Playing the 'Newlywed Game' with near-retirement couples

By Editorial Staff *Fri, Sep 21, 2018*

Couples on the brink of retirement often have different ideas about retirement but not know it, according to a new research paper from academics in Canada and the Netherlands. Advisors should take heed.

Anybody who advises retirement clients probably knows that married couples collaborate on decisions about when to retire, what to do in retirement, and how to spend their money in retirement. Women, after all, are often co-breadwinners and are perhaps increasingly likely to out-earn their husbands.

As the co-authors of a recent **study**, "Understanding Joint Retirement" (NBER Working Paper 25030), point out, "Since the labor force participation rate of women has grown substantially over the last decades, understanding their retirement decisions has gained importance. Moreover, there is clear evidence that the retirement decisions within couples are interdependent, with a significant proportion of spouses retiring at between 20% and 30% of all couples retire within one year of each other."

But because women so often left the workforce before retirement age, most studies on retirement timing behavior have focused on men. This obsolete imbalance is something that the paper's authors (Pierre-Carl Michaud of HEC Montreal in Canada, Arthur van Soest of Tilburg University in the Netherlands, and Luc Bissonnette of Universite Laval in Canada), set out to correct by surveying of near-retirement couples and publishing their analysis of the survey data.

One of their most interesting findings: "On average, men have a biased view of the preferences of their wives. They overestimate their wives' marginal utility of leisure, and will therefore more often choose scenarios with earlier retirement of the wife than their wives themselves choose." In other words, men often underestimate their wives' inclination to keep working.

The researchers' methodology was slightly reminiscent of The Newlywed Game, the television game show that premiered in 1966 on the ABC network. In the game, newlyweds were asked to describe their spouses' preferences or predict their spouses' answers to certain questions.

In their survey, the researchers showed couples "several pairs of simplified retirement trajectories" and "asked [them] to choose between two trajectories three times: first only accounting for their own preferences, then using only their spouse's preferences, and finally they were asked what would be the most likely choice of their household, accounting for both individuals' preferences as well as the decision-making process in their household."

When you are between 62 and 65	**When you are between 65 and 68**	**When you are 68 or older**
You work 40 hours per week	You work 24 hours per week; your net income is the same as before age 65	You are retired and get a pension corresponding to 75% of your net earnings before age 65
Your partner is between 60 and 63	**Your partner is between 63 and 66**	**Your partner is 66 or older**
Your partner works 40 hours per week	Your partner is retired and gets a pension corresponding to 75% of [his/her] earnings before age 63	Your partner is retired and gets a pension corresponding to 75% of [his/her] earnings before age 63

Example of survey content

An advisor might use the same general approach to find out if spouses' expectations of retirement dates or inclinations toward working in retirement were aligned or not. The researchers, however, suggested that policymakers—whatever or whoever they are—should not make the mistake of assuming that husbands and wives view retirement the same way.

Their binary approach, they claim, "empirically outperforms the neo-classical unitary model assuming that each household behaves as a single decision maker, both for consumption and labor supply behavior… Ignoring joint retirement may severely underestimate the overall impact of reforms in retirement policy." They cite other research showing that failing to account for the possibility, for instance, that a wife's preferences would change a husband's retirement behavior, "may underestimate the overall impact of a typical policy by 13% to 20%."

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