

# EXECUTIVE SUMMARY

## *Working Paper*

MARCH 2003, WP 2003-04

CENTER FOR  
RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE

---

## RETIREMENT INCENTIVES AND COUPLES'

### RETIREMENT DECISIONS

BY COURTNEY COILE

The typical family approaching retirement today in the US is a dual-worker family. In fact, nearly three-quarters of couples now have both spouses in the labor force at or after age 50. The fact that husbands and wives now often face retirement decisions together during their 50s or 60s is the result of both a striking decline in the labor force participation of older men and a remarkable increase in the labor force participation of older women during the past fifty years. While the decline in male labor force participation has inspired a large literature on the effect of Social Security and pensions on men's retirement, two related issues remain vastly understudied. First, the effect of Social Security and pensions on women's retirement decisions is not well understood. Second, the possible "spillover effect" of incentives faced by one spouse onto the other spouse's decision has often been ignored. If spillover effects are important, the failure to include them in retirement models may lead to significant errors in predicting the effect of a change in Social Security policy on retirement behavior.

This paper uses an excellent new data source, the Health and Retirement Study, to calculate husbands' and wives' financial incentives for retirement from Social Security and private pensions and to explore how each spouse's retirement decision depends on their own incentives and their spouse's incentives. There are several key findings. First, I find that women are as responsive to their own retirement incentive measures as are men. Second, I find that women's retirement incentives have an important spillover effect on the husband's retirement decision that is approximately as strong as both the direct effect of her incentives on her own retirement and the direct effect of his incentives on his retirement, while husband's incentives have a small and statistically insignificant effect on the wife's retirement.

These results have several important implications. First, they demonstrate that women are strongly influenced by their own economic variables in making retirement decisions. Second, they suggest that the common assumption in past literature that the husband's retirement decision is independent of the wife's retirement status is incorrect and that joint modeling of retirement decisions is appropriate. One explanation for the finding that the wife exerts a stronger influence on the husband's retirement decision is asymmetric complementarities of leisure: husbands' enjoyment of retirement may depend much more on the wife's also being retired than vice versa. Some suggestive evidence is presented in support of this hypothesis. Third, the results suggest that simulations of the effect of changes in Social Security policy on men's retirement may yield incorrect answers if spillover effects are ignored. I simulate two policy changes and find that the effect of the policy changes on the probability of men being in the labor force at age 65 is underestimated by 13-20% if spillover effects are omitted.

---

© 2003, by Trustees of Boston College, Center for Retirement Research. All rights reserved. The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium. The opinions and conclusions expressed are solely those of the author and should not be construed as representing the opinions or policy of SSA, or any agency of the Federal Government or the Center for Retirement Research at Boston College.

**CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE**

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808  
phone 617.552.1762 fax 617.552.1750 [crr@bc.edu](mailto:crr@bc.edu) [www.bc.edu/crr](http://www.bc.edu/crr)