

**Active Saving, 1984-1989 and 1989-1994**

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In 1989 and 1994 the PSID included sequences on what is referred to as active saving. These sequences are intended to measure flows of money into and out of different assets such as putting money into or taking it out of the stock market [NET INTO STOCK], putting money into annuities [PUT INTO ANNUITY] or cashing them in [CASH IN ANNUITY]. In combination with changes in the companion wealth components these can be used to study savings versus capital gains. An initial analysis of this sort was part of the paper "Wealth Dynamics of American Families, 1984-1994" (Hurst, Luoh and Stafford, 1998). The active savings variables were also presented and used to construct measures of capital gains or 'passive savings' in a section of "The Measurement and Structure of Household Wealth," (Juster, Smith and Stafford, forthcoming).

In the "Wealth Dynamics" paper, a selection of the variables listed here was used to define active savings, but active savings in the form of paying down the home mortgage balance was not included. Analysts are urged to review our housing section questions on mortgage payments if they wish to develop variables for active savings which include changes in mortgage debt. Homes sold 1989-1994 [SELL MAIN HOME] are asked about in the active savings section in 1994. Those wishing to construct active savings by virtue of housing transactions can in some cases (for families selling and not buying a replacement prior to the date of survey in 1994) use this variable by itself. Of course many who sell their house purchase a replacement. Since house value is asked annually, one can identify when the initial house in question was sold and the presumed purchase price of the replacement house. If there were interim capital gains or losses between this purchase and date of survey in 1994, this can be studied by change in house value over the interim. To work with these data, analysts need to select variables from the PSID housing sequences, which are in Section A of the questionnaire. See our variable index under 'housing' for additional detail.

Prior research using active savings measures from a household panel (for example, Holbrook and Stafford, 1971) has often included reduction in mortgage debt as a saving component. For the PSID, this can be computed from the annual mortgage information. Also, mortgage refinancing can be measured from successive annual mortgage information, or (for 1991 to 1996) from a special 'mortgage shopping' sequence included in the 1996 survey (questions A27a-A30e and A39e-A39f; see the HTML file for the question layout). For an analysis of mortgage refinancing using both the annual mortgage information and the mortgage shopping questions see Hurst and Stafford, 1998.

One somewhat unusual element within the set of active saving measures reported here is home and other real estate improvements in excess of \$10,000 [HOME IMPROVEMENT]. The idea is to get major real estate additions which, as distinct from routine maintenance and repairs and as a form of active savings, could improve the market value of the real estate. Savings in the form of additions to real

estate is similar to savings in the form of durables purchases, such as automobiles. In 1994 and 1989 the PSID did not include auto transactions. For 1999 a module on ownership of vehicles and purchase/leasing of vehicles is planned.

Active savings in the form of 'putting money into real estate other than own home' [BUY REAL ESTATE] [SELL REAL ESTATE] is based on two transaction questions (one 'buy' and one 'sell'). Similarly, there is a pair of questions on putting money into a business or farm [BUY BUSINESS] or taking it out of a business or farm [SELL BUSINESS].

One savings component not here is paying down other (non-collateralized) debt. This paydown can be considered as active savings, and researchers wishing to incorporate this as part of a savings variable should use successive values of non-collateralized debt (NCD). The code and documentation for NCD is included with our special wealth files.

The 'savings' components sequence includes a measure of money moving into and out of the family as individuals leave the family and take assets (or debt) with them or join the family and bring assets (or debt) with them. These inflows [ASSETS BROUGHT IN] [DEBTS BROUGHT IN] and outflows [ASSETS MOVE OUT] [DEBTS MOVE OUT] would not be part of savings as traditionally defined (or portfolio reallocations) but, on the other hand, should be of value in understanding numerous topics such as the effects of changing family composition and divorce on asset changes.

The 'savings' measures also include inheritances (and gifts) of money and property [FIRST INHERITANCE] [SECOND INHERITANCE] and (in 1994 only) [THIRD INHERITANCE]. These too are not savings under usual definitions of saving out of income. Yet as such flows arrive to a family they have a decision of whether to consume the inflow or to 'save' it. In our initial exploration of this in the "Wealth Dynamics" paper (Table 22), it appears that about 62 cents of each such dollar is saved (1989-1994) in the sense that it appears to boost the net household wealth position by that amount.

Finally, active savings include a measure of money into and out of the stock market to produce a net transaction or flows into stocks [NET INTO STOCK]. This measure is based on several question sequences: (for 1989-1994) G188. Since January 1989, did you (or anyone in your family living there) buy any... stocks? G189 Also sell? G190. Buy more or sell more, on balance, ...? G191. About how much \$ (put in/ take out)? (See codebook for complete list of questions for each variable.)

For reference purposes the active savings questions were G 153-G238 in both 1994 and 1989. In 1994 data were collected through a computer assisted telephone interview (CATI) instrument. Except for the measures in 1994 [SELL MAIN HOME] (questions G163a-e), the questions are the same in 1994 and 1989, aside from minor wording changes. The stem of the questions is included along with the code value ranges in the codebook for both 1989 and 1994. For the complete graphics layout behind the CATI application, please consult the HTML files on this website for both the 1989 and 1994 interviewing schedules.

Each of the active savings values involves an initial request for the respondent to provide a dollar value or an approximate dollar value. If the respondent says 'don't know' or refuses a dollar value they are

routed through a series of what are referred to as 'unfolding brackets'. These provide range or interval values. This technique was pioneered in the PSID in 1984 and was applied to the wealth components. For a discussion of this technique see Heeringa, Hill and Howell, 1995 and Hurd, et al., 1997. The answers to these range values derived from the sequences of unfolding brackets have been processed using a SAS software program. The empirical distribution from the dollar value answers is used to inform the within-bracket interval distributions.

## References

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