

## PERSONALITY AND RESPONSE TO THE FINANCIAL CRISIS

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Extensive research has been devoted to examining the relationship between personality and a wide range of life outcomes. Recently, personality traits, defined as patterns of thinking, feeling, and behaving which are relatively stable across time and situations, have been recognized as important predictors of economic outcomes. The Big Five taxonomy of personality traits, now widely accepted as the organizational structure of personality, categorizes personality traits into five broad dimensions: extraversion, agreeableness, conscientiousness, neuroticism, and openness to experience. Of these personality factors, conscientiousness has been most robustly related to a number of positive later life outcomes including academic achievement, job performance, marital stability, physical health, and longevity.

In a previous Michigan Retirement Research Center project, we found conscientiousness to be more strongly associated with both lifetime earnings and wealth conditional upon earnings, than any other Big Five factor when controlling for education, demographics, and IQ. However, a major limitation of this approach was the timing of the personality assessment which occurred near or after the end of working life in the HRS. Since personality measures were not taken earlier in the life span, causal inferences could not be made about the effect of personality on financial habits. One way that conscientiousness may determine wealth accumulation is adherence to established budgets and savings plans in the face of immediate temptation. The recent financial crisis presented a unique challenge to long-term goals: People who liquidated assets in the trough stood to lose significant shares of wealth. In the current investigation, we used data from an Internet survey of HRS respondents in the second quarter of 2009 to test how conscientiousness and other Big Five factors predicted responses to the financial crisis of 2008–09. In addition, we examined perseverance, self-control, and domain-specific impulsivity, which are facets of the Big Five conscientiousness factor. We were interested in determining if these facets correlated with the conscientiousness factor as we would expect (i.e., displayed convergent validity), and if these facet-level traits in turn influenced financial decisions.

In September 2001, the first wave of the Consumption and Activities Mail Survey (CAMS) was mailed to 5,000 households selected at random from households that participated in HRS 2000. In 2003, 2005, 2007, and 2009, subsequent CAMS waves were sent to the same households. The CAMS asked respondents about their spending in each of 32 categories, which together represent the totality of spending. We linked data for the CAMS waves to the 2006 and 2008 waves of HRS. To be included in our analyses, a respondent had to complete a questionnaire with personality measures in either 2006 or 2008 and be included in the Social Security administrative records. Personality factors were measured using a 26-item questionnaire that asked participants to endorse 26 adjectives corresponding to the Big Five personality traits of conscientiousness, emotional stability (low levels of neuroticism), agreeableness, extraversion, and openness to experience. Finally, in the 2010 wave of HRS, participants completed an experimental module that assessed facet-level perseverance and self-control as well as impulsivity in four different domains (i.e., exercise, food, finances, interpersonal relations). Currently, our data file contains information for 1,587 participants. However, the majority of these were new participants for whom personality data were not available.

Using regression analyses, we found that more conscientiousness adults spend less of their income, whereas individuals who rate themselves as more “adventurous” spend more. Unfortunately, there was insufficient data to explore adequately the relationship between Big Five conscientiousness measured in 2006 and 2008 and adaptive decision-making during the 2008–09 financial crisis. For many analyses, the sample size was greatly reduced because of missing data on the HRS Internet

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survey (e.g., retirement questions inapplicable to many participants). As a result, few associations were both significant and theoretically interpretable.

We also conducted analyses to test the convergent validity of perseverance and self-control measures and Big Five conscientiousness. Conscientiousness was significantly correlated with both perseverance and self-control. Furthermore, perseverance predicted higher levels of income when controlling for the other Big Five personality factors. In contrast, self-control was not significantly associated with income, wealth, or the ratio of consumption to income. However, the lack of association between these financial outcomes and self-control may be explained by high measurement error due to low scale reliability for the self-control scale.

Finally, impulsivity in the domain of finances was associated with greater consumption when controlling for demographic factors, IQ, and conscientiousness. In other words, individuals who are more impulsive when making financial decisions spend more of their income. Additionally, all domain-specific impulsivity measures demonstrated convergent validity with both domain-general self-control and conscientiousness.

Our results suggest that personality influences financial outcomes among older adults. Conscientious individuals save more and hence, spend less of their income. The effect of conscientiousness on consumption can be at least be explained partly by self-controlled behavior in the domain of finances. For example, conscientious individuals less frequently “buy things on impulse,” “spend too much money,” “buy things I hadn’t planned to buy,” and “buy things I don’t really need.” These behavioral tendencies in turn predict the proportion of earnings spent versus saved.

Future research is needed to test whether conscientious individuals, in addition to saving more, invest more wisely. Likewise, additional research is needed to illuminate the relative strength of distinct facets of Big Five conscientiousness as predictors of economic outcomes. In general, greater knowledge of the aspects of personality that affect economic decisions will allow for the development of effective policies and interventions targeted at improving the financial well-being of older adults.

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