

## Can One Spouse Accurately Represent Couple Risk Tolerance?

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A majority (52%) of households in the United States were married couple households in 2000, yet most studies of risk tolerance have not differentiated between the risk tolerance levels of husbands and wives, treating married couples as unitary entities in terms of risk tolerance and portfolio choices. This paper investigates the willingness to take risk with investments for married couple households. It uses the six most recent Surveys of Consumer Finances (SCF) conducted by the Federal Reserve Board for a total combined sample size of 16,952. The combined six datasets enable us to test for time trends and also have a large enough sample for more robust estimation of the effects of small subgroups. Although the SCF risk tolerance question is worded to reflect a couple's joint risk tolerance, gender differences in the responses suggest that the answers of married respondents might not reflect joint preferences. The SCF attempts to have the more financially knowledgeable spouse be the actual respondent, so the gender of the respondent in married couple households is not random. Based on combined and separate logistic regressions, we conclude that the difference in the responses by husband respondents and wife respondents is due largely to differences in the type of household in which the husband, versus the wife, is more knowledgeable about household finances and therefore the respondent. Our research shows husband and wife respondents are affected in similar ways by factors such as age and education, and that the response by one spouse seems to represent the likely joint couple risk tolerance. For instance, in the combined analysis and the separate analyses, more education of both spouses is associated with higher willingness to take risk, and the pattern is approximately additive. Given the importance of risk tolerance in financial decision-making, understanding the determinants of risk tolerance in households, and the difference in risk tolerance of husbands, wives, and different household types is important in formulating advice and education for married couple households. We conclude that financial planners should use questions worded like the SCF question to capture joint couple risk tolerance levels.

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