Intra-household decision-making and saving for retirement: Evidence from Australia

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Introduction

- Questions about women's capacity to provision for their retirement are becoming increasingly important
    - the representation of women in the older population is especially high; &
    - policy shifts have increased the importance of private pensions to retirement outcomes

- Many women need to plan for retirement within the context of a couple relationship
    - their bargaining power within the household may affect the extent to which sufficient household resources are set aside to cover their needs in old age.

Background

- A significant literature examines the links between women's bargaining power in the household and retirement savings
  - *Proposition:* When she has greater bargaining power in the household than he does, the household will accumulate more wealth pre-retirement (e.g. Browning 2000; Lundberg & Ward-Batts 2000).
  - *Assumption*: Typically, she is younger and has longer life expectancy than him.
  - *Empirical evidence*: Mixed - her measured bargaining power is found to be positively correlated with household net worth in some studies (e.g. Lundberg & Ward-Batts 2000) and negatively in others (e.g. Gibson et al 2006, Keese 2011).

Background

- There are a number of outstanding issues relating to the measurement of retirement savings and bargaining power in the existing literature
  - Existing studies assume household net worth commonly is owned by, and thus accessible to, male and female partners
  - They also simply link longevity simply to gender, based on evidence of women’s greater *average* life expectancy
  - Bargaining power is measured via the intra-household gap in earnings, education and age

Our study adds a new perspective on the links between bargaining power and retirement savings by addressing the above-mentioned issues

- We used pooled data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey Data Wealth modules
  - for 2002, 2006, 2010 and 2014.
  - from mixed sex couple households (married or de facto) in the pre-retirement couples: those where either of the partners is 45-55 years old.
  - 3,200 observations in total

Addressing issue 1: *previous studies assume that household net worth is commonly owned by, and thus accessible to, both partners in the household*

- We use an alternative dependent variable, measuring retirement savings with data on each partner's personal contributions to their superannuation (retirement savings) account.
  - DV: the value of each partner's personal contributions to superannuation as a percentage of their wage or salary;

- This enables us to captures the elements of retirement savings that are within the person's control.
  - Whereas the net worth measure (used in other studies) includes elements that are not owned by the person (e.g. her partner's superannuation), or have resulted from forces beyond the person's control (e.g. compulsory superannuation contributions)

- Our ‘alternative’ proposition is that a person who is concerned about provisioning for old age will be concerned not only with the total level of household wealth but also with their ability to access and control this wealth.
    - Household wealth that is legally owned by one’s partner is likely to be of less value/ offer less economic security than an equivalent (or perhaps lower) level of wealth that she owns herself (contra to the pooling hypothesis).
    - Thus, if/when a person has bargaining power within their household this is more likely to be used to invest in retirement assets that they have control over.

Addressing issue 2: In previous studies, differences in longevity are simply defined by gender, based on evidence of women's greater *average* life expectancy

- Our interpretation of the theory is that the person's longevity expectation is what motivates retirement savings, not their gender per se.
- Thus, our set of IVs includes direct measures of the different longevity expectations of the partners in each household.
- We distinguish between households where:
    - (i) she is more confident about living beyond 75 than he is;
    - (ii) both partners have the same longevity expectation;
    - (iii) he is more confident about living beyond 75 than she is (excluded category).

Addressing issue 3: In previous studies, bargaining power is measured indirectly, using measures of the intra-household gap in earnings, education and age.

- We attempt to measure the distribution of control over the allocation of household resources more directly
  - Our set of IVs includes direct measures of control over financial decision-making within the household.
  - We distinguish between households where:
    - (i) she makes the decisions on ‘savings, investment, and borrowing’ (13.6 per cent);
    - (ii) such decision making is shared between the partners (68.5 per cent);
    - (iii) he makes the financial decisions (15.5 per cent; excluded category in the regressions).

Results

	(1)	(2)	(3)	(4)
	share she contributes	share she contributes	share he contributes	share he contributes
she decides	1.76	3.05	-5.52**	-5.75*
	(3.35)	(4.62)	(2.23)	(3.24)
shared decision	2.10	5.37	-1.15	-0.77
	(2.67)	(3.34)	(1.49)	(2.00)
her age	2.85*	5.64**		
	(1.63)	(2.76)		
her age squared	-0.02	-0.05*		
	(0.02)	(0.03)		
her income	0.14***	0.16***		
	(0.03)	(0.04)		
his age			6.12***	9.15***
			(2.07)	(3.53)
his age squared			-0.05***	-0.08**
			(0.02)	(0.03)
his income			0.04***	0.05***
			(0.01)	(0.02)
longevity difference favouring her		0.10		-3.60
		(2.89)		(2.42)
no longevity difference		3.34		0.37
		(2.41)		(1.78)
N	1464.00	805.00	1469.00	852.00

We use a tobit specification to account for the DV's range being constrained between 0 and 100.

Models (1) and (3) exclude the measures of longevity expectation, whilst (2) and (4) include them.

Income and age are included in the set of controls to account for their influence on both the incentive and opportunity to make contributions to superannuation

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		(2.41)		(1.78)
N	1464.00	803.00	1469.00	832.00

We observe a correlation between decision-making control and saving for one's own retirement, especially amongst men

We do not detect an influence on retirement savings stemming from longevity expectations

Discussion

- Studies of retirement savings should build on evidence that *income* is not pooled and tackle issues around the ownership and control of household assets.
    - Our study's results provide some evidence that when people can influence financial decisions within the household they tend to favour the accumulation of retirement assets under *their own* control.
    - This is supportive of a proposition that retirement assets are not pooled but, rather, asset ownership is sought by individuals in couple households as a way to improve their control over their outcomes in retirement.

- Existing studies rely heavily on the logic that longevity expectations will guide retirement savings behavior, however, we cannot discern their influence.
    - This suggests a possible need to re-think the logic behind many existing studies of retirement savings.