



# How does women's life satisfaction respond to retirement? A two-stage analysis<sup>☆</sup>



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## HIGHLIGHTS

- We find an overall positive effect of retirement on women's life satisfaction in Australia.
- We quantify the adjustment of life satisfaction to retirement as a two-stage process.
- Transition to retirement leads to an immediate increase in life satisfaction.
- The life satisfaction of female retirees decreases with retirement duration.
- Women's life satisfaction at all stages of their retirement life is higher than its pre-retirement level.

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## ABSTRACT

We quantify the adjustment of women's life satisfaction to retirement as a two-stage process. The transition to retirement leads to an immediate increase in women's life satisfaction. After becoming retired, their life satisfaction declines with the duration of retirement.

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## 1. Introduction

Retirement, as a significant change in lifestyle, may have an important influence on individual subjective well-being.<sup>1</sup> This issue is important under the background of worldwide prolonged life expectancy and increasing population ageing. To alleviate from the burgeoning financial burden on the sustainability of social security systems, many developed countries, including Australia, Canada, Denmark, the Netherlands, Germany, France, Spain, UK and the UK have already started or will start raising the statutory state pension eligibility ages with the intention to induce

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<sup>1</sup> The terms subjective well-being and life satisfaction are used exchangeably in this paper.

postponed retirement. The success of such policies in reducing government expenditures on social security programs partially depends on the potential well-being effect of delayed retirement. If postponed retirement leads to deteriorations in population well-being, the alleviation of government financial stress on pension expenditure will be accompanied by psychological costs.

Establishing the causality from retirement to subjective well-being is not easy, as the selection into retirement is not random. The instrumental variable estimation approach has been used to identify the causal effect of retirement on subjective well-being in a few studies. Exploiting the exogenous variations in retirement decisions induced by social security eligibility rules in the US, [Charles \(2004\)](#) finds that retirement improves subjective well-being once the endogeneity of retirement is accounted for. Using age specific retirement incentive provided by Canada's income security system as instrument for retirement behaviour, [Latif \(2011\)](#) finds that retirement has significant positive impact on psychological well-being. Furthermore, [Horner \(2014\)](#) finds that retirement, exogenously induced by the cross-country differences in social security regimes, leads to a large and positive improvement in subjective well-being in Europe.

Using data from the longitudinal Household, Income and Labour Dynamics in Australia (HILDA) Survey, this paper provides the Australian evidence on the causal impact of retirement on older women's subjective well-being. Exploiting the exogenous variations in retirement decisions induced by the age eligibility rules for the publicly funded Australian Age Pension, we find evidence of a strong and positive causal effect of retirement on women's life satisfaction. We further contribute to the literature by disentangling the positive and causal consequence of retirement for women's subjective well-being into two sequential causal effects. The transition from labour force participation to retirement is found to lead to a significant and permanent increase in life satisfaction. After becoming retired, the life satisfaction of older women decreases gradually with the duration of retirement, indicating well-being adaptation to retirement among female retirees.

## 2. Age pension in Australia

The Australian Age Pension is publicly funded ([Ryan and Whelan, 2013](#); [Atalay and Barrett, 2015](#)). About 70% of the elderly population receive some Age Pension, and of those recipients, approximately two thirds receive the full amount of Age Pension, which in 2013 was AU\$751.70 per fortnight for individuals and AU\$1333.20 for couples. The eligibility for the accessing Age Pension is subject to three qualifying conditions. These are that: (i) one has to have been an Australian resident for ten years; (ii) one has to pass an income and assets means test; and (iii) one has to have reached a certain age threshold. Here we focus on the eligibility ages for accessing the publicly funded Age Pension, as this is the age threshold we will use as our instrument for estimation.

The Age Pension qualifying age was 65 for males and 60 for females from 1910 to 1995. From July 1995, the eligibility age for females started increasing at a rate of six months every two years, which reaches 65 in January 2014, the same as that for Australian men. As age eligibility thresholds cannot affect directly the life satisfaction of older women, but can influence indirectly through the channel of their retirement decisions, we use the age eligibility for the Age Pension as the instrument variable for retirement to identify the causal effect of retirement on the subjective well-being of Australian women.

**Table 1**  
Summary statistics.

|                                      | Retired          | Not retired      |
|--------------------------------------|------------------|------------------|
| Satisfaction with life (range: 0–10) | 8.18<br>(1.62)   | 7.99<br>(1.39)   |
| Age                                  | 64.54<br>(6.34)  | 57.39<br>(4.85)  |
| Age eligible for Age Pension (%)     | 59.64<br>(0.49)  | 12.11<br>(0.33)  |
| Marital status:                      |                  |                  |
| Married (%)                          | 68.26<br>(0.47)  | 69.14<br>(0.46)  |
| Separated (%)                        | 2.81<br>(0.17)   | 4.24<br>(0.20)   |
| Divorced (%)                         | 10.79<br>(0.31)  | 15.08<br>(0.36)  |
| Widowed (%)                          | 15.12<br>(0.36)  | 6.26<br>(0.24)   |
| Never married (%)                    | 3.02<br>(0.17)   | 5.28<br>(0.22)   |
| Unemployed in the last year (%)      | 0.01<br>(0.09)   | 0.02<br>(0.12)   |
| SF-36 physical health (range: 0–100) | 62.64<br>(25.84) | 76.31<br>(19.61) |
| Observations                         | 11,347           | 9,866            |

Note: Standard deviations are reported in parenthesis.

## 3. Data and summary statistics

We use data from the longitudinal Household, Income and Labour Dynamics in Australia (HILDA) Survey. We use the first 12 waves (2001–2012) of the unconfidentialised version of HILDA, which has information on the exact date of birth and the date of survey for each individual. With this information, we can accurately identify whether one has attained the pension qualifying age at the interview date. In this study, we focus on women aged 51–75 who meet the residency condition for the Age Pension (namely, having been an Australian resident for at least ten years). After dropping observations with incomplete information on variables of interest, our final sample consists of 21,213 observations for 3,954 older women.

HILDA respondents were asked to pick a number between 0 and 10 to indicate their satisfaction with their life. The more satisfied they were, the higher the number they should pick. Following [Charles \(2004\)](#) and [Mavromaras and Zhu \(2013\)](#), a woman is considered to be retired if she is not in the labour force. In this analysis, we also control for older women's physical health, in addition to other individual characteristics such as age, marital status and unemployment experience.<sup>2</sup> In the HILDA survey, respondents were asked SF-36 questions about their health. Out of the 36 questions asked, 22 fall in the category of physical health, which are grouped into four scales that measure different aspects of physical health (physical functioning, role-physical, bodily pain and general health). These four scales are standardized to be between 0 and 100 in HILDA, with higher scores indicating better health. We generate an overall physical health measure for each observation by calculating an average of the four physical health scales.

The summary statistics presented in [Table 1](#) show that about 53% ( $= \frac{11,347}{11,347+9,866}$ ) of women are retired in our sample. Satisfaction with life is slightly higher among retired women than among non-retired women. As expected, female retirees are older than non-retirees and they are more likely to be age eligible for the Age Pension. Furthermore, female retirees also have worse physical health than their non-retired counterparts.

<sup>2</sup> We thank the anonymous referee for suggesting controlling for physical health and unemployment experience.

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