Couples who disagree on savings and investment decisions are twice as likely to divorce

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While it is well known that fighting over money can lead couples to divorce court, new research from the University of California San

Diego's Rady School of Management finds that differences in risk preferences, especially when it comes to financial matters, are likely a root cause of marital separation.

The longitudinal study, appearing in *The Economic Journal*, measured the risk preferences of 5,300 couples in Germany from 2004 to 2017. Participants in the survey—conducted annually by the German Socio-Economic Panel—were asked how willing they were to take risks when it comes to careers, sports, driving and financial matters.

After controlling for an array of household characteristics, such as the wife's and husband's education level, religion, region of origin, cultural background and more, the author found differences in risk preferences are the biggest predictor of marital separation in the long run.

Couples who had the most dissimilar risk attitudes are twice as likely to divorce, compared to couples with the most similar preferences. Additionally, of all the risk categories listed in the survey, differences in financial risks were the strongest predictor of divorce.

"Arguing about money is typically cited as a reason for divorce, but a main potential driver of these fights is differences in risk attitudes," said the study's author, Marta Serra-Garcia, associate professor of economics and strategy at the Rady School. "Risk attitudes determine investment decisions, such as housing for the family. If spouses have different risk preferences, they will often disagree on common and very important investments in the marriage."

The findings reveal that couples who differ on savings and investment decisions are less likely to own a home and/or have their home renovated.

Serra-Garcia points out with both parties pooling their resources, couples

make significant gains from marriage.

"On one hand, households share common goods, such as housing, and for that similarity in risk attitudes is optimal," she said. "On the other hand, households share two sources of income and income is typically risky. Since spouses pool their incomes, if one has a less a reliable stream than the other, differences in risk attitudes can be optimal because they can 'insure' each other, but this can also be a source of tension for marriages."

The study also reveals that newly formed couples became more alike over time, demonstrating that within a household, attitudes are not fixed.

For example, in tough financial times, such as the great recession of 2009, most couples become more risk averse. The study finds that couples who became more similar during this time were less likely to divorce later.

"Preference assimilation could be a mechanism for resolving conflict within marriages," Serra-Garcia said. "As a result, these couples have a stronger likelihood of staying together."

The results from the study could have implications for the dating website industry. Over one third of couples in the U.S. meet online where users are able to learn about an individual's characteristics before the dating process begins.

"Online dating websites often design algorithms that attempt to find the optimal match," Serra-Garcia said. "If such websites suggested matches between individuals who are similar in their risk attitudes, that could decrease the likelihood that if a couple forms, it will dissolve in the future."

More information: Marta Serra-Garcia, Risk Attitudes and Conflict in the Household, *The Economic Journal* (2021). DOI: 10.1093/ej/ueab054

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