

NONCOGNITIVE DETERMINANTS OF RETIREMENT SAVING BEHAVIOR

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**Household Retirement Saving, Investment, and Spending:
New Lessons from Behavioral Research**

Gianpaolo Parise

EDHEC Business School & CEPR

Kim Peijnenburg

EDHEC Business School & CEPR
NETSPAR & BIGFI

Motivation

- Limited retirement readiness

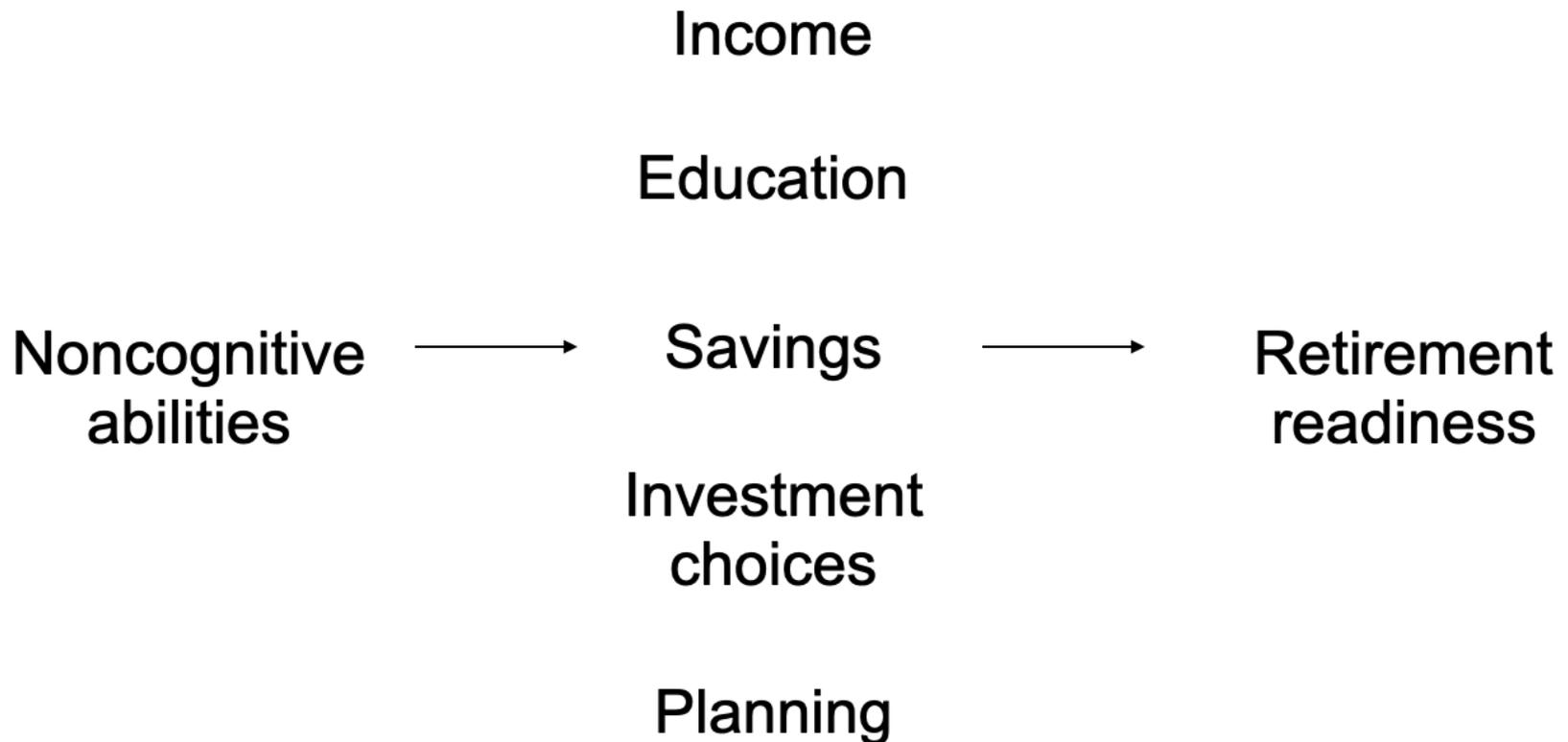
Characteristic	Any retirement savings	Retirement savings on track
Age		
18–29	62	30
30–44	75	39
45–59	84	45
60+	87	52

Source: Federal Reserve Board

This paper: The role of noncognitive abilities

- Other terms for noncognitive abilities are soft abilities, personality traits, character skills.
- Examples; conscientiousness, emotional stability, grit, locus of control
- Different from cognitive abilities, but not devoid of cognition

This paper: Role of noncognitive abilities

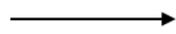


This paper: Role of noncognitive abilities

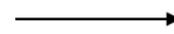
Income

Education

Noncognitive
abilities



Savings



Retirement
readiness

Investment
choices

Planning

Noncognitive abilities

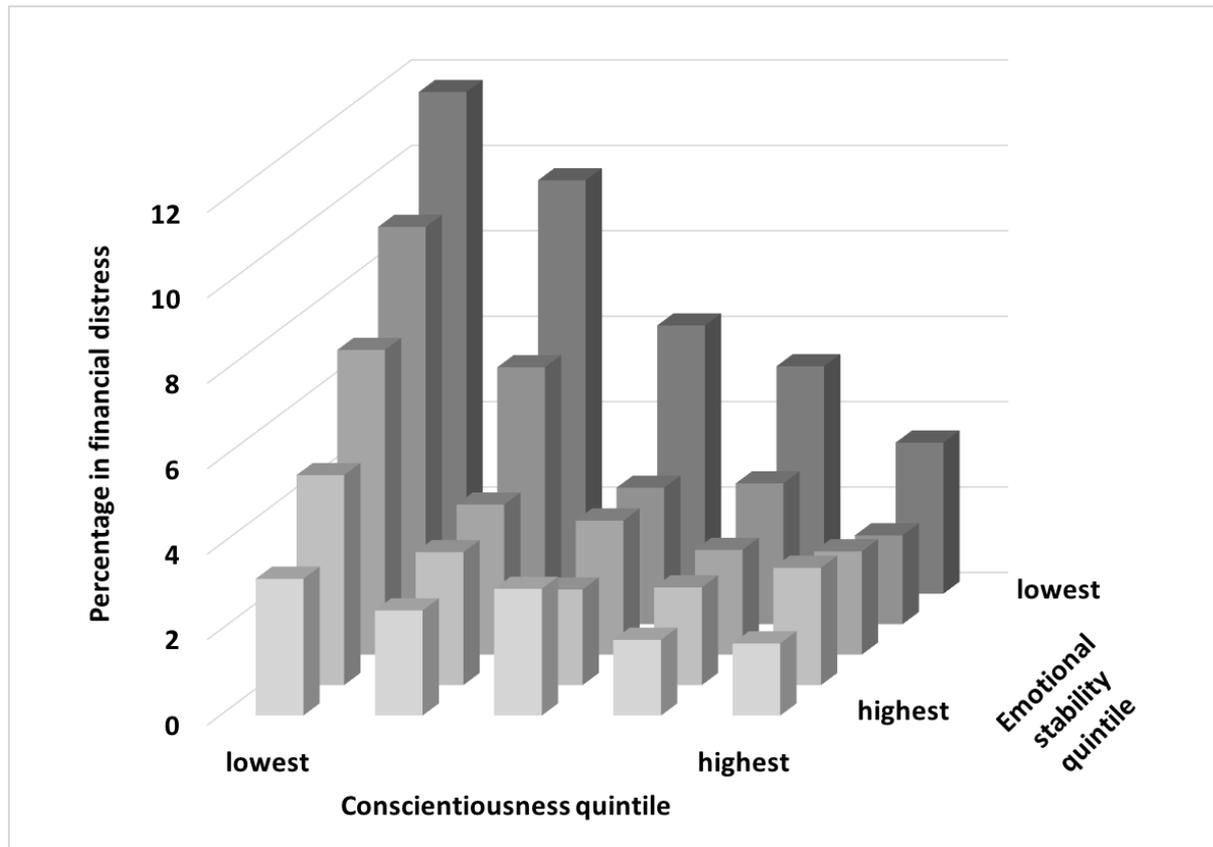
- Measurement as in economics literature: Heckman, Pinto, and Savelyev (2013) state that the most influential taxonomy for measuring noncognitive abilities is the big five personality traits
- Originally developed in psychology literature and adopted in economics as a measure of noncognitive abilities
- Focus on conscientiousness as most important for financial decisions
- Conscientiousness: a tendency to be organized, practical, persistent, self-disciplined, and achievement oriented
- Other important measures:
 - Grit: Tendency to persevere and having a passion for long term goals
 - Locus of control: Individual's belief about the extent to which they can control events in their life.

Measurement noncognitive abilities

- 10 standard survey questions developed in Goldberg (1992)
- Rate extent to which agree or disagree with statements like
 - Do you pay attention to details
 - I am careful and thorough in my work
 - I always meet deadlines
- Use factor analysis to extract one factor

Results: Financial distress

Figure: Noncognitive abilities and financial distress.



Source: Parise and Peijnenburg (2019)

Results: Financial choices

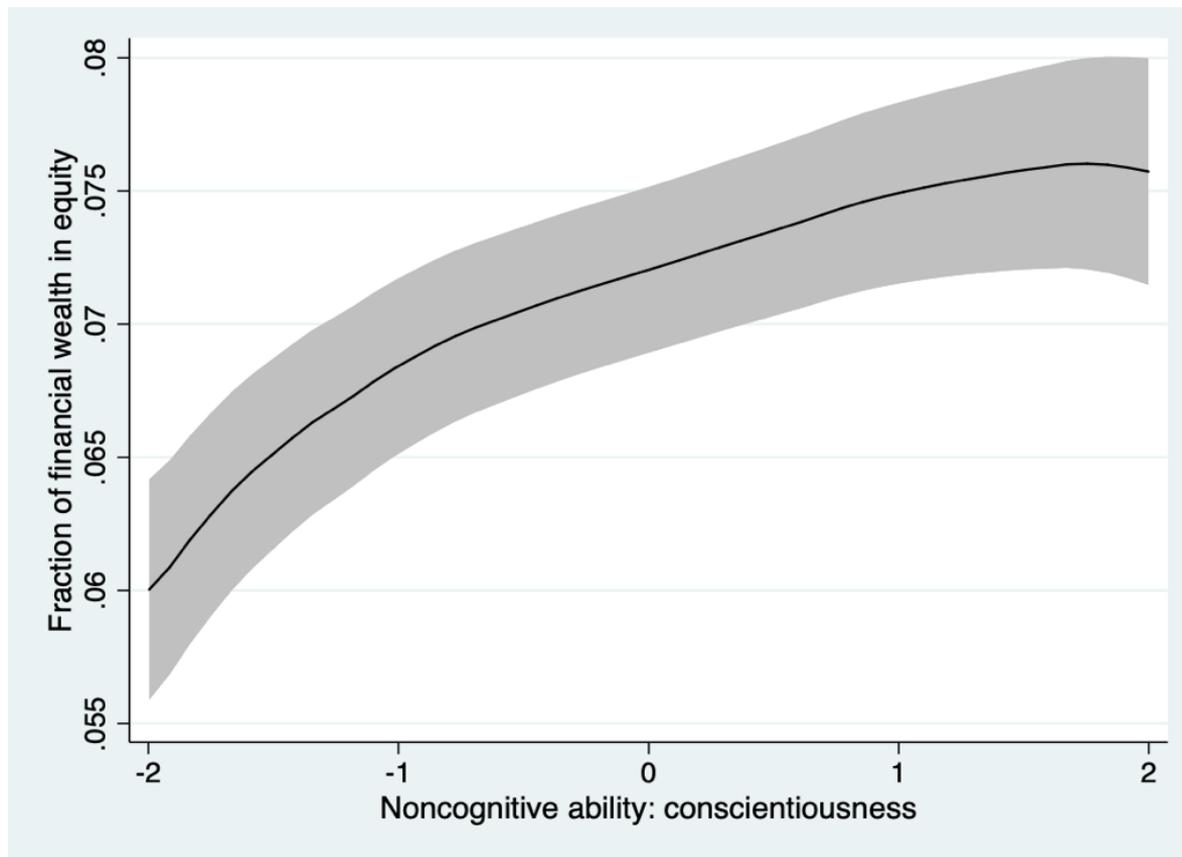
Table: Noncognitive abilities and financial choices

	Financial wealth buffer	Savings	Unsecured debt
	(1)	(2)	(3)
Conscientiousness	0.217***	0.045***	-0.035***
	(0.037)	(0.004)	(0.005)
Controls	Yes	Yes	Yes
N	24,306	47,918	10,695

Source: 'Author's Calculations'

Results: Equity

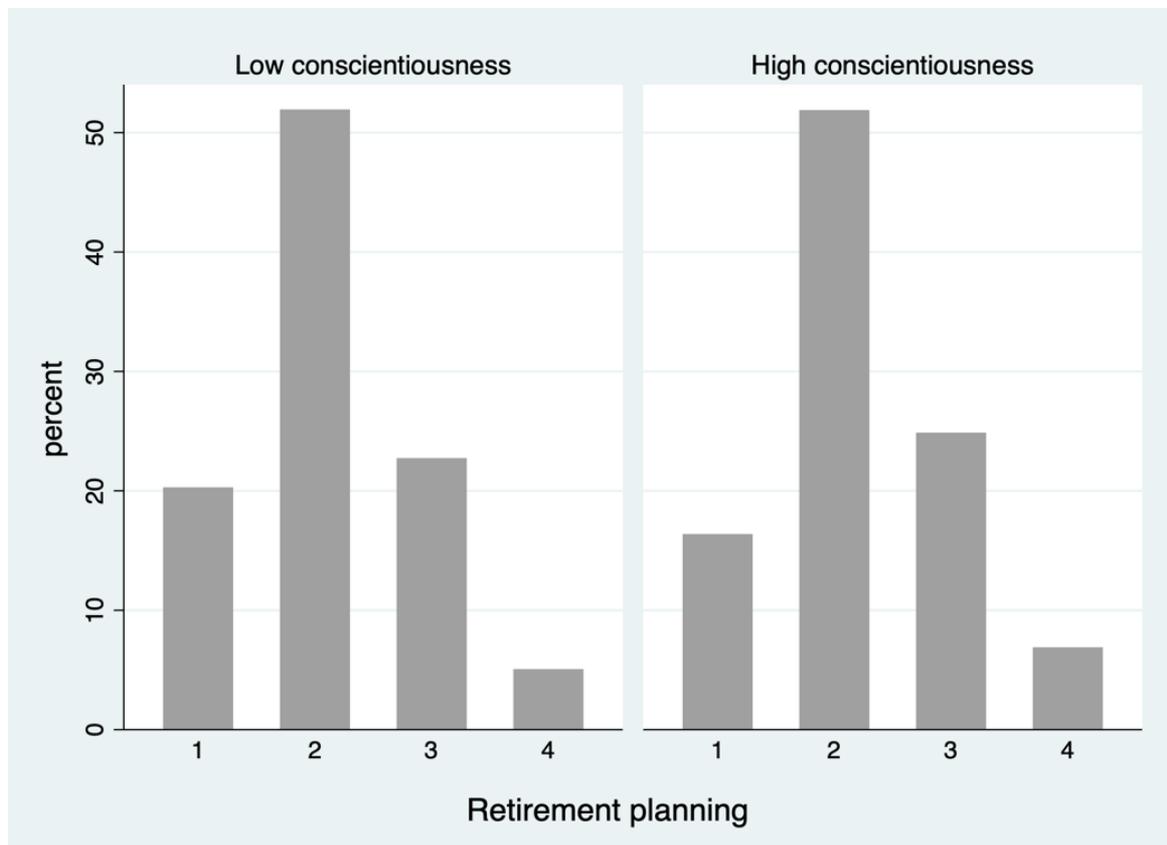
Figure: Noncognitive abilities and fraction in equity



Source: 'Author's Calculations'

Results: Retirement planning

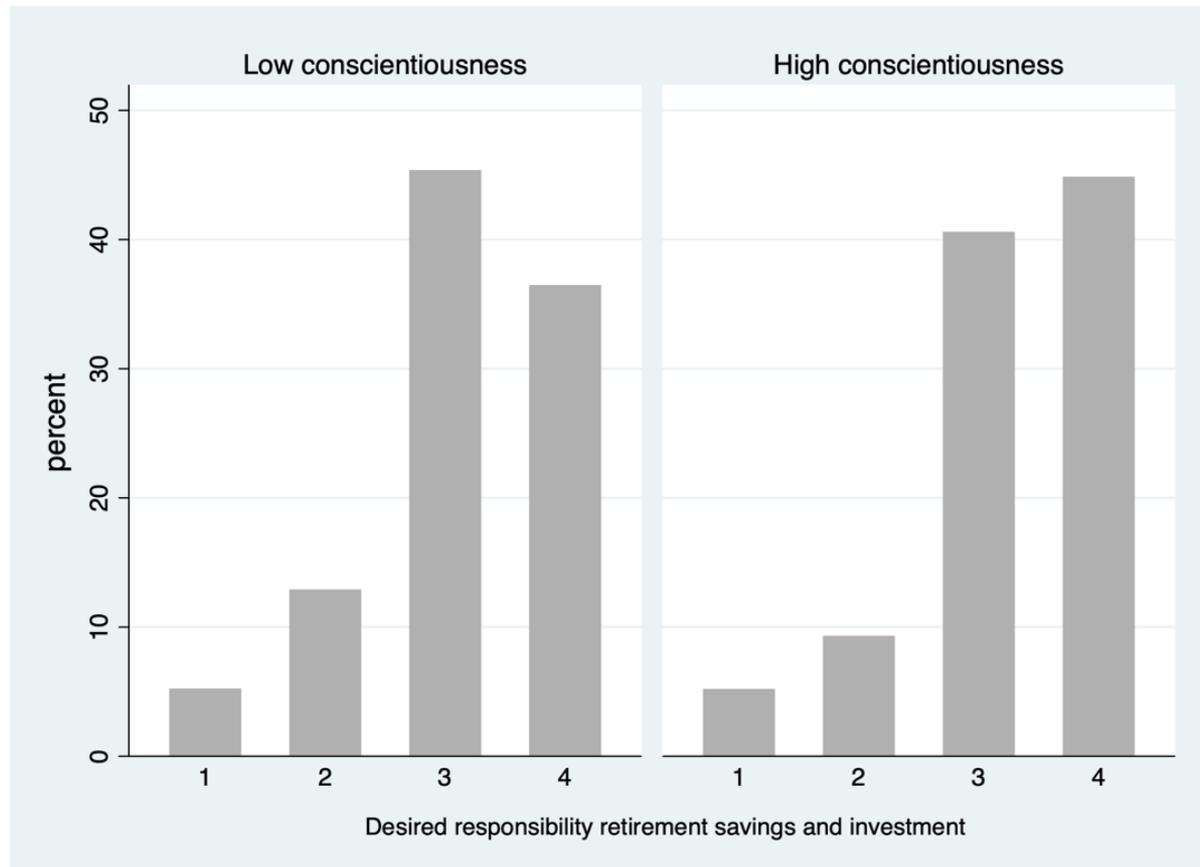
Figure: Propensity to plan for retirement



Source: 'Author's Calculations'

Results: Desired retirement responsibility

Figure: Desired retirement responsibility



Source: 'Author's Calculations'

Modelling noncognitive abilities

- Noncognitive abilities impact:
 - Cost of effort
 - Productivity of effort

Origins of noncognitive abilities

- Stable in adulthood
- Influenced by early life experiences and genetic endowments
- Interventions spanning more than five decades show the powerful influence of improving noncognitive abilities in early childhood

Early childhood interventions



The Heckman Equation

How to achieve human potential.

+ Invest

Invest in educational and developmental resources for disadvantaged families to provide equal access to successful early human development.

+ Develop

Nurture early development of cognitive and social skills in children from birth to age five.

+ Sustain

Sustain early development with effective education through to adulthood.

= Gain

Gain a more capable, productive and valuable workforce that pays dividends to America for generations to come.

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Conclusions

- Noncognitive abilities key for
 - Financial wealth buffer
 - Savings
 - Investment decision
 - Retirement planning
 - Overall retirement readiness
- Foster noncognitive abilities in early childhood