

Financial and Health-Related Allocations over the Life Cycle

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Health related considerations play a key role in the life cycle allocation decisions of household. On the one hand, sickness risk (i.e. morbidity risk) can have powerful impacts on medical expenditures, non-employment and wages uncertainty. On the other hand, mortality risk entails uncertainty with respect to both living too long (i.e. outspending accumulated wealth), and living too short (i.e. underspending accumulated assets). At the same time, financial resources of households undoubtedly condition how much agents can spend on both preventive and curative health care to alleviate exposure to these risks.

Perhaps surprisingly, financial and health-related decisions are almost always analyzed separately in the literature, thereby abstracting from the complex mechanisms linking the two. The consequence is that only a partial understanding of the life cycle allocations can be obtained. Our objective in this project is to bridge this gap by proposing a tractable dynamic model for the joint determination of financial and health-related decisions over the life cycle.

More precisely, we plan to build upon previous research (Hugonnier, Pelgrin and St-Amour, *Rev. Econ. Stud.*, 2013) to study how portfolio, savings, as well as medical expenditures and insurance coverage are jointly determined over the life cycle of the agent. In our model, the agent's health care decisions allow the agent to adjust his health capital in response to shocks and, in turn, influences the likelihood of future health-related shocks. By estimating this model using households' panel data, we hope to provide insight on some of the key issues affecting dynamic allocations.

Among others, we hope to distinguish the role of differing attitudes towards financial, sickness and mortality risks, as well as the far-reaching effects of health-related decisions in shaping the life cycle decisions. In addition, we should be able to reconstruct some key measures of interest such as how much life, health and wealth are valued. Moreover, we plan to uncover key decision elements, such as the optimal mix between direct health investment and insurance, or the share of savings attributed to precautionary motives. Measuring and evaluating how such quantities evolve over the life cycle should provide important insights for current debates such as the reform of Medicare and Social Security, or the effects of population aging on health expenditures, portfolio choices and wealth accumulation.

Research Team

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Fields of Research

Finance and Society

Quantitative Methods in Finance

Other Topics in Financial Economics