

Social Security and the Timing of Divorce

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The Social Security system contains many features designed to provide an adequate retirement income for families, rather than just individual retired workers. The most important of these features is the spousal benefit, under which secondary earners are entitled to receive a monthly payment of 50 percent of their spouse's monthly Social Security benefit. Secondary earners may also elect to receive benefits based on their own earnings records if they are higher than the spousal benefit; historically, however, the spousal benefit provided a large source of benefits for non-working spouses in one-earner couples. Of course, the existence of a spousal benefit raises the questions about what happens in the event of divorce. Currently, an individual may not claim a spousal benefit based on an ex-spouse's earnings record if the marriage lasted less than 10 years. If the marriage lasted 10 years or more, however, the divorced spouse is entitled to the full spousal benefit in retirement.

The spousal benefit and divorce rules were designed during the early years of the program, when one-earner couples were most common, and when divorce rates were lower. Now, with many more two-earner families, there is criticism of the spousal benefit on equity grounds, as one-earner couples receive a higher rate of return from Social Security compared to two-earner couples. The existence of the spousal benefit also has efficiency considerations from a labor supply point-of-view, as the Social Security contributions of secondary earners only increase their benefits, once they become larger than the spousal benefit. Divorce rules have also been criticized on equity grounds, because of the huge difference in treatment of a 10-year marriage, as compared with a 9-year marriage.

In this paper, we focus on the behavioral implications of Social Security's divorce rules. For example, a one-earner couple married 9 years has a strong financial incentive to wait until the 10th year to divorce. Of course, these incentives only apply to couples in which the secondary earner intends to claim spousal benefits, rather than benefits based on their own earnings record. This gives us a control group for conducting the analysis. Is there a difference in divorce behavior (approaching the 10th year of marriage) between couples with a large discrepancy in earnings, who are likely to claim the spousal benefit, as compared with couples with substantial earnings from both spouses, who are not?

Using data from the Panel Study of Income Dynamics (PSID) Marital History File, we identify "vulnerable" individuals, who are likely to claim spousal benefits instead of benefits based on their own records. We then compare the divorce behavior of these individuals with that of a control group. We find that vulnerable couples are slightly more likely than non-vulnerable ones to delay divorce from year 9 to year 10. However, the difference is small and statistically insignificant. Therefore, we conclude that the divorce rules in Social Security do not have strong efficiency implications with regards to divorce incentives even for couples where the secondary spouse is more vulnerable to the potential loss in retirement benefits.

We attribute this finding to several possible factors. First, Social Security benefit computation is complex, and many individuals may not be aware of the divorce rules. Second, there is considerable evidence of myopia in retirement planning, so that young couples may not consider the implications of delaying divorce for their future Social Security benefits. Third, they are likely to value the earlier dissolution of their marriage more highly than the added retirement benefits far into the future. And fourth, they may have better information about their future earnings potential than is available in our data; or they may expect to remarry and receive spousal benefits from their future spouse's earnings record. Further research could shed some light on which of these explanations accounts for the insignificant behavioral response to divorce rules in Social Security.

The full working paper is available on our website, www.nber.org/programs/ag/rrc/books&papers.html as paper NB07-10 and as NBER Working Paper #13382.

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