HOUSEHOLD WEALTH ACCUMULATION: THE ROLE OF OTHERS

HIGHLIGHTS OF FOUR PROJECTS

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Reporting on four projects

1. Haliassos, Michael, Thomas Jansson, and Yigitcan Karabulut, "Financial Literacy Externalities", *Review of Financial Studies*, 33(2), February 2020, pp. 950-89.
2. Haliassos, Michael, Thomas Jansson, and Yigitcan Karabulut (2023). "Wealth Inequality: Opportunity or Unfairness?", *CEPR Discussion Paper* 17237.
3. Rumpf, M., M. Haliassos, T. Tesyakova, and T. Otter (2024). 'Financial Advisors versus Lay People: A Horserace' (Working Title).
4. Tiziana Assenza, Alberto Cardaci, and Michael Haliassos (2023). "Consumption and Account Balances in Crises: Have we Neglected Cognitive Load?", Working Paper.

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

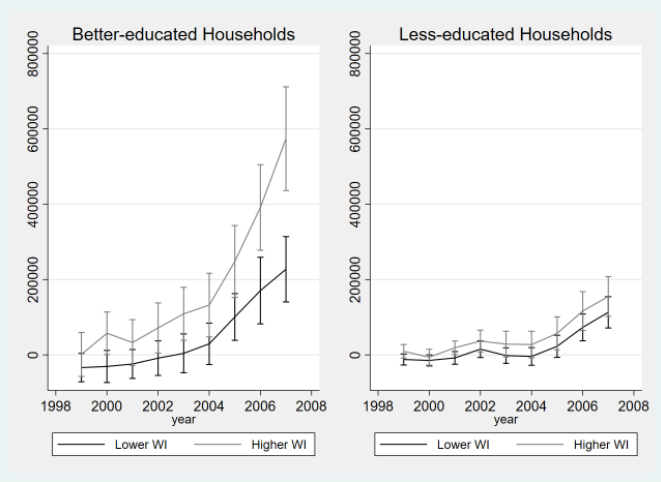
1b. Concerns and implications
of financial literacy interactions

- 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?

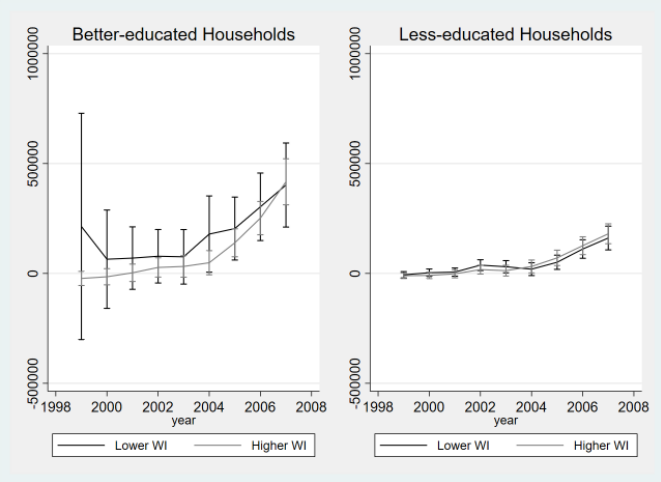
- Recent research: Those with higher wealth earn higher returns and they get even wealthier
- We ask if there is a further propagation mechanism:
  - *Does exposure to greater wealth inequality at the start of economic life suggest exploitable opportunities to some while others are left behind?*
- Key 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



(a) Exposure to Wealth Inequality in High Mobility Regions

- By education
- By wealth mobility opportunities
- Data: LINDA, STATIV (Sweden) in our paper.



(b) Exposure to Wealth Inequality in Low Mobility Regions

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

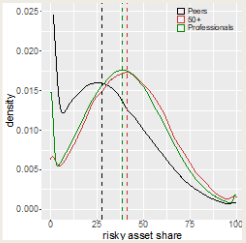
- We present professional and lay advisors with randomly assigned vignettes of investors and elicit their recommendations on the risky portfolio share for retirement saving.
- Professionals are incentivized independently of the advice
  - *No conflict of interest*
- Vignettes avoid issues of endogenous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

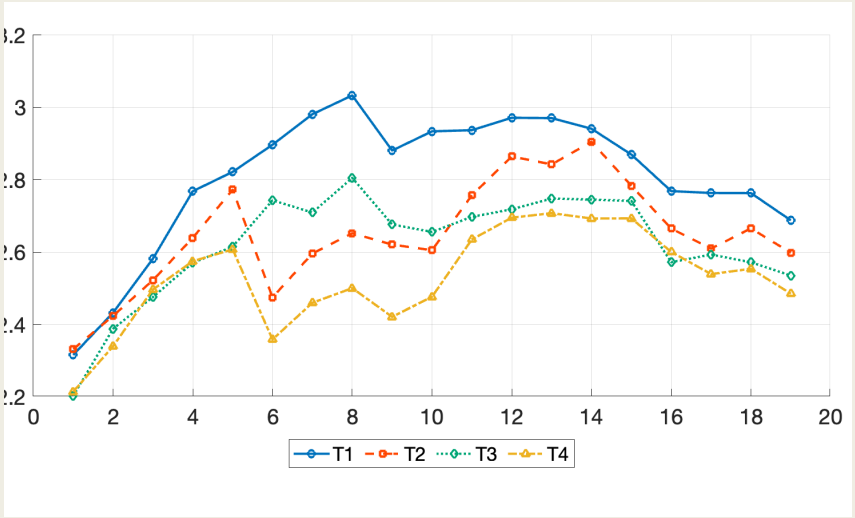
4a. The effects of exogenous stress: setup

- 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

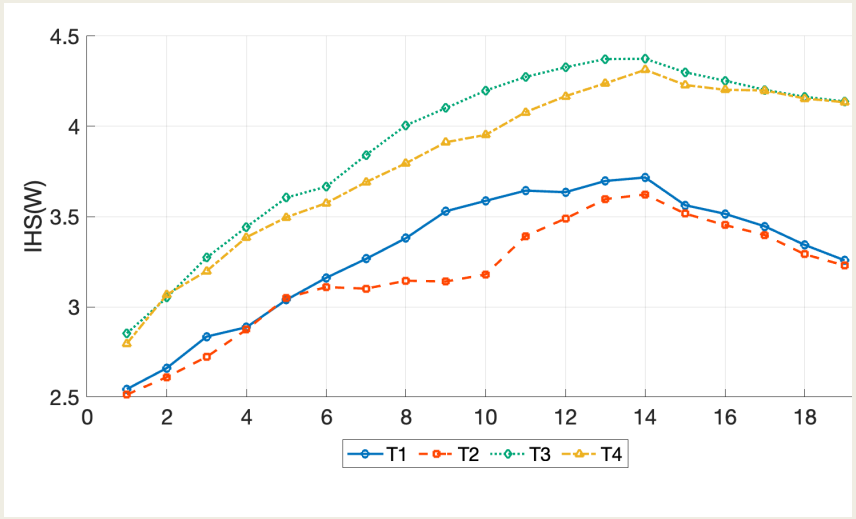
	Cognitive load	Furlough
T1	No	No
T2	No	Yes
T3	Yes	No
T4	Yes	Yes

4b. Average group behavior per model period

Consumption

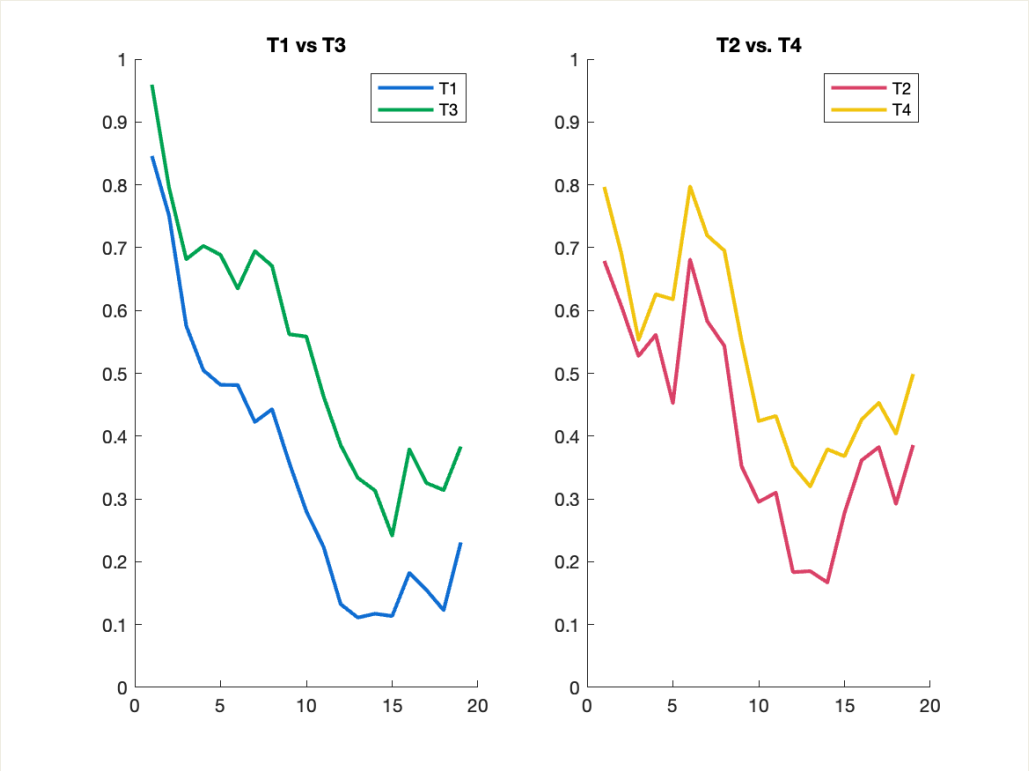


Financial Assets



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.