

# WORKING PAPER

## *Executive Summary*

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## CHILDREN AND HOUSEHOLD UTILITY: EVIDENCE FROM KIDS FLYING THE COOP

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This paper investigates the impact of children leaving home on household consumption.

According to the life-cycle model of consumption, households should do much of their saving for retirement in the years subsequent to the kids leaving home, when expenses decline and income often peaks. If households do, in fact, behave in this way, then low levels of retirement saving among younger households may not be a matter of public policy concern because they will catch up later in life, and should be aiming for relatively modest replacement rates.

We use data from the *Health and Retirement Study* (HRS) Consumption and Activities Module (CAMS). The HRS is a nationally representative panel of Americans aged over 51 and their spouses of any age. The CAMS supplement was administered bi-annually from 2001 to 2007 to a random sample of 5,000 participants in the HRS. It collects consumption data, which we group into expenditure on durables, non-durables, non-discretionary items, and housing. Durables include purchases of automobiles and large household items. Non-durables include purchases of housekeeping supplies, personal care products, apparel, leisure and hobby items, vacations, vehicle insurance, any food purchases (including dining out), and gasoline. Non-discretionary consumption includes vehicle taxes and maintenance, health insurance and health supplies. Housing includes standard home expenses.

We classify households into those who never had resident children at any of the CAMS interview dates, those who always had the same number of resident children, and those who had children at the 2001 interview, but whose children had moved out by 2007. Our sample comprises 2,880 observations representing 833 households: 743 never had children in the household, 36 had children who move out, and 54 who always had the same number of children living with them.

We estimate an econometric model in which the dependent variable is the change in the log of either household or per-capita consumption over a four-year period.<sup>1</sup> The “treatment” of having kids leave home is compared with two “control” groups, those whose kids never left home, and those who did not have resident kids at baseline.

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<sup>1</sup> We require a four-year period because participants are not asked the date their kids moved out. To illustrate, if a household reports kids in 2000 and 2002, but not in 2004 or 2006, we know that they had kids at the date of the 2001 CAMS interview, that they did not have kids at the date of the 2005 CAMS interview, but have no means of establishing whether kids were present in 2003.

Tables 3 and 4 report our results. Table 3 reports results for models where the dependent variable is the change in household-level consumption, and Table 4 results for models where the dependent variable is the change in per-capita consumption. The base case is a household that did not have resident kids during the relevant period. The coefficients show the impact of the variable in question on the change in log consumption over the four-year period.

As we differ consumption, many of the coefficients are small and lack statistical significance, reflecting the fact that while we expect, for example, low-income households to have lower consumption, we do not expect their consumption to grow less rapidly over time. The variable of greatest interest is “kids move out.” This shows the effect of the kids moving out on the various categories of consumption. We find that the household level coefficient (-0.062) on non-durables consumption is small, and not significantly different from zero, implying no decline in total household spending. In contrast, the person level coefficient is both large and significantly different from zero, implying a large 50-percent increase in per-capita spending. We also find that households that have a child leave home increase per-capita expenditure on housing, but there are no changes at the household level. This is expected because housing expenses mainly comprise items that are a function of the size of the house, not of the number of occupants, and households rarely downsize when their kids leave home. Not surprisingly, given the lumpy nature of this type of expenditure, our ability to predict changes in durables consumption is quite limited, and the coefficients are imprecisely estimated. Our ability to identify changes in expenditure on non-discretionary items is likewise quite limited.

The above results are robust to a number of sample restrictions. A potential concern is that the children may be contributing financially to the household. Table 5 reports results for a model in which we restrict the sample to households whose resident children are aged under 30. The coefficient for per-capita non-durables consumption is almost unchanged at 0.415 (compared to 0.409), and retains significance. We obtain similar results when we restrict the sample to those who did not move.

We conclude that total household consumption does not decline when the kids leave home, and that households do not take the opportunity presented by the reduction in the demands on their resources to increase their savings. This might reflect impatience or inertia. It might also reflect household preferences. For example, one may only enjoy high school sports games, typically free, when one’s own child is participating. Once the child has left home, the parents may find other, more expensive, activities to fill their leisure time.

The finding that household-level consumption remains constant when the kids leave home has important policy implications. First, those who, for whatever reason, save little when they are young do not automatically catch up on their savings late in life. Second, if households choose to enjoy an increase in their standard of living when their kids leave home, and want to maintain that increased standard of living in retirement, they will need greater wealth than if their goal were simply to maintain the lower standard of living enjoyed while the kids were at home.

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