

## **Precautionary Saving and Income Uncertainty in Germany – New Evidence from Microdata**

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### **Summary**

This paper uses microdata from the German Socio-Economic Panel Study (GSOEP) to analyse the importance of precautionary saving under income uncertainty. In a cross-section of households, wealth in 2002 is regressed on alternative measures of income uncertainty. In addition to the usual controls, risk aversion is also taken into account. When using net financial wealth, precautionary saving is statistically significant and economically quite important. Precautionary net financial wealth is estimated to make up, on average, around 20% of total aggregate net financial wealth. Unlike net financial wealth, housing wealth is not used as a buffer stock against income uncertainty, the most likely reason being its illiquidity in Germany. Not controlling for risk aversion leads to an overestimation of precautionary wealth. This result contradicts the findings of Fuchs-Schündeln and Schündeln (2005) who suggest that, owing to self-selection, not controlling for risk aversion results in a significant reduction in aggregate precautionary wealth holdings.