HOUSEHOLD WEALTH ACCUMULATION: THE ROLE OF OTHERS

HIGHLIGHTS OF FOUR PROJECTS

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Reporting on four projects


Who are the ‘others’?

By project

1. Neighbors and peers
   
   *Does their financial literacy affect our retirement saving?*

2. Neighbors

   *Does local wealth inequality at the start of economic life affect our risk taking and wealth accumulation?*

3. Family, peers, elders, youngsters, financial advisors

   *How is their advice on retirement saving likely to differ and to vary?*

4. Family, co-workers, peers, but also big crises (covid, war)

   *Does the stress they cause us systematically affect our consumption/saving behavior and how?*
1+2. Peer effects from neighbors: Dealing with endogenous location

- We exploit Swedish refugee allocation program (1987-1991, 277/284 municipalities participated)

- Refugee allocation was based on:
  - Housing availability (random)
  - Some observable characteristics
    - we can control for them
  - Unobservable refugee characteristics (unlikely)
    - No interview!
    - Preferences were not reflected in placement
      - By 1999, 75% had moved
      - Still, average length of stay in the initial municipality: 8.7 years
1a. Financial literacy externalities

- **Refugees** with at least a high school certificate placed in areas with higher shares of *neighbors* with college education in business and economics were more likely to be participating in:
  - *private retirement accounts and stockholding*
    - 10-15 years later
  - *stockholding*
    - 15-20 years later
1b. Concerns and implications of financial literacy interactions

- Was there social interaction?
  - Vary factors that would affect the probability of interaction: bigger when locals open to refugees, when critical mass of literate neighbors, when refugee was married.

- Pure imitation?
  - The share of participating neighbors has smaller effects when entered on its own;
  - the share of neighbors with business and economics education who do not hold the financial asset in question still has a significant effect, even when participant share is included

- Troublesome: distributional effects of homophily.
2a. How does local wealth inequality affect wealth accumulation?

- **Recent research**: Those with higher wealth earn higher returns and they get even wealthier.

- We ask if there is a further propagation mechanism:
  - *Does exposure to greater wealth inequality at the start of economic life suggest exploitable opportunities to some while others are left behind?*

- **Key finding**: Exposure to higher wealth inequality at the start of economic life in an environment of high wealth mobility propagates inequality.
  - *Key factor for the split: college education*
2b. A look at the raw data: Average wealth trajectories against wealth inequality exposure

- By education
- By wealth mobility opportunities
- Data: LINDA, STATIV (Sweden) in our paper.
2c. Discussion of findings

- Greater wealth inequality encourages the educated to participate in risky assets: stocks, housing, self employment

- We do not find effects through labor market outcomes

- A mechanical effect of high wealth mobility?
  - *It doesn’t work for the less educated, even when high mobility for them*

- More likely relevant: ability to earn returns, optimism, and social interactions of the more educated with successful neighbors.

- Policy implication: empowerment of the less educated households in their financial behavior
3a. The type of peer and professional advice

- We present professional and lay advisors with randomly assigned vignettes of investors and elicit their recommendations on the risky portfolio share for retirement saving.
- Professionals are incentivized independently of the advice
  - No conflict of interest
- Vignettes avoid issues of endogenous matching to advisors
3b. The type of advice: Findings

- Both advisor types are influenced by their own characteristics in their advice:
  - *Income, age, risk aversion, and even risk exposure*

- Both respond to investor characteristics, in the direction of theory overall
  - *More risk to those with more wealth, income, less debt*
  - *Less risk to the more risk averse, older, less experienced*

- Professionals tend to recommend less risk, but this is fully explained by their differential response to characteristics
  - *more sensitive to their own risk tolerance and income*
  - *more to investor age, risk aversion, and experience*
  - *But no moderation for large investment amounts*
3c. The range of advice

■ Young low earners with low education:
  - *the biggest risky share from financial advisors*
  - *The most conservative advice: their peers*

■ Wealthy retiree:
  - *Professional advisors are the most conservative*
  - *more conservative advice from high-income young people than from the own age-education peers*

■ Wealthy 50 to 65:
  - *more conservative advice from professionals than from peers in the same age-education group.*

■ Implication: The pattern of access to financial advice in the data discourages stock market participation!
  - *Redirecting some of the attention of financial advisors to the young could promote their own and overall access to stock investments.*
4a. The effects of exogenous stress: setup

- Online survey and experiment with 1881 subjects in France.
  - Consumption/saving choice with incentivized intertemporal optimization, resetting each period to the current endogenous state.
  - Provide performance feedback to subjects every period
  - Multiplicative payoffs and random reward period

- To maintain their interest in both tasks and in all periods

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4b. Average group behavior per model period
4c. Deviation of average group consumption from model per model period

- Cognitive load shifts the curve up!
4d. The effects of exogenous stress
Econometric estimation

- Cognitive load makes people more cautious!
  - Significantly lowers average consumption responses of subjects over the model life cycle; and boosts financial assets

- Effects are not particularly sensitive to subject characteristics
  - Especially for “online workers”
  - “presence workers” (furlough risk + cognitive load):
    - College educated subjects systematically reduced their consumption less and exhibited smaller deviations from the model
    - The more patient subjects deviated more!
Key takeaways

1. The educated can benefit from interactions with peers educated in Economics or Business
   
   *Think about distributional effects of homophily and substitute for missing interactions*

2. Exposure to greater wealth inequality tends to lead the educated to take risks and attain higher wealth, while the less educated are left behind
   
   *Think about ways to empower the less educated in their risk-taking behavior*

3. The current pattern of access to financial advice seems to discourage overall stock market participation
   
   *Find ways to bring young investors to financial advisors not subject to conflicts of interest*

4. Exogenous stress tended to make experimental subjects more, rather than less, cautious in their consumption and asset accumulation, almost regardless of characteristics
   
   *For the effect of stress, providing more funds is not the way: think about how to advise people under stress on how to better match their spending to their resources.*