

## **Who Determines When You Retire? Peer Effects and Retirement**

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An emerging literature finds that consumers have a difficult time making complex financial decisions, often relying on default provisions or other decision-making short-cuts, rather than figuring out the financial complexities. In this study, we focus on a complex retirement benefit program, and how retirement-eligible employees decide when to retire under the plan. Given the financial complexity of the plan, we test the hypothesis that individuals decide when to retire, at least in part, by observing the retirement decisions of their coworkers.

We conduct our analysis using comprehensive, new data on the characteristics and retirement decisions of virtually all non-Federal government employees in the State of Oregon. Our data cover 71,923 retirement-eligible employees at 672 employers over a 12 year period. The Oregon Public Employees Retirement System (PERS) is a complex retirement plan, potentially leading individuals to infer their optimal retirement dates from the retirement dates of their coworkers. Interestingly, some of the complexity inherent in the PERS system arises from the presence of significant short-run fluctuations in retirement benefits across individuals and through time; variation which we exploit when testing for peer effects.

After controlling for individual retirement incentives and characteristics, the main finding of the study is that individual decisions about when to retire are strongly correlated with the retirement timing decisions of peers. This correlation is economically significant and robust to alternative model specifications, leading us to conclude that peer effects are an important determinant of individual retirement dates. 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.

Given the relative irreversibility of the retirement decision, peer effects have the potential to increase or decrease retiree welfare. For example, mimicking the retirement decisions of coworkers will tend to increase retiree welfare when coworkers face similar retirement incentive or coworkers successfully educate individuals about their own retirement incentives. Alternatively, mimicking the retirement decisions of coworkers will tend to decrease retiree welfare when coworkers fail to recognize when they face different retirement benefits. Our initial attempts to measure the welfare implications of peer effects suggest that welfare costs are likely to be modest.

Other findings from the analysis are largely consistent with prior research on retirement behavior. For example, we find that the timing of retirement responds both to the level of current benefits, as well as to a forward-looking measure comparing current and future benefits. Individual retirement behavior also responds to the short-term retirement incentives that arise periodically within the PERS retirement system.

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The full working paper is available on our website [www.nber.org/programs/ag/rrc/books&papers.html](http://www.nber.org/programs/ag/rrc/books&papers.html) as paper NB08-13.

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