

Revisiting the Retirement-Consumption Puzzle: Joint Retirement Decisions of Married Couples and their Effect on Food Expenditure¹

Ayal Kimhi and Beata Itin-Shwartz

The Hebrew University of Jerusalem

Abstract

In this paper, we study the well-documented retirement-consumption puzzle, the decline in consumption after retirement, with a focus on food expenditures, using SHARE survey data for Israel. We first examine whether husband's and wife's retirement decisions are interrelated, and whether they are positively related due to leisure complementarity or negatively related due to liquidity constraints. We subsequently study the effects of those retirement decisions on food expenditures. To deal with the endogeneity of retirement choices, we use the legal retirement date of each spouse as an instrument for actual retirement. The 2004 retirement age reform, which was applied gradually by an individual's month of birth, provides substantial heterogeneity in the legal retirement date for individuals in our sample. We estimate both an IV specification and a regression discontinuity design. For dual income households, we found using the IV specification that the likelihood of both male and female individuals to retire increases with the retirement of their spouse, supporting the leisure complementarity hypothesis. However, in the regression discontinuity analysis, the cross effect disappeared entirely. We also found that the husband's retirement reduced expenditure on food, while the wife's retirement had no significant effect on food expenditure. In single income households the negative effect of the husband's retirement disappears. This may be due to changing roles of husbands in home production after retirement in dual income households, but not in single income households. We found a negative effect of retirement of single males on food expenditure but not of retirement of single females. We conclude that the effect of retirement on food expenditures varies by gender and depends on household demographics. A plausible explanation of our results is that the decline in food expenditures after retirement is mainly due to increased home production of meals, thereby reducing the monetary cost of meals.

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