Discussion of Wealth Fluctuations and Risk Preferences: Evidence from U.S. Investor Portfolios by Maarten Meeuwis

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Summary

- DRRA or CRRA? Does risk taking increase with wealth?
- Data on retirement wealth and labor income of millions of US individuals
- How to provide evidence for DRRA vs CRRA? Reaction of fraction of financial wealth invested in equity due to a change in income or a change financial wealth.
- Finding 1: Reduced form evidence for DRRA
- Finding 2: Use life-cycle model to show 10% permanent income growth leads to 1.5% decrease in risk aversion
- Finding 3: Implications for income and wealth inequality and asset pricing

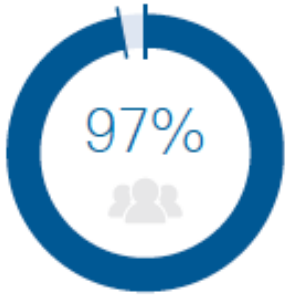
Summary

- Extremely ambitious paper
- Two (or even three) papers in one
- Main comments:
  - Are retirement wealth equity investments appropriate to study changing equity shares
  - Missing parts of wealth
  - Link reduced form analysis and life-cycle model

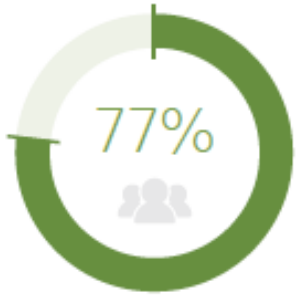
Retirement data

- Does retirement equity holdings allow estimating preferences?
- In this dataset mostly retirement wealth: average retirement wealth is 106k and average non-retirement financial assets is 7k
- Retirement allocations large part default

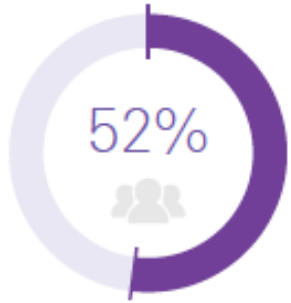
Data from Vanguard 2018:



Participants **offered target-date funds** at year-end 2017



Participants using target-date funds



Participants with **entire account invested** in a single target-date fund

Retirement data

Portfolio shares	
Equity	0.77
Fixed income	0.19
Cash	0.03
Alternative	0.01
Market beta of portfolio	0.82
Market beta of equity	1.02
Default investor	0.43
Share in TDFs	0.53

- 77% in equity, 19% in fixed income
- If assume fixed income is risky, then almost 100% in risky assets.

Missing wealth

- CRRA preference: fixed fraction of total wealth in risky assets
  DRRA preference: increasing fraction of total wealth in risky assets if total wealth increases
- Missing parts of total wealth:
  - deposit accounts
  - savings accounts
  - other retirement accounts
  - stock holdings outside retirement accounts
  - bond holdings outside retirement accounts
  - housing wealth
- Finding to corroborate DRRA: Equity returns in retirement account leads to small decline in equity share.
  However, perhaps adjustment equity share in a non-retirement account.

Link reduced and structural

- Calibrate life-cycle model with parameters from other papers (i.e., income of CGM, 2005) and use SCF data to match.
- Use coefficients of change on equity share on passive change, income growth, and portfolio return estimated using retirement data
- Possible to have a tighther connection between reduced form analysis and data and structural model?

Small quibbles

- Age fixed effects instead of second order polynomial in age
- Human capital instead of persistent income growth in reduced form analysis