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Risk, Bias, and Retirement: Behavioural Drivers of Pension Savings in Slovakia

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ABSTRACT

This paper studies how behavioural biases and individual risk preferences influence the investment decisions of Slovak pension savers within the framework of the second pension pillar. Motivated by the growing body of literature in behavioural finance, the study addresses how psychological factors such as loss aversion, confidence in retirement social security income, and investment experience interact with socio-economic characteristics to shape portfolio allocation. Traditional economic models assume that rational investors optimise utility under risk, and the evidence shows that cognitive biases, bounded rationality and limited financial literacy significantly affect real-world financial behaviour, particularly in long-term savings decisions. Drawing on a nationally representative survey of 400 respondents, the study employs a hypothetical allocation exercise across four pension funds that replicate the Slovak pension saving system and applies a fractional logit model to examine determinants of the share of risky assets. In addition, the analysis is complemented by descriptive evidence from administrative data on pension savers' reactions to the 2023 pension reform, which introduced a life-cycle default investment strategy. By focusing on Slovakia, a country with rapidly ageing population and increasing fiscal pressure, the paper contributes to the literature on behavioural finance and pension system studies. In this context, it provides new empirical evidence from a Central and Eastern European context. The findings inform policymakers, pension fund managers, and educators about the behavioural drivers of investment strategies, with implications for improving pension product design, financial education, and retirement security.

Keywords: behavioural biases; investor behaviour; pension savings; public policy; Slovakia