TIAA Institute

Trends and Issues
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How longevity and health information shapes financial advice

Executive summary

When making key financial decisions like saving for retirement, claiming Social Security, annuitizing, or deciding how to invest funds, many people consider their health and life expectancy. Nevertheless, these assessments are frequently inaccurate or biased. Professional advisors can help mitigate these biases, yet some could be influenced by their own interests or biases. To explore how longevity and health information impacts financial advice, we conducted two online experiments: one with the general public and another with professional advisors.

These experiments examined whether advisors rely more on their own longevity and health or on the longevity and health information provided to them about their clients when making recommendations. Both amateur and professional advisors were found to be more influenced by client-specific health information than by their own survival probabilities. Yet the amateurs were more reactive to straightforward health details, like a severe cancer diagnosis, while professionals adjusted their recommendations based on a broader range of information.

We show that receiving specific longevity and health information about advisees significantly influenced the recommendations given by both groups, especially regarding annuitization. For instance, when informed about a client's severe health condition, professional advisors were much less likely to recommend annuitization. This suggests that professional advisors are better at integrating detailed longevity and health data into their advice, compared with amateurs.

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While it may be common for friends and family to share informal advice, our research also documents that amateur advisors can lack the expertise to effectively incorporate crucial longevity and health information into their financial recommendations. This underscores the need for improved longevity literacy among the general population and further research into how professional advisors can best align their advice with clients' needs.

Introduction

When making key financial decisions regarding savings, retirement, Social Security, annuitization, and investments of funds, people often consider their own health and life expectancy. Nevertheless, such assessments are often biased. Professional financial advisors can help mitigate such biases, but they can also be misinformed or influenced by their own interests rather than their clients' needs. To better understand the factors influencing the quality of financial advice, we conducted two online experiments: one with a sample from the general public and another with professional advisors. We sought to investigate whether professional and amateur advisors rely more on their own health and anticipated longevity or on what they know about their advisees when making recommendations for retirement investments and spending. This research contributes to a growing body of literature on financial advice, particularly focusing on how longevity and health information shapes advisors' recommendations for older individuals, a topic about which little is currently known.

Our prior research explored how to inform people about the risks of outliving their assets in old age (c.f., Hurwitz et al., 2022). There we showed that simply providing people with information on their own longevity risk increased their interest in saving and their demand for lifetime income annuities. Here we take a different approach, by asking respondents to provide financial advice to a hypothetical, or "vignette," individual with specific health issues and longevity characteristics. We then assessed how this advice changed when respondents were given additional information about their advisees' health or longevity. Additionally, we compared the recommendations made by amateur advisors with those made by professional advisors, seeking to determine how the provided information influenced the advice given. We show that both amateur and professional advisors were more influenced by the advisees' longevity and health information than by their own survival probabilities and health assessments. However, amateurs responded more strongly to simple information, such as a severe cancer diagnosis; professional advisors adjusted their recommendations based on more detailed client-specific information.

In what follows, we briefly review prior relevant studies, followed by a discussion of our hypotheses, experimental design and empirical methodology. We then describe the data and report empirical results from our survey of both amateur advisors and professional financial advisors. We conclude with a summary of our findings and outline potential policy implications.

Prior studies

A major concern for older individuals as they make retirement investment and spending decisions is the possibility of outliving their assets. In the general population, most people have some awareness of their life expectancy; thus, Hamermesh (1985) documented that people's self-reported survival probabilities were relatively closely linked to actuarial tables, but people also overweighted their parents' survival patterns while underweighting their own health habits when predicting their longevity. Additional analysis indicates that people are often biased in predicting their own lifetimes: The young overstate their mortality rates, but older people understate them. Whether these biases also apply to professional advisors requires further research.

Longevity expectations are important since they do influence key financial behaviors, including retirement patterns, saving patterns, and Social Security claiming patterns. Our prior work (Hurwitz et al., 2022) also shows that giving respondents information about their own longevity risk in an experimental context enhances their appreciation of longevity risk and interest in annuities. The current study contributes to the existing literature by examining how health and survival information influences the recommendations made by professional advisors compared with nonexperts.

This is important since financial advice has become increasingly important over time, partly due to the move from defined benefit to defined contribution retirement plans. Today only about one-third of older Americans seek professional financial advice; many of the rest turn to relatives or friends instead. There has also been important empirical literature showing that the effectiveness of financial advice depends on its cost, accuracy, and suitability, and this is sometimes influenced by advisors' incentives. Additionally, professional advisors can also be susceptible to behavioral biases (Linnainmaa et al., 2021; Mullainathan et al., 2012). That is, advisors often convinced their clients to underdiversify, trade frequently, chase returns and hold expensive, actively managed funds, just as they did themselves. Yet, it remains unclear whether amateur and professional advisors take their advisees' key longevity and health risks into account when making investment and annuitization recommendations.

Our experimental design

Building on the existing literature, we test three hypotheses in our experimental setting. First, we posit that both amateur and professional advisors' own health and survival probabilities will influence the investment and annuity advice they provide to clients, but the impact will be smaller for professionals, who are likely more knowledgeable. Second, we posit that informing both amateur and professional advisors about their clients' longevity and health risk will modify their recommendations regarding investment and annuities for the vignette individuals. Specifically, both will advise clients facing health shocks and higher mortality to hold less risky portfolios and not to annuitize. And third, we posit that amateur advisors will react more strongly to poor health and greater longevity information about their clients, compared with professional advisors.

To test these hypotheses, we designed and administered two online experimental surveys. The first targeted 2,400 U.S. residents ages 35 and beyond, via the Prolific crowd-working survey platform. The second survey covered 1,151 U.S. financial advisors in a panel provided by Greenwald Research. In both cases, we sought to understand how advisors' own expected longevity and health influenced the financial advice they offered, and how these recommendations changed when respondents were provided with additional information about the risks facing their advisees.

In both surveys, participants were first asked to describe their backgrounds (e.g., age, sex, education, health, and parental longevity), subjective survival expectations, risk attitudes, financial literacy, and annuity knowledge. Next, respondents were invited to give recommendations on investments and annuities for hypothetical individuals nearing retirement. Specifically, they were asked to advise a 60-year-old single man with no children who needed to make decisions regarding his retirement savings. For the amateur sample, each participant was asked to advise on either how to allocate retirement savings or whether to invest in a government bond fund versus a mutual fund. Professional advisors, on the other hand, provided recommendations on both investment and annuitization decisions, with the annuitization scenario presented first.

We also gave both sets of participants additional information about the vignette individual's health status. Five treatments were administered, each presenting different longevity and health scenarios. The results from these treatments allowed us to assess whether and how the advice given by amateur and professional advisors changed in response to the new information.

An overview of empirical findings

Our analysis of the responses to both surveys revealed several key findings. First, both amateur and professional advisors tended to overestimate their survival probabilities relative to life tables, with no significant difference between the two groups. This suggests that both groups were prone to overestimating their chances of living to older ages.

Second, among the amateur advisors, respondents' own subjective survival expectations had a significant but quantitatively small positive impact on the likelihood of recommending annuitization. This effect was not observed among professional advisors, whose subjective survival expectations did not significantly influence their recommendations to others. Additionally, the advisors' self-assessed health status had no significant impact on their recommendations in either case.

Third, providing respondents with information about the vignette individual's health and survival probabilities led them to adjust their recommendations accordingly, but responses differed between the two groups. Amateurs were more likely to adjust their recommendations in response to simpler health information, such as a severe cancer diagnosis. In contrast, professional advisors were more responsive to a broader range of longevity and health information. For example, when informed that the vignette individual had a severe cancer diagnosis, professional advisors were significantly less likely to recommend annuitization. This suggests that professional advisors are better at incorporating detailed longevity and health information into their recommendations than amateurs.

Conclusions

Our study provides valuable insights into how both amateur and professional advisors incorporate longevity and health information into their financial recommendations. First, advisors' own survival probabilities and health conditions had only a minor influence on the advice they provided. Subjective survival expectations did affect annuitization recommendations among amateurs, the effect was relatively small, and professional advisors were not significantly influenced by their survival probabilities or health assessments.

Second, we showed that providing both amateur and professional advisors with information about their clients' survival probabilities due to health conditions or parental longevity prompted them to adjust their recommendations. This effect was particularly pronounced in annuitization decisions, where severe health information significantly reduced the likelihood they would recommend annuities.

Third, we documented that amateur advisors reacted more strongly to simple longevity and health information, and professional advisors responded to all the information provided.

Our findings have important implications for understanding the factors that shape the quality of financial advice. While many people rely on informal advice from friends or family, such amateur advisors may lack the ability to accurately analyze and utilize key information needed to provide appropriate advice. This underscores the importance of improving longevity literacy among the general population. Moreover, further research is needed to explore how advisors learn about and incorporate their clients' needs into their recommendations to help them build financial resilience in old age.

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