

Do Cohabitors Work and Earn like Married or Single Individuals?

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Background and Research Question

Married men earn more than single men, i.e. they display a “marriage premium” (Korenman and Neumark 1991, 1992, Loh 1996). The two main theories put forth to explain this empirical evidence are specialization and selection. According to specialization theory (Becker 1981), each individual forming a household with his/her partner develops a comparative advantage in certain tasks. In most couples, men increase their time investments in the labor market, while women specialize in home production (Ginther, Sunstrom and Bjorklund 2008; Killewald and Gough 2013; Light 2004). Concurrently, selection theory suggests that married men’s wage premium might at least in part come from the fact that men higher (potential) earnings are more attractive on the marriage market and therefore are likely to marry (Ginther and Zavodny 2001).

For women, these theories have ambiguous predictions. Specialization in home production predicts a “marriage penalty” for women. However, intra-household specialization upon marriage in the United States may be dwindling (Light 2004) and most studies report a “motherhood penalty” rather than a “marriage penalty”, suggesting that specialization might become more salient with parenthood rather than at union formation (Glauber 2007; Killewald and Gough 2013). For example, the number of children accounts for a substantial part of earnings differences across women but not that much across men (Lundberg and Rose 2000; Loh 1996; Waldfogel 1997, 1998). The debate is still open on how selection into marriage works for women. For example, some women with higher earnings potential might forgo marriage or postpone it to find a better match and attain higher income prospects before marrying. This further increases their cost opportunities to remain in the labor force and outsource home production.

As an increasing share of population chooses to cohabit (permanently or extensively before marriage), it is reasonable to ask whether cohabiters behave more like married or more like single individuals when it comes to specialization and participation in the labor market. On the one hand, some studies report smaller male-female difference in hours of housework among cohabiters than among married couples (South and Spitze 1994) and less intrahousehold specialization (Daniel 1995,

Stratton 2002). On the other hand, others show similar amounts of time spent with children by married and cohabiting parents (Kalenkoski, Ribar and Stratton 2005). Moreover, an extensive literature notes the larger instability of unions versus marriages. The expectation of a shorter commitment may deter specialization and reduce gender differences in cohabiting unions (Bumpass and Sweet 1989; Willis and Michael 1994). Different rates of dissolution are also part of a more general narrative on how people who opt for cohabitation rather than marriage might have a different income selection mechanism (Avellar and Smock 2005; Lersch 2017; Ong and Wang 2015; Xie et al. 2013). Previous empirical works offer some preliminary support to weaker specialization and selection for cohabiting couples showing that marriage is associated with higher wages than cohabitation among men in the United States (Light 2004; Stratton 2002) and in European countries (Adserà and Chiswick 2007).

Against this backdrop, this paper's objective is to compare men's and women's changes in their individual and household income, as well as their labor market effort, upon entering unions, with particular attention to the differences between married and cohabiting couples. We expect cohabiters to be better off than singles because of household income pooling, but less so than married couples. Specifically, we expect married men to earn more than cohabiting men (less selection), while cohabiting women to work more hours than their married counterparts (less female specialization). The more likely presence of children in married households probably exacerbates this difference. We also expect important differences in the observed behaviors of cohabiters across countries, related to the prevalence of cohabitating unions and their stability because of the influence prevalence has on both selection into cohabitation and stability of the union (Liefbroer and Dourleijn 2006; Kiernan 2004; Svarer 2004).

Data and Methodology

This study employs the 1994-2001 waves of the European Community Household Panel (ECHP) that presents comparable longitudinal micro-level (person/households) data for households across fifteen European countries. The ECHP dataset includes observations from the German socioeconomic household panel (SOEP), from the household panel from Luxembourg (PSELL), and from the British household panel (BHPS) for those particular countries. Interviews in the ECHP were conducted simultaneously across all countries and data from national household panels were

structured to mimic the rest of the ECHP data to facilitate comparative analysis across major European countries.¹

Our sample includes men and women 20 to 50 years of age in all countries in ECHP except Sweden that does not have a full panel structure. We prefer not to include people beyond age 50 because large adjustment in the labor market are likely more difficult at that point in life. Individuals in our sample should be single or in their “observed” first union or marriage. We do not include widowed, divorced or separated individuals. Not surprisingly for the period of the mid-late 1990s, the Nordic countries show the highest prevalence of cohabitation, with 16.7% and 22.9% of all individuals in the sample in Finland and Denmark respectively. Similarly, the lowest percentages are found in the more traditional countries of Southern Europe such as Greece (1.4%), Italy (1.2%), Portugal (2.1%) and Spain (2.1%) or a highly Catholic country such as Ireland (2.2%). During the last two decades since the end of our sample prevalence has also rapidly increased in these countries.

We study differences in levels and changes in earnings (with and without controls for working hours) and household income across different marital status and subsequent marital transitions. All income measures are expressed in purchasing power parity (PPP) terms for comparison. Since ECHP includes only annual data for household composition, a shortcoming of the analysis is that we may miss very short (under one year) cohabitation/marriage spells. Further the month of entry into union or marriage is not known, just the year. In robustness analysis, we will use one and two-year lags in marital status to partially address this concern.

For the analyses we employ the following variables:

- Hours work (available for current survey year)
- Individual earnings measured with either 1) individual total net annual income from work² (from year before the survey) that includes both wage and salary earnings as well as self-employment income; or 2) current monthly wage earnings (current year). Each table specifies which is the measure we use.
- Individual’s own total net income (from year before the survey) that includes work and other such as transfers, capital, unemployment benefits.

¹ Some countries were not included in the first wave but were added later (Austria in wave 2, Finland in wave 3 and Sweden in wave 4).

² In each wave data are not available to control for the weeks worked per year or the hours worked per week in the year for which annual earnings are recorded. Income data for France and Finland are in gross terms instead of net. Results in the paper are robust to the exclusion of these countries from the sample.

- Total net household income (from year before the survey) and includes all income of members of the household (work earnings, capital income, transfers, etc.).
- Adult Equivalent net household income is calculated by weighting the sum of adults and children. We use three types of weights:
 - $AE = (1 + 0.7 * (\text{Adults} - 1) + 0.5 * (\# \text{Under} 14))$ (OECD scale)
 - $AE \text{ modified} = (1 + 0.5 * (\text{Adults} - 1) + 0.3 * (\# \text{Under} 14))$
 - Per Capita = #people household (Assumes no economies of scale nor age-specific differences in consumption)

The reason to transform household income into a weighted measure is that if we want to use family income as a measure of individual well-being, we need to make assumptions about within-family allocation of income. The measures developed by the literature to calculate Adult Equivalent Household Income assume couples share their needs-adjusted family income equally. Still income pooling is a controversial assumption with mixed support in data in developed settings.

We undertake two types of analysis: (1) analyze differences on hours of work and (2) on work earnings across marital status among working population both in levels (OLS) and in changes (fixed-effects) for marital status transitions for the whole population. In the OLS analysis to account for the presence of multiple observations per person errors are clustered by individual. The individuals fixed effect models exploit the panel dimension of the data to control for unobservables. To correct for price changes and other time specific influences, the models include time fixed effects for the year when individuals were interviewed (2000 is the reference).

We estimate the following models in the paper:

1) Log Levels: OLS and Individual Fixed Effects.

$$\text{Log } Y_{it} = \alpha + \beta_c C_{it} + \beta_m M_{it} + B \text{Age}_{it} + \sum C X_{it} + R_i + e_{it}$$

Y_{it} income measure, C_{it} cohabit, M_{it} married; X_{it} individual characteristics

2) Differences in log levels: OLS on changes in marital status (transitions).

$$\Delta \text{Log } Y_{it} = \beta_1 \Delta S C_{it} + \beta_2 \Delta S M_{it} + \beta_3 \Delta C M_{it} + B \Delta \text{Age}_{it} + \sum C \Delta X_{it} + \Delta e_{it}$$

The first model estimates the level differences across different marital status, while the second model estimates the immediate change in the earnings path resulting from marital status

changes from single to cohabit or married and from cohabit to married. In models of change, all the time constant control variables are dropped.

Estimates include the following set of variables. 1) *Marital Status* is measured by including two variables, one for those currently married and another for those in informal unions; those single and not cohabiting is the omitted category. 2) *Number of Children*. 3) *Education*. The completed schooling level or the enrollment status of the individual at the time of each interview is available. The educational categories are less than upper secondary, upper secondary (reference category) and at least some tertiary education. Unfortunately, a continuous measure of education, such as years of schooling, is not available. 4) *Years of Experience* (and its square). The survey reports the year when the individual worked for the first time. To create a more systematic and perhaps less error-prone measure of experience, information on completed levels of education is used to generate potential as follows: the age of the individual minus 14, 18 or 23 years depending on the highest level of schooling (i.e. age minus years of schooling minus six years). This measure of experience and its square are used in this study.³ 5) *Foreign Birth*. 6) *Years since Migration* (and its square). This variable is constructed from the year of arrival in the country of present residence. The square of years since migration is also included to reflect the nonlinear relation between earnings and duration in the destination. 7) *Geographic Area of Origin*. This variable distinguishes between those born within or outside the European Union. For Germany, the Netherlands, Greece, Finland, and Luxembourg this is the only information available on the foreign country of birth.

Table 1 presents descriptive statistics for the outcome variables employed in the paper by marital status. As expected, within each marital status, men have a higher income than women. The ordering of income for men by marital status starting from the lowest is single, followed by cohabitants and then married, while for women the highest earning category is cohabiting. As it expected (except for single individuals), household income is very similar for men and women within each marital status. Married and cohabiting men work closely to a full-time schedule on average, while women work fewer hours. The starkest difference is among within marriage where men work double than women. Cohabiting women work more hours than the other groups of women. Finally, Table 1 includes an important control in our models, namely the number of

³ Similar regressions were also computed using experience calculated as age minus the reported age at first job. (In cases where information was missing, the constructed measure of experience, described in the text, was used.) These two measures are highly correlated. The results do not vary with the measure of experience and are available from the authors by request.

children. As expected, single people do not have children, while married couples have more than cohabiting couples.

Preliminary Results

We have already run some preliminary analysis of the models specified in the previous section and we present some of them below. In Table 2 we show the level and change differences in household income weighted by the composition of the household. In this particular model the adult equivalent household income is calculated with the OECD scale described above. Estimates show that log total household income adult equivalent increases upon union, but not transitioning from cohabitation to marriage. Whereas it increases for both men and women, the increase is slightly larger for women. The increase in household income for those who move from being single into marriage is higher than transitioning to cohabitation. This difference is statistically significant.

To unveil the mechanism behind some of those changes, in Table 3 we show the estimated association between marital status change and hours worked to account. Generally speaking, level estimates show that men increase their work effort in terms of hours worked once entering a union (both marriage or cohabiting union), while women decrease hours worked when getting married compared to those single or cohabiting.

The second set of estimates presents the change in work hours associated with a change in marital status. Men increase their work hours both when entering marriage and cohabitation from being single, but their hours worked remain the same when going from cohabitation to marriage. Women do not change their work hours when entering a cohabitation (the estimate is negative but not significant), but they decrease their hours worked when getting married, regardless of whether they were cohabiting before.

Finally, we use work hours, to estimate in Table 4 to what extent differences in work earnings across marital status are explained by changes in work hours. Thus, we analyze difference in work income including or not hour controls. We find that there are no differences for men in terms of work earning, whether controlling for hours worked or not. Thus, men do not seem to be changing their efforts. We observe a reduction in work income for women when they get married, independent from their previous marital status, either single or cohabiting. This finding might we imply that among women, marriage signals something different than cohabitation alone. This decrease seems to be partially explained by a reduction of hours once we control for them in the models.

Additional analysis and conclusions:

In addition to the preliminary results presented here, we plan to analyze more in depth what drives the observed changes in income and look at differences in changes on individual income versus household income. First, we plan to analyze how the number of children changes in transitions to marriage or cohabitation and study how they can account for part of the observed changes in labor market attachment. Due to the impact of having children in the household on both current and past labor supply and work effort, this variable is expected to be associated with lower earnings for women and (slightly) higher earnings for men. As a result, we want to analyze changes in income differentials with and without controls for children.

Secondly, we are very interested in exploring the heterogeneity that the data avails us. We plan to explore cross-country differences in women's earnings while cohabitating or while married and why controlling hours of work close those gaps in some countries more than others: (1) more selection in countries with lower labor force participation (Southern Europe); (2) more "occupational discrimination" in some countries than others (3) differences on who is cohabiting depending on the overall country prevalence on cohabitation in the late 1990s.

First, we need to study with whom individuals were they living before transiting to different marital status to understand the household income conditions from where they depart and whether these varies drastically across countries in Europe (i.e. Southern Europe, more individuals live at home). In addition, some of the country differences may be traced to differential selection (especially by education) of who was cohabiting in each country in the mid-late 1990s when prevalence was very heterogenous across Europe. Further, differences on labor market characteristics (i.e. regulation of part-time across countries; maternal leave) as well as on the extent of "marriage penalty" on Tax system (i.e. Germany discouraged second earner during that period) may explain observed cross-country differences. Some of these regulations, such as for example ready access to part time work (especially for mothers), may explain also how results may changes significantly across countries whether we control or not for hours worked. Some preliminary analyses we have conducted seems to show this is the case.

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Table 1 – Summary Statistics of Income Dependent Variables and Selected Controls by Gender and Union Status

	Single		Cohabiting		Married	
	Women	Men	Women	Men	Women	Men
Log Work Net Income (t-1)	5.46 (4.34)	6.27 (4.19)	7.58 (3.48)	8.93 (2.31)	5.48 (4.43)	9.11 (2.28)
Log Total Individual Income (t-1)	6.73 (3.76)	7.29 (3.51)	8.85 (1.85)	9.47 (1.06)	6.75 (3.86)	9.55 (1.30)
Log Tot Household Income (t-1)	9.91 (0.78)	9.99 (0.77)	10.11 (0.55)	10.11 (0.53)	10.09 (0.64)	10.09 (0.63)
Log Total Adult Equivalent Household Income (t-1)	9.00 (0.78)	9.07 (0.77)	9.41 (0.61)	9.41 (0.59)	9.10 (0.68)	9.11 (0.67)
Hours Worked (t)	21.26 (20.22)	27.47 (22.04)	26.96 (18.30)	37.09 (17.73)	20.11 (19.40)	41.83 (15.92)
Number of Children (t)	0.09 (0.38)	0.003 (0.07)	0.52 (0.87)	0.47 (0.80)	1.67 (1.13)	1.65 (1.11)
Age (t)	27.01 (7.13)	27.45 (6.91)	28.82 (6.27)	30.64 (6.48)	37.82 (7.48)	39.02 (6.96)

Notes: Means, standard deviations are in parenthesis. Some income measures are available for the current time period and some for the year prior to data collection. Therefore, the marital status refers to the same time period as the income variables. Log work income includes wages, salary, and income for self-employment.

Table 2 – Estimated Effect of Marital Status Change in Log of Household Income per Adult Equivalent

	Log Total Household Income Adult Equivalent			
	Women		Men	
	OLS-Levels	Differences	OLS-Levels	Differences
Single to Married	0.21*** (0.01)	0.29*** (0.02)	0.13*** (0.01)	0.26*** (0.02)
Single to Cohabit	0.21*** (0.01)	0.15*** (0.02)	0.10*** (0.01)	0.08*** (0.02)
Cohabit to Married		0.02* (0.01)		0.01 (0.01)
Observations	214,706	167,234	213,397	165,385
R-squared	0.332	0.019	0.320	0.016

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: ECHP data. Controls for country, age (squared, third, and fourth power), number of children, education, student status, foreign-birth, non-European country of birth, years since migration (and its square), year of interview, number of children. Standard errors clustered by id.

Table 3A – Estimated Association of Marital Status Change and Hours Worked by Labor Market Participation - Women
Outcome: hours worked

	WOMEN					
	(1)	(2)	(3)	(4)	(5)	(6)
	No restrictions		Worked at t-1		Worked in both	
OLS-Levels	Differences	OLS-Levels	Differences	OLS-Levels	Differences	
Single to Married	-2.83*** (0.21)	-1.72*** (0.41)	-2.39*** (0.18)	-2.16*** (0.45)	-1.68*** (0.16)	-0.62*** (0.27)
Single to Cohabit	0.80*** (0.23)	0.31 (0.34)	0.09 (0.21)	-0.18 (0.34)	0.59*** (0.18)	-0.21 (0.24)
Cohabit to Married		-1.43*** (0.33)		-0.95*** (0.32)		-0.29 (0.20)
Observations	269,766	211,180	124,142	123,113	112,907	111,989
R-squared	0.200	0.066	0.116	0.061	0.133	0.024

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: ECHP data. Controls for country, age (squared, third, and fourth power), number of children, education, student status, foreign-birth, non-European country of birth, years since migration (and its square), year of interview, number of children. Standard errors clustered by id.

Table 3B – Estimated Association of Marital Status Change and Hours Worked by Labor Market Participation – Men
 Outcome: hours worked

	MEN					
	(1)	(2)	(3)	(4)	(5)	(6)
	No restrictions		Worked at t-1		Worked in both	
	OLS-Levels	Differences	OLS-Levels	Differences	OLS-Levels	Differences
Single to Married	7.59*** (0.20)	1.35*** (0.37)	2.07*** (0.16)	1.18*** (0.31)	0.98*** (0.15)	0.49** (0.24)
Single to Cohabit	4.41*** (0.22)	1.76*** (0.36)	0.71*** (0.20)	0.11 (0.30)	0.29 (0.18)	-0.12 (0.22)
Cohabit to Married		-0.27 (0.31)		0.24 (0.26)		-0.14 (0.20)
Observations	268,990	208,629	171,502	170,192	164,016	162,777
R-squared	0.272	0.053	0.097	0.040	0.057	0.011

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: ECHP data. Controls for country, age (squared, third, and fourth power), number of children, education, student status, foreign-birth, non-European country of birth, years since migration (and its square), year of interview, number of children. Standard errors clustered by id.

Table 4 – Estimated Effect of Marital Status Change in Log Work Income
 Work Income with and without Worked Hours

	Women				Men			
	OLS- Levels	Differences	OLS- Levels	Differences	OLS- Levels	Differences	OLS- Levels	Differences
Single to Married	-0.39*** (0.05)	-0.43*** (0.08)	-0.02 (0.03)	-0.34*** (0.08)	1.59*** (0.04)	0.02 (0.06)	0.97*** (0.03)	-0.02 (0.06)
Single to Cohabit	0.24*** (0.05)	-0.15** (0.06)	0.11*** (0.04)	-0.14** (0.06)	1.16*** (0.04)	0.01 (0.05)	0.78*** (0.03)	-0.02 (0.05)
Cohabit to Married		-0.41*** (0.07)		-0.34*** (0.07)		-0.14*** (0.04)		-0.14*** (0.04)
Hours Worked	No	No	0.14*** (0.00)	0.04*** (0.00)	No	No	0.08*** (0.00)	0.03*** (0.00)
Obs.	214,837	167,368	212,473	164,104	213,493	165,483	210,623	161,536
R-squared	0.242	0.023	0.553	0.069	0.330	0.024	0.489	0.054

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: ECHP data. Controls for country, age (squared, third, and fourth power), number of children, education, student status, foreign-birth, non-European country of birth, years since migration (and its square), year of interview, number of children. Standard errors clustered by id. The dependent variable is work net income, which includes wages, salary, and income from self-employment.