



## Full length article

## Preparation for old age in France: The roles of preferences and expectations

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## ABSTRACT

This article assesses the roles of preferences and expectations on preparation for old age, employing unique data on French individuals aged 50+. The data do not only contain information on the general feeling to prepare for old age and on specific preparation activities in various domains, but also on risk and time attitudes, family and social altruism, and expected disability and longevity. Half of the sample reports preparing for old age. Future orientation emerges as an important predictor of preparation. While risk attitudes and altruism also matter for preparation, their effect may be less systematic across outcomes than that of general future orientation. Individuals who expect to become disabled or to live longer are more likely to prepare for old age. Policies promoting healthy aging should include messages targeting present-oriented individuals and try to make people more future-oriented.

## Introduction

The increase of life expectancy in the world's wealthiest nations remains as one of the biggest policy challenges. A stream of initiatives to promote “aging well” has emerged as a response to this evolution – see for instance the French “Plan National “Bien Vieillir,” 2007–2009.” These initiatives involve actions of local and national authorities, but also entail individual responsibility, to address the risks of later life such as low income, social isolation, poor health, and disability (Street and Desai, 2011). At the individual level, response to a longer longevity requires preparation for old age in several domains (finances, housing, interpersonal relationships, health...). Because preparation for old age is critically important to well-being in later life (Adams and Rau, 2011; Noone et al., 2009), a better understanding of the determinants of preparation at the individual level may open up new perspectives for policies promoting aging well.

There is a substantial literature in Gerontology and Psychology on “preparation for retirement” and in particular on financial planning of retirement. This strand of research demonstrates that preparation for retirement depends on personal tastes, and more specifically on risk and time attitudes (Adams and Rau, 2011; Dulebohn, 2002). However, the concept of “financial preparation for retirement” is narrower than that of “preparation for old age,” because it solely focuses on the exit from the workforce, and exclusively emphasizes planning in the financial domain. In contrast, the literature in these fields on “preparation for old age” that takes a unified approach on preparation in several domains is limited (Denton et al., 2004; Kornadt and Rothermund, 2014).

As far as we are aware, there is no study on preparation for old age per se in Economics. However, some outcomes that can be considered as components of preparation for old age – such as savings behaviors, the uptake of long-term care insurance, lifestyles, and health – are the subject of what is by now a very large literature. Risk aversion (i.e. the opposite of risk preference) and future orientation (i.e. the opposite of time preference or time discounting) emerge as key positive predictors of these outcomes (Dohmen et al., 2011; Jusot and Khlal, 2013; Peretti-Watel et al., 2013; Van Der Pol, 2011). A small number of studies also consider the role of preference with respect to family altruism (Fontaine et al., 2014).

Our objective is to investigate the roles of preferences and expectations on preparation for old age in France. We document correlations between preferences and expectations on the one hand and preparation of old age on the other hand. Our data come from an original survey on the customers of Harmonie Mutuelle (HM), which is the French largest “mutuelle” (i.e. not-for-profit insurance company), and our final sample contains 1244 mid-life and older individuals. The data include information on the overall feeling to prepare for old age or not, and on a range of specific activities such as long-term care insurance purchase, home adaptation, and efforts to maintain intellectual abilities and social ties. These specific outcomes pertain to several domains (finances, housing, social life, and health). Moreover, they relate to preparation of the third age (which is the period after retirement when individuals are healthy and remain active) and/or the fourth age (which is the stage of life when dependency and decrepitude issues become more serious). The survey also contains rich information on

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preferences (as defined in the economic literature), since we measure not only risk aversion and future orientation, but also family and social altruism. Regarding expectations, surveyed individuals indicate their expected disability and longevity. The data also provide information on myopia and denial regarding possible future disability. Myopia corresponds to the tendency for individuals not to think that they could become disabled one day, and denial to the situation in which individuals do not want to hear of future possible disability.

We expect more risk-averse and future-oriented individuals to have a greater tendency to engage in preparation activities. In addition, more altruistic individuals, who internalize the negative impact of their non-preparation on their family and on the rest of society, should be more likely to prepare for old age. Compared with individuals who expect to become disabled, persons who are myopic or in denial should be less likely to prepare for old age. Finally, expected longevity should be positively associated with preparation, because a greater expected longevity increases the payoff of preparation. In other words, people with a higher life expectancy have more to lose not to prepare.

The contribution of our article is threefold. First, we contribute to the small literature on preparation for old age (Denton et al., 2004; Kornadt and Rothermund, 2014). We focus on multiple specific aspects of preparation, which are generally not measured in a single survey. Second, we also extend the literature on the roles of preferences, that mainly focuses on the effect of risk and time preferences (Jusot and Khlal, 2013; Peretti-Watel et al., 2013; Van Der Pol, 2011). Indeed, because we focus on preparation for old age that may be motivated by altruism and expectations regarding old age, we believe we should also consider the roles of family and social altruism, as well as disability and longevity expectations, in our models. Finally, we contribute to the literature on aging well for France. To our knowledge, there has been no study on the role of preferences and expectations on preparation for France. A number of interesting articles using French data deal with the determinants of health in old age and of life expectancy (Cambois et al., 2017; Cambois and Robine, 2011). We complement this literature by trying to improve the understanding of preparation for old age.

We find that future orientation (in the general context) is positively correlated with preparation. Moreover, family and social altruisms influence preparation, but in different domains: family altruism has an impact on preparation in the financial domain whereas social altruism does not; and there is some suggestive evidence that the effect of social altruism on efforts to maintain social ties and intellectual skills is greater than that of family altruism. Importantly, compared with the other preference measures, the impact of future orientation (in the general context) is more often significant across outcomes. Expected disability and longevity are positively associated with preparation, while individuals who are either myopic or in denial are less likely to engage in preparation activities.

The rest of the article is organized as follows: the next section provides background on preparation for old age; the “Data and method” section describes the data and the empirical specification; we then present our results; and we finally discuss our results and provide some concluding remarks.

## Background

A small literature shows that preparation for old age increases later-life well-being. For instance, using US data, Noone et al. (2009) find that pretirement preparation – discussing about retirement with spouse and having retirement superannuation or savings plans – in 1992 increases postretirement well-being in 2004. Similarly, preparedness increases life satisfaction for retirees in Australia (Noone et al., 2013). Finally, Ju et al. (2017) show an association between (self-assessed) financial preparation for retirement and mental health, in a sample of newly retired Koreans. This literature provides a rationale for studying preparation for old age. In what follows, we present the previous literature on the role of preferences and expectations on preparation.

## Preparation for retirement and savings behaviors

A sizable literature focuses on “preparation for retirement,” and in particular of financial planning of retirement (Adams and Rau, 2011). This is a narrower concept than that of “preparation for old age” in which we are interested here. Using data on 795 college and university employees in the US, Dulebohn (2002) shows that general risk propensity is positively correlated with employee’s risky investment behavior regarding retirement plans. DeVaney and Chiremba (2005) find that being more tolerant for risk in saving and investing increases the chances of financial preparation for retirement in the US.

Although they do not specifically focus on preparation for retirement or old age, some articles highlight the role of preferences in savings behaviors. In Germany, the willingness to take risks in general and the willingness to take risk in five contexts (car driving, financial matters, sports/leisure, career, and health) are significantly associated with the probability of holding stocks, shares, or stock options (Dohmen et al., 2011). For France, using the 1998–2011 waves of the “Patrimoine et préférences vis-à-vis du temps et du risque” (PATER) survey, Arrondel and Masson (2014) show that risk and time preferences and expectations in the financial domain (regarding stock market performance) are associated with savings behavior, while family altruism is not.

## Long-term care insurance purchase

Closely related to our article is a work on the role of preferences and expectations on the probability of buying long-term care insurance (“assurance dépendance”) in France (Fontaine et al., 2014). The data come from the 2011 wave of the PATER/PATED survey. The study focuses on four types of preferences – time preference, risk preference, family altruism, and the taste for informal help – and on expected disability. Findings indicate that time preference is negatively associated with the probability of expecting to become disabled. Moreover, risk aversion, family altruism, and the taste of formal help are positively correlated with the likelihood of insurance uptake, while time preference is not.

Compared with these studies, our article focuses on preparation for old age across several domains and considers a broader set of preferences (that includes social altruism) as well as disability and longevity expectations.

## Health and risky behaviors

The strand of literature on the effect of preferences and expectations on health and risky behaviors is also relevant to our study (Lawless et al., 2013). Using German data, Dohmen et al. (2011) find a significant correlation between risk attitudes and physical activity. In the Netherlands, risk and time preferences are both associated with poorer self-assessed health (Van Der Pol, 2011). In the US, risk preference is correlated with smoking, heavy drinking, overweight, and seat belt non-use (Anderson and Mellor, 2008); drinker drivers have greater rates of time preference, are more impulsive, and are more likely to show hyperbolic discounting (Sloan et al., 2014); and a higher risk aversion, lower time preference, and greater expected longevity are positively associated with breast cancer screening (Picone et al., 2004).

For France, using data from the 2008 French National Health, Health Care and Insurance Survey, Jusot and Khlal (2013) find that risk and time preferences are associated with current smoking. Employing data from a 2008 survey on 2000 French adults aged 18–75, Peretti-Watel et al. (2013) explore the impact of the planning horizon and impulsivity on smoking behaviors. Some articles also focus on the role of preferences on breast cancer screening (Goldzahl, 2015) and sexual behaviors (Guillon et al., 2016) in France.

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