DIVORCE LAW REFORM: European evidence of the impact on married couples' savings behaviour

More liberal divorce laws cause households to put more effort into saving for retirement. That is the one of the findings of research by **Luca Stella** and **Christoph Weiss**, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015.

The risk of divorce can seriously harm a couple's long-run retirement plans. Many baby boomers are already approaching retirement with very little cash and virtually no assets other than their houses, and divorcees may find it incredibly difficult to prepare when they retire. This raises the question of whether easier divorce means that couples start saving more to protect themselves from this possibility.

The study looks at the wave of divorce reforms in Europe and how they moved from 'fault divorce' to 'no-fault divorce'. Analysing data on 11 countries from the Survey of Health, Ageing and Retirement in Europe, it finds that the divorce reforms caused married couples to focus on building up 20% more of their total wealth, with their financial wealth rising by roughly 50% and their housing wealth rising by around 20%. The authors comment:

> 'Our results show that the switch from mutual agreement to unilateral divorce causes individuals save more as a response to the increase in the probability of marital breakup.'

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This paper investigates the effect of an increase in the risk of divorce on the retirement security of married couples in Europe. The authors find that a one standard deviation increase in the exposure to liberal divorce laws induces married couples to accumulate more assets for retirement. The magnitude of the effects is large: a one standard deviation increases wealth accumulation by approximately 20% for total wealth, 53% for financial wealth and 18% for housing wealth.

The risk of family disruption may have potential effects on several important dimensions related to household wellbeing during retirement. This relationship has also generated a great deal of attention from policy-makers because it lies at the heart of the public debate over the financial security of retirees.

There are increasing concerns that a large cohort of baby boomers is approaching retirement with low levels of financial wealth and virtually no assets other than their homes. This is a particular concern for divorced individuals and for women who tend to live longer than men, have less attachment to labour force, earn less and have lower levels of financial literacy (Lusardi and Mitchell, 2007).

From a theoretical perspective, the economic literature suggests that marriage and divorce affect the incentives to save. But researchers remain puzzled about the potential mechanisms underlying this relationship. There are two main competing explanations through which an increase in the risk of marital breakup may affect household assets accumulation.

On the one hand, Cubeddu and Rios-Rull (1997) show that increases in marital dissolution encourage household saving. They attribute this rise in saving to standard precautionary motives: because divorce is costly and households cannot hedge themselves against this negative shock, a greater risk of marital dissolution induces married couples to save more.

On the other hand, Mazzocco et al (2013) stress that an increase in the probability of divorce adversely affects saving while married because asset division laws impose a division of the marital property among the couple, thereby creating incentives for spouses to increase current consumption.

To achieve identification, this paper takes advantage of an exogenous increase in the risk of divorce provided by the wave of liberal divorce reforms that occurred in Europe. Across countries and over time, these laws made divorce less difficult: the legal regime switched from 'fault divorce' to 'no-fault divorce', and in most cases, the grounds for divorce shifted from a mutual agreement to unilateral choice.

Overall, the results indicate that the switch from mutual agreement to unilateral divorce explains a significant accumulation of wealth of married couples around retirement – which offers support to the standard precautionary motive for saving, that is, the notion that individuals save more as a response to the increase in the probability of marital breakup.

The primary data used in this paper are drawn from the Survey of Health, Ageing and Retirement in Europe (SHARE). The main advantage of this data source is related to the representativeness of the sample of elderly people in Europe because this survey is constructed to ensure the comparability of the analysis across different countries.

Specifically, the study uses data from the third wave, which was collected in 2008/09 and is known as SHARELIFE, and focuses on many dimensions of the life histories of respondents. This wave is particularly suitable for this investigation because it provides uniquely detailed data on the individuals' accommodation, working and marital histories.

This paper presents evidence from 11 countries for which the researchers were able to collect information on unilateral divorce laws. These countries represent the various regions of continental Europe, ranging from Scandinavia (Sweden and Denmark) through Central Europe (Austria, Belgium, France, Germany, Switzerland and the Netherlands) and the Mediterranean countries (Italy, Spain and Greece).

ENDS

'The Effects of Divorce Laws on Household Retirement Security'
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