Network for Studies on Pensions, Aging and Retirement

A comparison of risk preference elicitation methods and presentation formats

"Presentation format less important than risk elicitation method and individual characteristics"

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New legislation requires pension funds and insurance companies to elicit risk attitudes at least every five years. How such a survey is presented (the presentation format) could influence elicited risk preferences and consequently the investment strategies for different groups. We investigate whether that is the case among pension fund participants in the construction sector. Our study examines whether risk preferences elicited with a 'serious game' are different from risk preferences elicited with a traditional questionnaire. We test this for three risk elicitation methods: choice sequence, single choice and convex time budgets.

Principal Findings

- Distributions of risk preferences are similar for the game and the traditional questionnaire at the aggregate level and for each elicitation method.
- Sizeable differences in risk aversion levels exist between the three risk elicitation methods.
- Consistency between elicitation methods is higher for white-collar workers than blue-collar workers.
- Blue-collar workers show lower completion rates, less self-reported certainty and more automatic pilot behaviour than white-collar workers. Offering a game to blue-collar workers only partially offsets these effects.
- Older individuals and blue-collar workers have a higher risk aversion than younger individuals and white-collar workers.

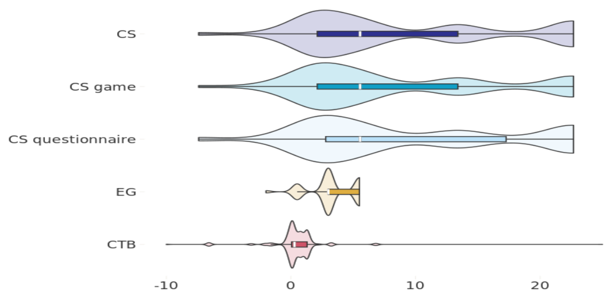

Figure: The distribution of risk aversion levels for three methods and two formats. We find little difference in CRRA risk aversion between the traditional questionnaire and the game format. This applies to the three methods, here we show the results for choice sequence. We see a greater difference between the three methods examined, namely choice sequence, Eckel-Grossman (or single choice) and convex time budgets. The horizontal bars in the figure run from the 25th to the 75th percentile; this means that at least 50% of respondents have a risk aversion within the range of the bar. The white vertical line represents the median.

Key Takeaways for the Industry

- Risk elicitation methods and individual characteristics, such as age and type of work, influence measured risk preferences more than the presentation format.

Want to know more? Read the paper
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