How Most Americans, the idea of a comfortable retirement rests largely on their financial choices. Few major employers still offer pensions, and even those that earn a government pension may see the value of it erode with inflation.

But a recent paper suggests that the American way of its-in-your-hands retirement may be ignoring the impact of mental health disorders, which affect one out of every three households. Vicki Bogan of Cornell University and Angela R. Fertig of the University of Georgia found that households with at least one member diagnosed with a mental health disorder – which included substance abuse, bipolar disorder, depression and learning disorders, among others – held a greater percentage of their assets in bonds or cash.

Why would mental health disorders affect a person’s portfolio? The authors write that:
First, mental health may alter cognitive abilities and/or a person’s ability to evaluate investment opportunities, which would affect investment decisions. Second, mental health may alter an individual’s degree of risk aversion which has been shown to be an important determinant of portfolio choice. Third, mental health may affect an individual’s discount rate thereby affecting his motivation to invest for future returns. Finally, having any health shock, physical or mental, reduces productivity and increases medical spending, thereby reducing the availability of funds to invest; it may also cause a household to change its portfolio allocation toward more liquid assets.

At first glance, it’s hard to find anything wrong with risk-aversion. But the authors worry that by focusing too heavily on “safe” investments, these households could be putting themselves at an economic disadvantage.

“Historically, portfolio choices of stock have been vital to economic advancement and wealth building, particularly during prosperous economic times,” they write. The numbers are on their side: over the long term, the stock market has returned about 6% a year after inflation, while bonds have returned about 3%.

Click here for a link to the research paper.

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