Can Human Capital and Asset Management Improve the Financial Performance of Older Age Groups? Evidence from Europe

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Summary

To what extent do various components of human capital and household asset management activity affect portfolio choices and portfolio returns among older investors? This question is also related to the growing concerns about the financial independence of older age groups in aging populations. Extending Ehrlich et al.'s (2008, 2011) labor-theoretic model of asset and risk management, we investigate the interplay between asset management activity and portfolio choices of older-age households in a sample of 11 European countries plus Israel over 5 waves of the SHARE longitudinal data in the period 2004-2015. Our analysis shows that education, health, and other components of human capital have a beneficial impact on the willingness to hold and manage risky financial assets and the households' portfolio returns. Moreover, we find that education and underlying health conditions affect these portfolio outcomes largely through proxies of time household heads devote to managing their assets. Our key findings hold up against a battery of robustness and internal validation tests based on both reduced-form and structural regressions, alternative regression specifications, and alternative groups of investors. We also find that the effects of education on the demand for AM time, risky financial assets, and portfolio returns, become larger as the opportunity costs of AM fall with age, which supports the mechanism of the asset management hypothesis.