

Personal life events and individual risk preferences

“Marriage, parenthood and work influence risk preferences”

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Measuring risk preferences plays an important role in the Future Pensions Act. The financial industry and policymakers often implicitly assume that a person's risk preferences remain stable over time. However, personal life events could seriously impact these preferences. Therefore this study investigated whether personal changes in marital status, parenthood and employment are associated with changes in risk preferences and how long such effects last. Preferences were elicited using self-assessment surveys (stated risk preferences) and methods where people could earn real money (revealed risk preferences).

Principal Findings

- Recent divorcees have a higher revealed risk aversion than people divorced for a longer time.
- Childless individuals show higher revealed risk aversion than new parents.
- Getting married or unemployed exert short-term effects only on stated risk preferences.

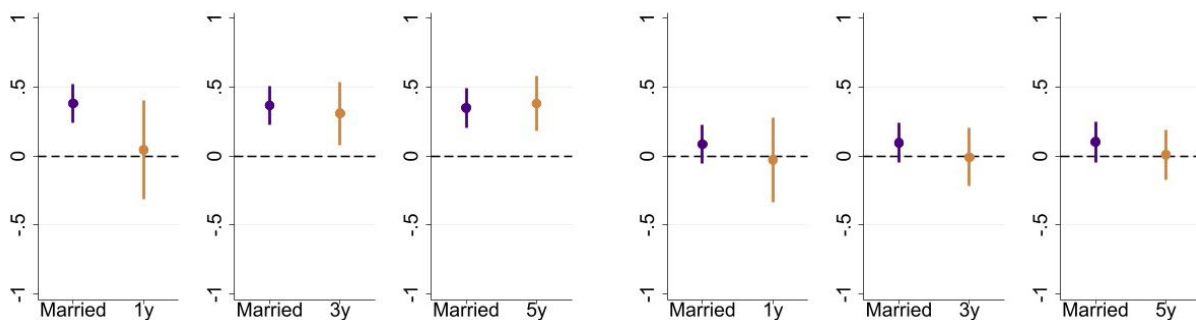


Figure: Risk preferences and marriage (3 left panels: stated risk preferences, 3 right panels: revealed risk preferences)
 Note: The figure shows the estimated effect on risk aversion of the status variable for being married (purple dot in each panel) and the joint effect of being married and recently having married within one, three, and five years, respectively, prior to the risk preferences measurement (yellow dot in each panel). The reference group (represented by the horizontal line at 0) consists of singles. Vertical lines indicate 95% confidence intervals.

Key Takeaways for the Industry

- The impact of life events on risk preferences should not be underestimated but more research is necessary for robust results.
- It could be important when risk preferences are elicited in a person's life cycle and to reassess after life events occurred.
- Knowledge about the impact of life events on risk preferences is fragmented so far and requires more systematic research.



Want to know more? Read the paper '[Personal life events and individual risk preferences](#)'