

Individual Preferences and Beliefs Across the Lifecycle: Implications for Pensions

“Due to heterogeneity in preferences and beliefs, offering tailored pension solutions can be valuable”

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What is the focus of the paper?

This study analyzes how a representative group of Dutch individuals form preferences and beliefs regarding life-cycle and pension-related decisions. Using experimental methods, we measured risk and time preferences, loss aversion and probability weighting across five domains: pensions, investments, work, health and lotteries (typical standard in the academic literature). Additionally, perceptions were collected about income, retirement age, life expectancy, investment returns and inflation. The aim is to better understand the diversity of preferences and beliefs that shape life-cycle and pension decisions.

What are the key findings?

Risk preferences (how much risk someone is willing to take) and time preferences (how patient someone is) vary across domains, taking into account socio-demographic differences between individuals. In financial decisions, Dutch individuals are most risk-averse in the pension domain (pension income) and most patient in the health domain (healthcare costs). Larger stakes increase risk aversion in the lottery domain and raise patience in pension and investment decisions. Perceptions of future outcomes are highly heterogeneous, though median beliefs often align with objective benchmarks. Personal characteristics such as age, income, and education correlate with preferences, but explain only part of the heterogeneity.

What are the implications?

- There is large heterogeneity in preferences and beliefs. This suggests that personalized pensions and tailored solutions may help better align with individual needs.
- Clear, targeted communication can improve pension literacy, particularly by addressing misperceptions.
- Preferences should be elicited in the correct context and domain. Age, income, and education can be used to better understand preferences and beliefs of different groups, thereby improving pension product alignment.

Want to know more? Read the paper (Dutch):

Beliefs and Preferences during the Lifecycle