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Efficiency in Household Decision Making: Evidence from the Retirement Savings of US Couples

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Key Findings and Policy Implications

This paper examines whether married couples maximize their retirement saving opportunities by prioritizing contributions to the spouse with the more generous employer matching provisions. It uses new data on the employer-sponsored retirement plans covering most eligible workers in the United States, linked to administrative tax records on the plan contributions of 1.3 million U.S. couples. The paper finds that:

- About 25 percent of couples fail to allocate their retirement saving contributions to the plan with the most generous match. That is, these couples could increase their retirement wealth without changing their consumption by simply reallocating existing contributions from the account of the spouse with a lower marginal match incentive to the account of the spouse with a higher marginal matching incentive.

- In some cases, the cost of this suboptimal decision is small. But among the couples who fail to allocate their contributions to the higher match plan, the average loss is $749 per year, or about 14 percent of the employee contributions made. Ten percent of these couples forgo over $1860 per year, or about 33 percent of their combined employee contributions.

Nearly two-thirds of U.S. civilian workers have access to an employer-sponsored retirement saving plan, and 86% of these plans offer an employer match. Match schedules vary substantially across employers, thus creating opportunities for married couples to increase the total employer contributions made by prioritizing contributions to the plan with the more generous match. This study shows that many couples fail to do this, and the forgone contributions can be substantial.

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