Can Personality Help Explain Wealth Decumulation Behavior?

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Key Findings and Policy Implications

This paper examines the role of personality factors in explaining individual differences in wealth levels and wealth decumulation patterns at older ages. It uses data from the Health and Retirement Study (HRS), which includes measures of the “big five” personality traits, notably conscientiousness, emotional stability/neuroticism, extraversion, agreeableness, and openness to experience. The paper finds that:

- On average, respondents in our sample accumulated assets up to their late 60s and then started to decumulate. However, asset trajectories are significantly influenced by personality traits, business cycles, and other time-varying characteristics of individuals and households. After controlling for those factors, there is not much residual time variation in non-pension wealth.

- Focusing first on non-pension wealth, we find that conscientiousness and openness to experience are positively associated with wealth at older ages, and agreeableness is negatively associated with wealth at older ages. We find no evidence that these effects of personality traits change over the lifecycle.

- Focusing on pension wealth, we find no evidence that personality traits predict asset levels in retirement plans. While we had hypothesized some effect of personality on pension savings, we expected the relationship to be weaker, because pension systems are generally employment-linked, and have less individual flexibility than in non-pension accounts.

Given the wide variation in savings behavior across the population, and the large numbers of households who reach later life with very limited financial assets, understanding the determinants of asset accumulation and decumulation is important in informing retirement policy design. Understanding the role of personality may be particularly useful in informing the framing and messaging used in administering policies that are designed to provide for financial security at older ages.

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