

PERSONALITY TRAITS AND ECONOMIC PREPARATION FOR RETIREMENT

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Background

Personality traits may predict many economic behaviors. Among the five chief personality traits—neuroticism, extroversion, agreeableness, conscientiousness, and openness—conscientiousness influences several characteristics associated with earnings and wealth, including academic achievement, job performance, marital stability, physical health, and longevity. In fact, previous research has shown conscientiousness, more than the other five chief traits, to be associated with both lifetime earnings and wealth conditional upon earnings, even when controlling for educational attainment, demographic characteristics, or measures of cognitive ability.

Previous research on the effects of personality traits on economic outcomes, however, did not control for life-cycle effects. Persons at different stages of life may have different savings and consumption patterns regardless of their personality traits. For example, some conscientious persons in their 60s, who may otherwise reduce consumption and increase savings more than other persons, may have already saved adequately, making their optimal saving rate close to zero. Similarly, persons with reduced life expectancy should have reduced saving rates. Furthermore, accounting for personality and economic behavior among older persons also means accounting for pension and Social Security resources, which is difficult to do before retirement.

Data

This paper explores whether saving and consumption vary by personality traits, accounting for economic resources and life-cycle effects. We do so using data from the Health and Retirement Study (HRS), a panel survey of Americans at least 50 years of age and their spouses with questions on income, work, assets, pension plans, health insurance, disability, physical health and functioning, cognitive functioning, and health-care expenditures. Recent waves of the HRS have included supplemental questionnaires on personality traits and on consumption patterns. Using these data, we simulate savings and consumption patterns for persons 66 to 69 years old to determine how many are adequately prepared for retirement and how personality traits, marital status, education, and wealth affect levels of preparation.

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Effects of Personality on Preparation for Retirement

In analyses not controlling for education, we find wide levels of adequate preparation for retirement, ranging from 29 percent for single females with less than a high-school education to 90 percent for females in married couples.

Among married males, conscientiousness has a significant positive effect on economic preparation for retirement. Among married females, neuroticism has a significant negative effect on such preparations. In analyses controlling for education, the effects of neuroticism and conscientiousness on economic preparations for retirement are reduced, but not substantially.

Among single persons, neuroticism negatively affects economic preparations for retirement by both men and women, and extroversion negatively affects preparations by men. These effects disappear in analyses controlling for education. Put another way, among single persons, and in contrast to our findings among married persons and the overall sample, conscientiousness does not predict economic preparation for retirement. This may be a result of the low number of single respondents, especially males, for analysis, or of complex life histories for divorced or widowed persons who accumulated assets with a partner with different personality traits.

Effects of Personality on Wealth and Consumption

We also considered the effects of personality traits on wealth and consumption. Retirees with few assets may, if properly adjusting consumption, offset the risk of outspending resources before death.

Regarding the effects of personality on wealth, we find that, among married persons, neuroticism negatively affects wealth, particularly among females, while conscientiousness positively affects wealth among both males and females. These effects are smaller in analyses controlling for education but still substantial. Among singles, conscientiousness increases wealth substantially among females, and openness increases it even more for females. Yet these effects disappear when controlling for education.

Regarding the effects of personality on consumption, we find that, among married persons, conscientiousness and openness positively affect consumption, particularly for single females. This effect, however, disappears when controlling for education. Adding wealth to models of personality, education, and consumption, causes some education effects to disappear as well. Among singles, even the effects of wealth on consumption are rather low, likely because of the difficulties of obtaining accurate measures of wealth.

Conclusions

Altogether, our results suggest that individuals with higher levels of conscientiousness are more likely to be economically prepared for retirement. Because of how we define economic preparation, adequacy results from a balancing of economic resources with spending levels. For example, among single males, the probability of adequate preparation is approximately constant across education levels even though economic resources vary greatly with education because spending varies similarly. When we estimated the effects of conscientiousness on economic resources and on spending separately, we found that resources increase at a greater rate than spending. This implies that the saving rate increases with conscientiousness. Thus conscientious individuals are able to accumulate greater resources both because of greater earnings and because of high saving. Whether they also are better at earning high rates of return on their savings through better portfolio management is beyond the scope of this paper but worthy of future research.

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