

The Effect of Bequest Motive on Investment Portfolio Allocation among Older Adults

Weipeng Wu, University of Missouri¹
Rui Yao, University of Missouri²

Assuming older adults have a shorter financial planning horizon than younger investors, conventional financial advice for older adults is to be conservative, such as keeping wealth in bank CDs, government or AAA-rated corporate bonds. It is generally true that as people age, their investments to fulfill goals within their own lifetime should be more conservative. However, age should not be the major factor for all goals. The assumption may be invalid for older adults who have a bequest motive, because the motive extends their financial planning horizon beyond their lifetime and increases their demand for risky assets. This study investigates the effect of having a bequest motive on investment in risky assets among older adults.

After analyzing the 2016 RAND HRS longitudinal data, we find that older adults with a weak bequest motive do not invest significantly differently from those who do not have such a motive. However, older adults who have a strong bequest motive allocate a significantly greater portion of wealth in risky assets. Therefore, advice should be goal-oriented and adjusted for their risk tolerance and investment horizons. Investors with a bequest motive should receive advice according to their stated goals and corresponding investment horizon. Financial advisors should take older adults' bequest motive into consideration and provide investment advice accordingly. For older adults with a strong bequest motive, their financial advisor should assist them in understanding investment options in risky assets and help them manage those assets based on the characteristics of their bequest motive.

¹ Weipeng Wu (ww9v5@umsystem.edu), Ph.D. Candidate, Department of Personal Financial Planning

² Rui Yao (YaoR@missouri.edu), Professor, Department of Personal Financial Planning