**Optimal Asset Allocation of a Pension Fund: Does The Fear of Regret Matter?**

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**Abstract** In this paper, which presents a simplified behavioral finance model, we incorporate regret into the decision-making process of a pension fund and derive the optimal asset allocation of a final-wealth-maximizing pension fund in the accumulation and decumulation phases. We find that the optimal allocation must be congruent in both phases if and only if the pension fund is upside regret averse. In particular, our results suggest that allocation to risky assets must increase through time in the accumulation and decumulation phases so that the pension fund can realize gains from any upsides in the risky asset market, thereby maximizing final wealth and limiting the feeling of regret ex-post. Although decisions in both phases are congruent, we find that the optimal asset allocation generally depends on wealth levels. This evidence implies that separate management of the accumulation and decumulation phases of a pension fund decreases available wealth levels and is not an optimal strategy.

**Keywords** Financial Markets. Asset allocation. Log-logistic. Modified utility. Mortality. Pension fund. Regret aversion

**JEL:** G23, G11 and C61

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