

# Subjective Beliefs, Saving, and Spending for Retirement

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# How do people think they will die?

How many people die each year because of **killer sharks**?

How about **killer cows**?



# How do people think they will die?

## The deadliest animals.

Average annual animal-caused fatalities in the U.S., 2001 to 2013

**Sharks** kill 1 person per year.



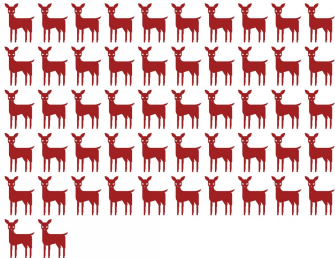
**Alligators** kill 1 person per year.



**Bears** kill 1 person per year.



**Other mammals** kill 52 people per year.



**Venomous snakes and lizards** kill 6 people per year.



**Spiders** kill 7 people per year.



**Non-venomous arthropods** kill 9 people per year.



**Cows** kill 20 people per year.



**Bees, wasps and hornets** kill 58 people per year.

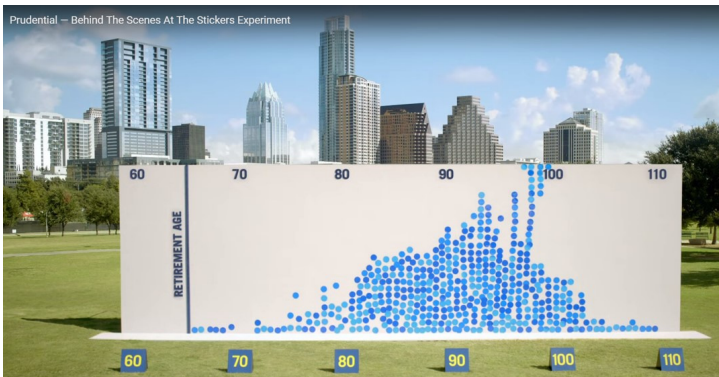


**Dogs** kill 28 people per year.



WAPO.ST/WONKBLOG  
Sources: CDC reports, CDC WONDER database, Wikipedia, Florida Museum of Natural History

# How old do you expect to live?



*Prudential Financial* survey of 400 people

“What is the age of the oldest person they’ve known?”

# Subjective beliefs and financial decisions over the life cycle

Financial decisions involve trade-offs between **costs today** vs. **expected benefits**

- Expected asset returns
- Future tax rates
- Expected retirement age

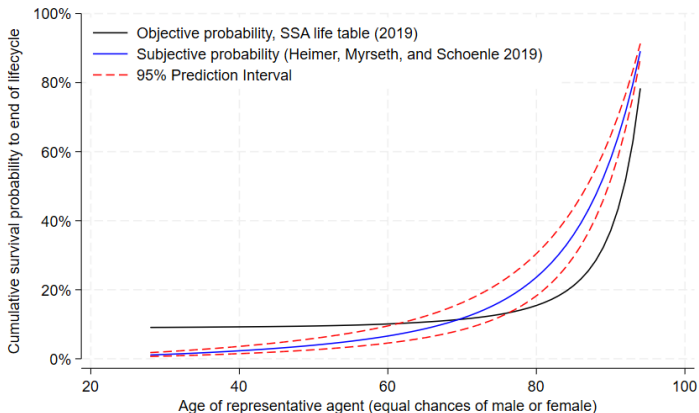
*YOLO: Mortality Beliefs and Household Finance Puzzles.*  
The Journal of Finance 74.6: 2957-2996.

Highlight role of **mortality beliefs** and **key findings**:

1. Mortality beliefs flip from underestimation to overestimation as people age
2. Salience of risk factors explains miscalibration
3. Affects life cycle financial decisions:
  - Undersaving for retirement
  - Slow draw down post-retirement
  - Portfolio allocation at all ages

# Mortality beliefs over the life cycle

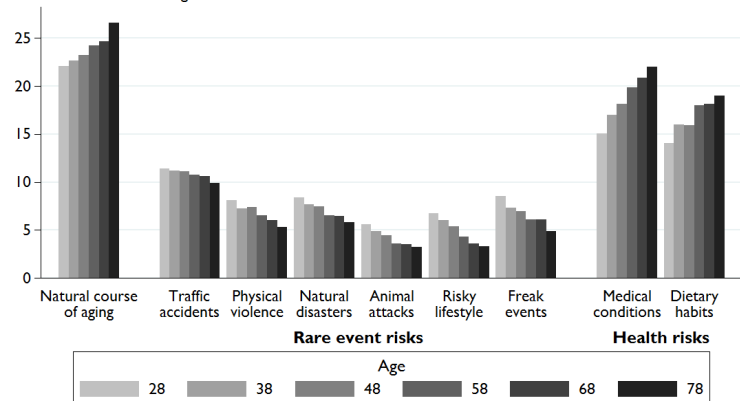
- Mortality beliefs flip over course of life cycle
- Robust finding, many other papers (at least back to Hamermesh 1985)



# Salient risk factors and mortality beliefs

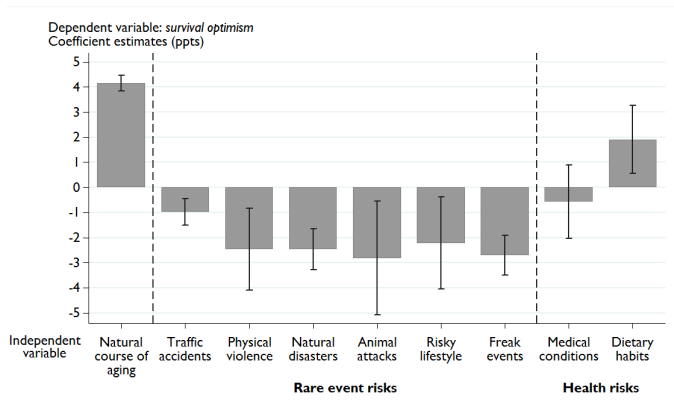
## Risk weights are different for young vs. old

Normalized risk factor weights



# Salient risk factors and mortality beliefs

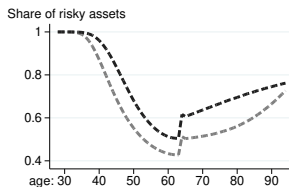
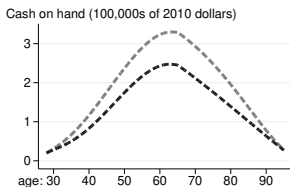
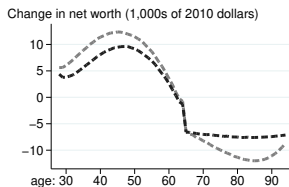
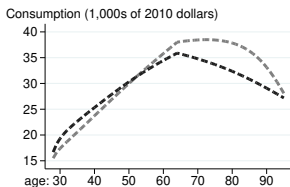
## Risk weights predict mortality belief miscalibration





# Subjective mortality beliefs and life cycle financial decisions

## Results from a calibrated life-cycle model



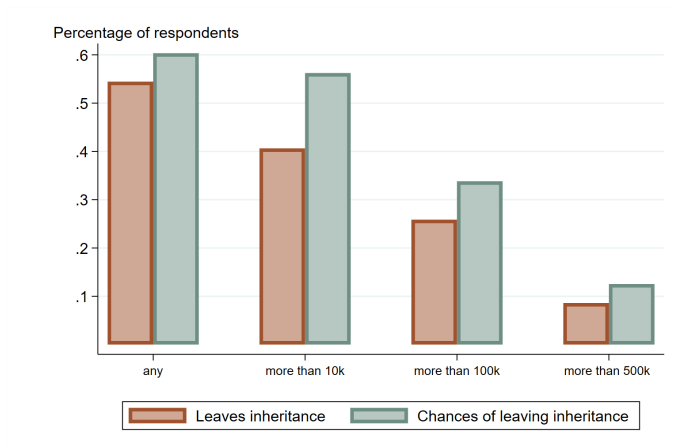
----- Actuarial prob.    ..... Subj. beliefs

## Life cycle financial planning requires forecasting many variables

- People underestimate retirement ages (An and Sachdeva 2024)
- Forecasts about economic variables
  - housing prices (Kuchler and Zafar 2019)
  - stock market returns
  - employment (Das, Kuhnen, and Nagel 2020)
- Inheritance planning (Heimer and Li 2024)

# Subjective forecasts of bequests

People overestimate value of bequests they will leave (HRS; Heimer and Li 2024)



## Life cycle financial planning requires forecasting many variables

- People make large errors when forecasting mortality
  - under-saving for retirement
  - slow drawn down post-retirement
  - portfolio allocation over life-cycle
- Other variables are subject to errors
  - e.g., overestimate bequests

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