# Co-residence and Life-Cycle Savings

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Abstract

In many countries the measured savings rates of the young are often higher than those for older households. This pattern is at odds with the standard life-cycle savings model, which implies that relative savings rates should be low for younger individuals, whose incomes are expected to rise over the life-cycle. We show in this paper that the anomalously high savings rates of the young observed in many countries reflects both measurement issues arising from the limitations of the household-based sampling frames of almost all existing surveys and the co-residence choices of families. We develop a micro model of the family incorporating the joint savings and co-residence decisions of two generations. We use unique data from urban China characterizing the individual savings of twins and their residence choices, the incomes of all the siblings of respondents, and parental characteristics to test the model. We find, consistent with the model, that net of all family observable and unobservable characteristics of both generations, own income of the young has a negative association with co-residence and a positive association with savings; net of both own income and all family characteristics savings are higher when the young co-reside with parents; and co-residence is higher in cities with relatively high (quality-adjusted) housing prices. We also find, based on inter-generational information on time and financial transfers, that the young are the net beneficiaries from co-residence.