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Stated product choices of heterogeneous agents are largely consistent with standard models

"Standard theory a solid starting point for individuals to characterize individual preferences for pension products"

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Under the new Dutch pension law, providers of flexible pension contracts have an important role in nudging participants to adequate choice of pension products based on observable characteristics, such as age, income, non-pension financial wealth, risk aversion, gender and marital status. We analysed data on the choices made by relatively experienced participants with a higher level of education to test how well standard models of portfolio choice predict the choice for an investment strategy.

Principal Findings

- Heterogeneity in age, risk aversion, loss aversion, non-pension financial wealth, relative importance of DC pension wealth and educational attainment leads to differences in product choice that are largely in line with standard theory.
- This applies to investment choices in the accumulation phase as well as the retirement phase.
- There is no significant effect of labour income in the accumulation phase, but a higher labour income significantly increases the tendency to take investment risks after retirement.
- Younger participants and more risk-seeking participants prefer more equity exposure.

Characteristic	Theory	Impact in accumulation	Impact in decumulation
Subsistence level	-	+	0
Labour income	+	0	+
Relative importance DC pension	-	- -	-
Non-pension financial wealth	+	++	++
Housing wealth	+	+	+
Age	-	- -	-
Education	+	+	+
Marital status	Ambiguous	- -	- -
Gender		++	++
Risk aversion	-	- -	- -
Loss aversion	-	- -	- -
Time preferences	Ambiguous	-	-
Present bias	0	0	0

Table: Summary of the empirical results for the accumulation phase and the retirement phase. The table includes the theoretical impact for each characteristic. We write a 'o' if there is no significant effect, we write a '–'/'+' if we find at least one of the categories with a negative/positive significant effect and a '– –'/'++' if we find a negative/positive monotonic significant effect for all categories.

Key Takeaways for the Industry

- Risk aversion plays an important role in explaining product choice, but the industry does not have to limit itself to this variable only.
- Economic variables that measure risk capacity should be considered too.

Want to know more? Read the paper
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