

Who Determines When You Retire? Peer Effects and Retirement

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Policy Abstract

We study the factors that affect the choice of retirement date for a large sample of retirement-eligible Oregon state employees between 1992 and 2003. Given the complexities of the Oregon Public Employees Retirement System, we hypothesize that individuals will infer their optimal retirement behavior, in part, from the retirement behavior of their coworkers. Indeed, controlling for individual retirement incentives and characteristics, we find that individuals are more likely to retire in months when more of their coworkers retire. This result is robust to alternative model specifications; and leads us to conclude that it reflects peer effects in the choice of retirement date. With respect to the possible welfare consequences of peer effects, our preliminary evidence is mixed, but points to modest costs and benefits. Interestingly, we find little evidence of peer effects amongst employees whose salaries are in the bottom 25th percentile, where financial literacy is likely to be the lowest.

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