For Better or Worse: Financial Decision-making Behavior of Married Couples

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Abstract

This study constructs a theoretical model of household bargaining to explain the financial decision-making behavior of married couples. We empirically test our model using data from the 2000 Health and Retirement Study (HRS). The HRS is unique among national data sets in that it identifies the primary decision-maker and the more financially knowledgeable spouse. It also includes detailed information on the individual retirement accounts (IRAs) of both the husband and the wife. Using this information, we estimate a series of regression models to investigate how decision making and bargaining power affect whether a couple owns an IRA, how much they invest in it, and how they allocate it between stocks and bonds. In general, the results show that, when the husband has more decision-making power than the wife or the decision-making power is about equal, the couple is more likely to own an IRA and to have a larger amount invested in an IRA. Furthermore, the account is more likely to be allocated to mostly stocks when the husband is the financially knowledgeable spouse. Traditional measures of bargaining power also were significant in all of our models, even after we controlled for decision making. The findings have important implications for educators and financial practitioners and provide insight into the importance of having both the husband and wife actively involved in making financial decisions. The working paper is available at http://www.networksfinancialinstitute.org.

References

Lyons, A. C., U. Neelakantan, A. Fava, & E. Scherpf. (2007). For better or worse: Financial decision-making behavior of married couples. (Working Paper 2007-WP-14). Indianapolis, IN: Networks Financial Institute, Indiana State University.

Endnotes

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