

Complementarity in Couples' Retirement: The Effect of Mandatory Employment Extension

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Abstract

Elderly population have grown so fast that most of developed countries required to alter pension starting ages and elderly employment incentives to cope with exploding pension expenses and shrinking working population. While these policies may affect their target individuals in a straightforward way, it is natural to question if an extension of one's retirement may substitute employment of their spouses. Several suggestive evidences have shown elderly couples may retire simultaneously, however, it has been unclear if the observed positive correlation sustains in response to some policy change. Since couple may decide their retirement jointly, simultaneity bias may have flipped the sign from negative relation to positive correlation.

This paper demonstrates the complementarity in elderly couples' retirement in response to some policy changes exists. Also we show the degree of complementarity is larger than what we observe in a simple correlation between couples' expectation in retirement. When husbands expect to retire one year later in response to a policy change in "employ-ability", their wives expect to delay their retirement one year too for those who have not retired yet in 50s. We exploit a typical feature of Japanese labor market: mandatory employment up to a certain age. The Japanese government extended its mandatory employment from 60 to 63, 64 and 65 for those who have born in 1946 and later. We see this variation in "employ-ability" of elderly workers for husbands affect husbands' retirement expectation while it should not directly affect their spouses' retirement expectations. This complementarity implies these retirement extension policies may have spillover effects across elderly couples' retirement decisions, and the policy effects may be enhanced by joint decision makings rather than being diminished.

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¹Latest version can be found in