



On Tuesday 1 July 2025, 04:00-21:00 GMT, we'll be making some site updates on Taylor & Francis Online. You'll still be able to search, browse and read our articles, where access rights already apply. Registration, purchasing, activation of tokens, eprints and other features of Your Account will be unavailable during this scheduled work.

Home ► All Journals ► Economics, Finance & Business ► Financial Analysts Journal ► List of Issues  
► Volume 62, Issue 1 ► Human Capital, Asset Allocation, and Lif ...

Financial Analysts Journal >  
Volume 62, 2006 - [Issue 1](#)

418 | 56 | 1  
Views | CrossRef citations to date | Altmetric

Private Wealth Management

# Human Capital, Asset Allocation, and Life Insurance

Peng Chen, CFA , Roger G. Ibbotson, Moshe A. Milevsky & Kevin X. Zhu

Pages 97-109 | Published online: 04 Apr 2019

🗨 Cite this article 🔗 <https://doi.org/10.2469/faj.v62.n1.4061>

📖 Sample our Tourism, Hospitality and Events journals, sign in here to start your FREE access for 14 days

📖 References 🗨 Citations 📊 Metrics 🖨 Reprints & Permissions

Read the

## We Care About Your Privacy

We and our 909 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting "I Accept" enables tracking technologies to support the purposes shown under "we and our partners process data to provide," whereas selecting "Reject All" or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the ["privacy preferences"] link on the bottom of the webpage [or the floating icon on the bottom-left of the webpage, if applicable]. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

...

I Accept

Reject All

Show Purpose



investor's human capital is mortality risk, the loss of the family's human capital in the event of the wage earner's death. Life insurance has long been used to hedge against mortality risk. Typically, the greater the value of human capital, the more life insurance the family needs.

Intuitively, human capital affects not only optimal life insurance demand but also optimal asset allocation. However, these two important financial decisions—how much life insurance to buy and what the optimal asset allocation is—have consistently been analyzed separately in theory and practice. Popular investment and financial planning advice regarding how much life insurance one should acquire is seldom framed in terms of the riskiness of one's human capital. And conversely, optimal asset allocation has only lately been framed in terms of the risk characteristics of human capital. Rarely is this decision integrated with the life insurance decision.

We argue that these two decisions must be determined jointly because they serve as risk substitutes when viewed from the perspective of an individual investor's portfolio. Life insurance is a perfect hedge for human capital in the event of the wage earner's death; that is, term life insurance and human capital have a negative 100 percent correlation with each other in the “alive” (consumption) state versus the “dead” (bequest) state. If life insurance pays off at the end of the year, human capital does not, and vice versa. Thus, the combination of the two provides great diversification to an investor's portfolio.

Motivated by this insight, we develop a framework based on the joint determination of life insurance and asset allocation. We show that the optimal life insurance and asset allocation decisions are jointly determined, and their optimal values are sensitive to the subjective probability of survival.



Our analysis shows that the optimal life insurance and asset allocation decisions are jointly determined, and their optimal values are sensitive to the subjective probability of survival. The optimal life insurance and asset allocation decisions are jointly determined, and their optimal values are sensitive to the subjective probability of survival.

- Investment and asset allocation decisions are jointly determined.

- The magnitude of human capital, its volatility, and its correlation with other assets significantly affect the two decisions over the life cycle.
- Bequest preferences and a person's subjective survival probability have significant effects on the person's demand for insurance but little influence on the person's optimal asset allocation.
- Conservative investors should invest relatively more in risk-free assets and buy more life insurance.

 Financial Analysts Journal: Invested in Research, Shaping the Future. Click to find out more  
Related research 

People also read

Recommended articles

Cited by  
56



## Information for

## Authors

## R&D professionals

## Editors

## Librarians

## Societies

## Opportunities

Reprints and e-prints

## Advertising solutions

Accelerated publication

## Corporate access solutions

Open access

## Overview

## Open journals

## Open Select

Dove Medical Press

F1000Research

Help and information

## Help and contact

## Newsroom

All journals

## Books

## Keep up to date



Sign me up

Copyright © 2016 Taylor & Francis Group  
Taylor & Francis business

Accessib

Registered  
5 Howick Pl

