Health Shocks, Portfolio Choice and Inequality

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Introduction

- Fact: The gap in wealth by health starts at a relatively young age and age becomes large by retirement time.
  - Capatina, Keane and Maruyama 2020; Hosseini, Kopecky and Zhao 2021; De Nardi, Pashchenko and Porapakkarm, 2018
- Theory: Operating channels
  - health expenditure, labor productivity, labor supply and savings (i.e., health-income channels),
  - survival rates or longevity (i.e., health-longevity channel)
- Missing channel: Health-wealth portfolio channel
  - Heterogeneous wealth/savings portfolio by health status: heterogeneous investment returns
  - The effects of bad health on wealth inequality are amplified due to the power of compound interest

This paper

- Study the importance of the health-wealth portfolio channel
  - quantify dynamic effects of health shocks on portfolio choice and wealth accumulation over lifecycle

- Empirical investigation
  - Data: Use HRS panel data to investigate health shocks $\Rightarrow$ savings portfolio
  - Facts: Effects of **health shocks at 40–50** on wealth holdings and composition at age 60–70
  - Dynamic (panel) regression models

- Counterfactual analysis
  - Model: A stochastic lifecycle model of portfolio choice with income + health shocks and health insurance
  - Quantify the effects of health shocks on portfolio choice and wealth gaps
  - Examine the effects of expanding public health insurance on wealth inequality