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Saving for Retirement: Household
Bargaining and Household Net Worth

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Issues in Brief

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Executive Summary

In recent years, theoretical models of decision-making that include cooperative and non-cooperative bargaining tactics within the family have been developed and empirically tested. Until now, however, they have not been applied to the study of retirement and savings. Traditional economic models of retirement and saving address the motivations and behavior of individuals only and do not allow for possible conflicts of interest within the household between husbands and wives. Husbands and wives may have different interests in savings and wealth accumulation that must be resolved through some household decision process. Because wives tend to be younger than their husbands and tend to have longer life expectancies, wives have a longer retirement period to finance. Therefore, wives may prefer to save more for retirement than do their husbands.

In this *Issue in Brief*, we describe a preliminary investigation that evaluates the potential usefulness of a household bargaining framework for the study of retirement savings behavior.

We use data from the Health and Retirement Study (HRS) to test a model in which characteristics of both spouses are expected to affect net worth. We then add variables suggested by the bargaining model. We explore the importance of bargaining in marriages of older couples by examining the influence of factors such as relative control over current income, relative age, and relative education, all of which tend to be higher among husbands in the HRS cohort. To the extent that wives are relatively higher on

these characteristics, we expect that they will have more bargaining power, and we expect such households to have higher net worth. In support of the bargaining model, we find some evidence that low relative education of wives is associated with low net worth. If future research finds further support for this framework, policies should be considered that influence the balance of decision-making power in households with the goal of increasing retirement savings and perhaps age at retirement.

The Data

The Health and Retirement Study (HRS) is a longitudinal, nationally representative study of older Americans. This survey began in 1992 with an initial cohort of 12,652 individuals from 7,702 households, with at least one household member aged 51 to 61 in 1992. We included married and living-together opposite-sex couples in which the man is aged 45 to 70 and the woman is aged 40 to 65, which reduces the sample by 225. The HRS data provide detailed wealth information that allows us to calculate net worth.

Summary of Major Findings
Characteristics of Husbands and Wives that Affect Net Worth

- Wife's education has a strong positive effect on household net worth. Her education may affect net worth through her own earnings, household production, or through a positive effect of her education on her husband's earnings.

- Households with non-white husbands have lower net worth than similar white households.
- Increasing age is associated with net worth up to a peak at around 61-62 for husbands and 58-60 for wives. After these ages, we begin to see a gradual decrease in net worth that is consistent with a retirement process: net worth accumulation slows down as couples transition into spending retirement savings.

- A greater number of children is associated with lower net worth.

- Using both husband and wife characteristics to predict household net worth results in explaining more of the variation in net worth across households than using only husband's characteristics.

Bargaining Power and Net Worth

- Age difference between husbands and wives is not a significant predictor of net worth after accounting for the variables evaluated above.

- The effect of a difference in education is significant only when the husband has eight or more years of education more than his wife. These households have significantly less net worth, even when we account for direct effect of wife's education noted above.

- Wife's current share of the current household earnings has a significant negative effect on net worth. However, current earnings may not be a reliable measure of long-term control over resources and thus over household decisions.

Conclusion

We find that characteristics of both spouses are important predictors of net worth for married couples. Models of net worth that exclude the characteristics of the wife, or of either spouse, ignore significant determinants of the total resources and savings behavior of households.

The results of our preliminary evaluation of a bargaining model of retirement and saving, which includes indicators of the relative control over resources of husbands and wives, finds only limited evidence that the wife's long-run relative power over household decisions is positively associated with net worth. Households in which the husband has substantially more education than his wife have significantly lower net worth, as a bargaining model would predict. Spousal difference in age has no effect on net worth, and the wife's share of current earnings is associated with lower net worth.

Current income as a measure of control over decisions is problematic, though, and a longer-run measure of total resources would be preferred. Construction of a better measure of permanent income, such as an estimate of lifetime earnings constructed from Social Security records, and the wife's share of that income, is a high priority for future research. Inclusion of such measures would allow more conclusive tests of the influence of household bargaining on net worth.

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