	40.0
Did not need care in 1997	18	38.9	27.8	5.6	27.8
Family member does not need care (1999)	343	23.6	30.9	18.7	26.8

Conclusion

At the aggregate level, the survey results would indicate that consumption spending has not changed in the past two years, while household income has declined. At the individual household level, however, we found that significant changes are occurring — as many as 70 percent of households have encounterd changes in income and consumption. Moreover, there is no simple correlation between changes in income and in consumption.

In particular, among households who experienced job separation in the past two years, incomes have declined significantly while consumption has only edged down slightly. Among households that began using long-term care in the past two years, incomes have plunged while expenditures have increased.

As old age approaches, practically everyone must retire at some point. As our results show, people must plan for retirement in anticipation of lower incomes as well as higher expenditures for medical and long-term care needs.

However, the social security system — the foundation of any financial plan — is in crisis, and no clear solutions have yet emerged on the horizon. This complicates planning because people have no idea how thoroughly they need to prepare on their own.

Not knowing the extent of risks in retirement nor how financially well prepared to be, people are forced to maintain or increase their savings to prepare for any uncertainties ahead.

Japan has 1,390 trillion yen in personal financial assets, most of which is supposedly owned by elderly persons. It is often suggested that if only a fraction of this massive wealth were diverted to consumption, the economy could regain its vigor. However, we would add a caveat.

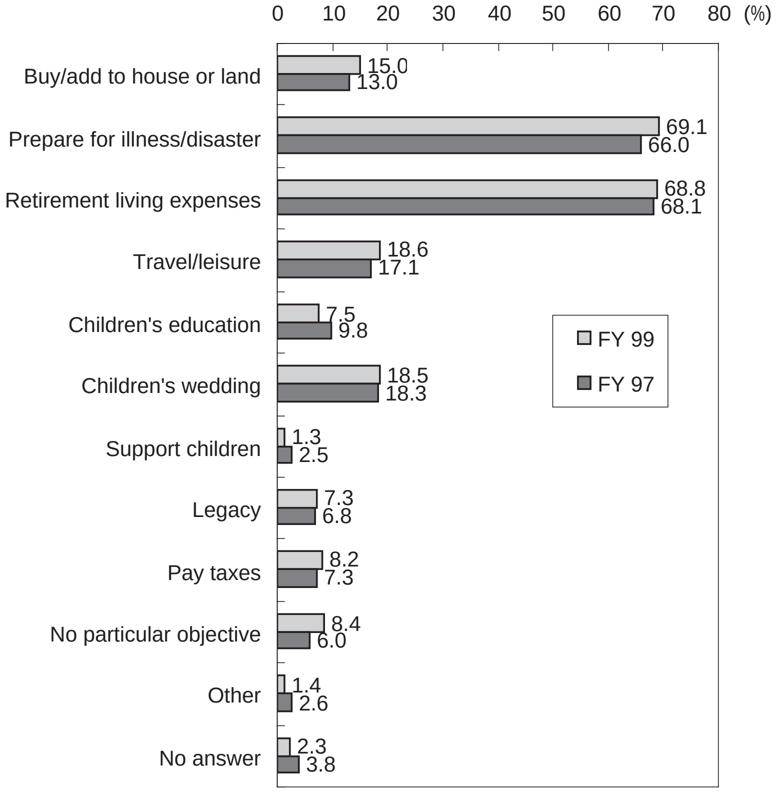
Our survey found that the two primary motives for saving are to prepare for illness or disaster (69.1 percent), and for retirement funds (68.8 percent). On the other hand, travel and leisure amount to only 18.6 percent. These results are largely unchanged from 1997 (Figure 10).

Thus as long as the risk of contingencies and the amount of money needed to overcome them are not clear, it is unlikely that savings will be used for anything other than daily living expenses.

For the middle and old-aged generations to feel secure about spending more out of their savings, the risks of retirement life need to be clarified, and the viability and reliability of the social security system needs to be assured.

Since the 1999 survey was conducted just prior to the initiation of the long-term care insurance system, we were unable to examine its impact. However, in the next survey in 2001, we hope to examine the extent to which the LTC insurance system helps to alleviate the anxieties of middle and old-aged persons.

Figure 10 Savings Objectives



Notes

1. In asking about monthly household finances, we chose the month of November as being most representative, on the assumption that it is least likely to be affected by large events such as travel and leisure activities.

2. Household income is the total of three categories: participant’s income, spouse’s income, and other income.

3. We used median values as an indicator of general tendencies. Median values are less affected by outliers than mean values.

4. Consumption spending as used here does not necessarily coincide with the economic concept of consumption. In the survey, overall household expenditure categories include consumption (total of daily living expenses, leisure expenses, etc.), rent, savings, loan repayment, insurance premiums (including annuities), taxes, and social security premium. Consumption spending refers to the consumption category.