

Marriage, money and retirement

Hubert Frenken

Does high personal or family income encourage early retirement? A number of studies in Canada and the United States have concluded that the major consideration in an early retirement decision is the perceived adequacy of income by the retiree. Other determinants such as health, workplace interaction, family ties and the labour market activity of one's spouse are also mentioned, but given less importance. [\(1\)](#)

Evidence presented in this article suggests that having a spouse participating in the labour force may be a more important element than previously thought. In fact, it may be more critical to a retirement decision than income level. The analysis, which uses 1988 aggregated tax data, is limited to men aged 55 to 64 and focuses on the impact that marriage and spousal income have on the incidence of early retirement. [\(2\)](#) Of the one million men in this age group who filed tax returns for 1988, 56% were married and had a tax-filing spouse, 27% were married to non-filers and 17% were unmarried (widowed, separated, divorced or never married). [\(3\)](#)

Observations

It seems reasonable to assume that, on average, men who have a spouse with significant income will be in a better financial position to retire before age 65 than men without such a spouse. The contribution made by their wives to family income, and possible family savings, might allow these men to retire and apply for pension benefits sooner than other men this age. [\(4\)](#)

However, the results of the analysis show that, for men aged 55 to 64, having a spouse with income sufficient to warrant the filing of a tax return for 1988 did not increase their likelihood of receiving pension income. [\(5\)](#) In fact, the opposite was the case. Only 34% of men aged 55 to 64 with a tax-filing spouse reported income from pension plans (both public and private), while 40% of men whose wives did not file a return, and 37% of the unmarried men reported pension income. On the other hand, 83% of men in this age group who were married to a tax-filing spouse reported income from employment (either paid work or self-employment), while 77% of those married to a non-filer and 65% of the unmarried men

did so. [\(6\)](#) It appears, then, that 55 to 64 year-old men who have a wife with sufficient income to require the filing of a tax return are more likely to be employed, and less likely to receive pension benefits than men who do not have such a spouse. In other words, men with tax-filing spouses seem more apt to delay retirement than other men.

Can this situation be attributed to lower income levels? Do married men whose wives file tax returns have lower income on average than the other two groups of men? No, just the opposite. Men aged 55 to 64, who were married to tax-filing spouses, not only benefited from the earnings contributed to family income by their wives, but also on average had personal incomes higher than those of men married to non-filers or not married at all. The incomes of the latter two groups averaged \$33,600 and \$24,500 respectively. In comparison, the personal incomes of 55 to 64 year-old men with tax-filing spouses averaged \$37,400 and their family incomes averaged \$53,900 ([Table 1](#)).



Table 1 Male taxfilers aged 55 to 64 by marital status and income, 1988

Source: Small Area and Administrative Data Division

Men with tax-filing spouses not only have higher than average incomes, their pension benefits feature less prominently in their total income. The combined income of the one million Canadian men aged 55 to 64 who filed a tax return for 1988 was about \$36 billion that year. The largest share of that total (70%) came from employment, while 14% came from various pension programs and the remainder (16%) from other sources, such as investments and rental property. However, pension benefits accounted for just 12% of the income of married men whose wives filed tax returns, compared with 17% for married men whose wives did not file a return and 15% for unmarried men. Conversely, the percentage of income derived from employment was higher for those who had a tax-filing spouse (71%) than for the other two groups (69% and 65% respectively).



Chart Sources of income of male taxfilers aged 60 to 64, 1988.

Source: Small Area and Administrative Data Division

Note: "Other income" includes unemployment insurance benefits, investment and rental income and other miscellaneous income, but excludes capital gains.

Conclusion

It appears that men who have spouses with an income high enough to warrant the filing of a tax return are less likely to opt for early retirement than other men. This is the case despite the fact that these men tend to have higher personal as well as family incomes than married men whose wives do not file tax returns, or men who are not married at all.

This observation may indicate that income does not play as prominent a role in retirement decision-making as previously thought. Family considerations, especially the retirement intentions of one's spouse, may be the critical element. There is ample evidence that women's savings for retirement lag behind those of men, and many wives do not have the same freedom to retire early with pensions as generous as those of their husbands. Also, on average, wives are younger than their husbands and may have to wait longer than their husbands for pension eligibility. Thus many men, whose wives are working, may be reluctant to terminate employment, only to find themselves at home alone. In such cases, couples may decide to retire jointly, at a date later than initially planned by the husband. [\(7\)](#)

This limited study suggests that the tax data used here could be subjected to much more detailed investigation. Multivariate analysis might provide answers to a number of questions raised by the observations noted in this article. For example, is there an income threshold at which spousal earnings become a determining factor in the decision to retire? Do retired 55 to 64 year-old men exhibit personal characteristics that are significantly different from those of other men this age? Are these characteristics different from those of 55 to 64 year-old retired women?

Notes

Note 1

Having adequate and accessible income is cited as the dominant factor in the retirement decision, although it is certainly not the only one. It must be remembered that what may seem adequate to one person may not necessarily be so to another. Also, the level of pre-retirement income may play an important role in the individual's perception of what constitutes adequate pension benefits. See [B.D. McPherson](#) (1983); [M.D. Packard and V.P. Reno](#) (1989) and also [A.L. Gustman and O.S. Mitchell](#) (1990).

Note 2

Early retirement is generally defined as retirement before age 65. The criteria used in this article to identify people that are retired are based on the sources of income of the individuals examined. It is assumed that the likelihood of being retired rises as the share of total income obtained from pensions

increases (coupled with a correspondingly declining share obtained from employment). For a description of both the validity and limitations of this method, and for a detailed review of the trend to early retirement in the last twenty years, see [H. Frenken](#) (Autumn 1991).

Note 3

The aggregated tax data used in this study are derived from Statistics Canada's T1 family file. The T1 family file, an expansion of the personal income tax file, imputes records for part of the non-filing public, particularly spouses and children. It also permits the calculation of family income by combining incomes reported on tax returns filed by husbands, wives and children living at home. Information on the T1 family file can be obtained from the Small Area and Administrative Data Division of Statistics Canada by calling (613) 951-9720.

In this study, only spousal income was considered in determining "family" income, and total income consists of the taxfilers' assessed income less capital gains, plus child and sales tax credits. The analysis was restricted to men aged 55 to 64, since they continue to have larger pension accruals than women and since a significant percentage of women in this age group do not file tax returns. See [D. Galarneau](#) (Autumn 1991).

Note 4

There is a wide range of opportunities to save for retirement, many with tax assistance. See [H. Frenken](#) (Autumn 1991) for a detailed analysis on how participation and savings in tax-assisted pension programs have grown in the last three decades and how benefit and early retirement conditions have improved.

Note 5

Some spouses file tax returns even though they have little or no income. They may file to receive certain grants and allowances, such as federal child and sales tax credits and provincial tax credits. Child tax credits must be claimed by the parent to whom family allowance benefits are paid (usually the mother), while the other credits can be claimed by either spouse (not both). However, few wives of 55 to 64 year-old men would be entitled to child tax credits and generally spouses with the highest incomes (usually the husbands) claim the other credits. Therefore, it is safe to assume that, with few exceptions, spouses of 55 to 64 year-old men who file tax returns have taxable income or, at least, income from which tax was deducted at source.

Note 6

The sum of the percentage of men receiving pension income combined with the percentage earning employment income may exceed 100%, since many taxfilers receive income from both pensions and employment (as well as other sources) simultaneously. See [H. Frenken](#) (Autumn 1991).

Note 7

Some evidence which substantiates this speculation was found by [S. LaRock](#) in a study on retirement patterns in the United States. The results were published in an article in *Employee benefit plan review* (1987).

References

- Frenken, H. "[The pension carrot: incentives to early retirement.](#)" *Perspectives on labour and income*, Quarterly, Catalogue 75-001E, Autumn 1991. Ottawa: Statistics Canada, pp. 18-27.
 - Galarneau, D. "[Women approaching retirement.](#)" *Perspectives on labour and income*, Quarterly, Catalogue 75-001E, Autumn 1991. Ottawa: Statistics Canada, pp. 28-39.
 - Gustman, A.L. and O.S. Mitchell. *Pensions and labor market activity: behavior and data requirements*. National Bureau of Economic Research, Working paper series no. 3331, Cambridge, MA, April 1990, pp. 14-18.
 - LaRock, S. "Retirement patterns 1978-86: ADEA protection has little effect on employee decision." *Employee benefit plan review*, Chicago: C.D. Spencer and Associates, August 1987, pp. 30-34.
 - McPherson, B.D. *Aging as a social process: an introduction to individual and population aging*. Toronto: Butterworths, 1983, pp. 368-387.
 - Packard, M.D. and V.P. Reno. "A look at very early retirees." *Social security bulletin*, Washington: U.S. Department of Health and Human Services. March 1989, pp. 22-29.
-

Author

Hubert Frenken is with the Labour and Household Surveys Analysis Division of Statistics Canada.

Source

Perspectives on Labour and Income, Winter 1991, Vol. 3, No. 4 (Statistics Canada, Catalogue 75-001E). This is the fourth of eight articles in the issue.

[HIGHLIGHTS](#)

[TABLE OF CONTENTS](#)

[SUBJECT INDEX](#)

[AUTHOR INDEX](#)

[FRANÇAIS](#)

[HELP](#)



Table 1

Male taxfilers aged 55 to 64 by marital status and income, 1988

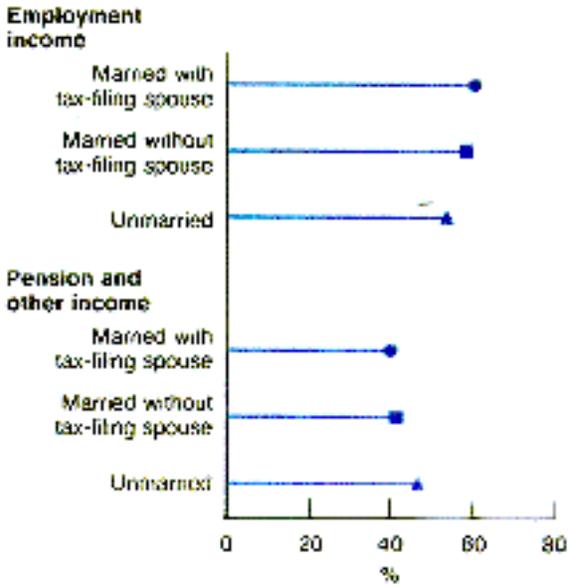
	All men	Married with tax- filing spouse	Married without tax- filing spouse	Unmarried
Number of filers ('000)	1,062	594	287	182
% of filers with pension income	36	34	40	37
% of filers with employment income	78	83	77	65
Average personal income (\$)	34,200	37,400	33,600	24,500
Average family income* (\$)	43,400	53,900	33,600	24,500

Source: Small Area and Administrative Data Division

** Family income is the combined income of husbands and wives (where applicable).*

Sources of income of male taxfilers aged 60 to 64, 1988

The proportion of income derived from employment was highest among men with tax-filing wives.



Source: Small Area and Administrative Data Division

Note: "Other income" includes unemployment insurance benefits, investment and rental income and other miscellaneous income, but excludes capital gains.