

## Labor market prospects of older workers - International Conference

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### **New Evidence on Pension Incentives and the Retirement Decisions of Couples**

Kadir Atalay (University of Sydney)

#### Abstract:

Recent reforms to social security in many countries have sought to encourage individuals to participate in the labor market longer. Given the family context in which labour supply decisions are made, social security reforms have potentially important spill-over effects on the labour market activity of spouses of targeted individuals. This paper presents empirical evidence of the influence of a spouse's pension incentives on the retirement decision of the other spouse. We study the 1993 Age Pension reform in Australia, which increased the eligibility age for Age Pension benefit payments for women. This exogenous change in women's retirement incentives provides a unique experiment for the study of spill-over effects. Using this source of variation, we find that the increase in the pension eligibility age for women (i) is associated with an increase in the labor force participation of married women, (ii) leads to an increase in the labor force participation of men married to women in the affected cohorts, and (iii) has an insignificant negative effect on the probability of those husbands receiving disability pensions. These behavioral responses are explained by a combination of life-cycle wealth effects and shared leisure preferences.

(Joint work with Garry F. Barrett.)