Measuring the well-being of older women: The transition from wife to widow

by Richard V. Burkhauser, Karen C. Holden, and Daniel A. Myers

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The old refrain “His problem ain’t so much what he don’t know, but what he does that just ain’t so” is an apt description of the public perception of poverty in old age. Thanks in large part to dramatic increases in social security benefits and in the incidence and size of private pension benefits, older Americans are now no more prone to suffer from inadequate income than are any other age groups.1 This increase in the relative well-being of the elderly is not equally distributed, however. Cross-sectional data show a persistent and dramatic difference in poverty rates between older couples and widows, suggesting that widowhood itself substantially increases the risk of being poor.2

But even this perception of reality held by more sophisticated observers of the elderly “ain’t quite so.”

A dynamic view of old-age poverty among women

We have found that cross-sectional comparisons of the income of married and widowed women overstate the importance of widowhood as the cause of differences in income between these two marital states.3 Longitudinal data from the Retirement History Study (RHS), developed by the Social Security Administration, which includes income information on women as both wives and widows, expose the deficiencies of the cross-sectional data. Interviews were held at two-year intervals, 1969–1979. For each year of the RHS, the poverty rates of those women who eventually became widowed during the study period were compared with the rates of those who remained married over the entire period. Not surprisingly, in any given year, on average, widows were worse off than those who remained married. But more to the point, in the years when married, these future widows were also poorer. Hence simple static comparisons of widows and nonwidows suffer from classic selectivity bias (poor wives are more likely than well-off wives to become widows) and will overstate the importance of widowhood as the cause of the difference in poverty rates.

However, the use of longitudinal data also has pitfalls, as demonstrated in Table 1. The table is based on a sample of couples in which the husband died before the last RHS survey year, 1979, thus providing at least one survey year of information on his widow. The sample is segmented by the survey year first widowed. The first row contains the poverty rates of women in their last year before becoming widows, between 1971 and 1979. The second row shows the poverty rate of these women in their first survey year of widowhood. (Row 3 is discussed below.) The fourth row shows their poverty rate in the second survey year as widows. The findings are both remarkable and misleading.

The pattern is one of dramatic increases in poverty in the first survey year of widowhood. Poverty rates increase from 270 to 450 percent over those recorded in the last year of marriage (compare row 2 to row 1). These rates then fall substantially in the next survey period (compare row 4 to row 2). This suggests that the initial transition from wife to widow is a perilous one, but one that, once traversed, leads to a period of declining poverty.

Unfortunately, such dramatic variations in well-being are in large part an artifact of the data. The RHS, like other major data sets, follows the procedure of the Current Population Surveys of the Census Bureau in collecting income data from current household members and ignoring the income of members who have moved or died before the date of the survey. For families whose composition changed during or after the income reference year, the income reported will not accurately reflect the true income position of current household members. Consider a woman who was surveyed in March 1986 and whose husband died in January of that year. She would be classified as a widow at the time of the survey and asked what income she received in 1985. Even though her husband was alive during the entire 1985 reference year, his income is not likely to be reported. Therefore the widow could be counted as poor in 1985, even though the income received by her husband and herself in the year was far above the official poverty threshold.

The collection of income information from only current household members affects measured poverty rates of widows in two ways. First, it misstates the stock of poor people
Igble

Poverty Rates of Widows before and after Widowhood

<table>
<thead>
<tr>
<th>Survey Year</th>
<th>First Survey Year Widowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Last year as couple</td>
<td>16.1%</td>
</tr>
<tr>
<td>2. First year as widow</td>
<td>50.7</td>
</tr>
<tr>
<td>3. First full year as widow</td>
<td>36.1</td>
</tr>
<tr>
<td>4. Second year as widow</td>
<td>30.0</td>
</tr>
</tbody>
</table>


Last survey year was 1979. Thus these widows were not interviewed after the first survey year of widowhood.

at a moment in time and overstates income differences between persons who are married in comparison to those who are widowed. Second, because data on the incomes of recently widowed households understate actual income of those households during the reference year, the movements into poverty associated with the death of the husband are overstated. Any attempt therefore to measure the importance of changes in marital status in moving women into and out of poverty will be confounded by this statistical artifact. Again, consider the hypothetical widow discussed above. After a year of measured poverty her reported income in the next survey period could rise, from, for example, a transfer of social security or pension to her name, even though the income actually available for her consumption needs falls. Although she was never actually in poverty, the widow appears to have escaped poverty between the first period of widowhood and the next survey.

This is precisely what occurs. Looking at unadjusted income data in the first reported year of widowhood, segmented by the month of death of the husband, one gets the implausible result that the longer a woman is married during the income reference year the more likely she is to be in poverty in that year.

Row 3 of Table 1 uses income information from the subset of women who were widowed for the entire income reference year to approximate the true poverty rates of the full sample of widows. The results suggest that the risk of poverty does increase for women as they move from wife to widow but that the rise, while substantial, is considerably smaller than shown in row 2. In addition, it can be inferred that the length of time spent in poverty by those women who actually fall into poverty is longer.

The importance of survivors’ benefits to the well-being of widows

The Retirement Equity Act of 1984 is the latest attempt by the federal government to encourage workers to choose a pension option that provides income to a spouse after the worker’s death. Such pension options are currently taken by only about three-tenths of all pension recipients. Called a joint-and-survivor pension, this option provides benefits until the death of both the worker and his spouse. The benefits, however, are lower each year than those paid in single-life pensions, which terminate at the death of the worker. Beginning in 1986, both spouses must sign when a joint-and-survivor option is declined. It is assumed that bringing the wife more formally into the decision-making process will lead to a more equal distribution of resources across the life of both marriage partners, thus reducing the high poverty rates of widows shown in Table 1.

There is no question that pension regulations can be developed which will force greater use of joint-and-survivor annuities among those in the population eligible for pensions. But Table 2 suggests that the problem of unequal sharing of resources across the lifetime of a marriage is more pervasive than those who dwell on the pension-option decision might suspect. The table shows the poverty rates and mean income levels of women in their last survey year of marriage and their second survey year of widowhood. The women are disaggregated by whether their husbands were eligible for pensions or not, and if so, whether or not they chose “single-life” pensions, which ended with their deaths, or joint-and-survivor pensions, which continued to be paid to their widows.
Well-Being of Women before and after Widowhood, by Private Pension Eligibility Status

<table>
<thead>
<tr>
<th>Marriage State</th>
<th>Husband’s Pension Eligibility</th>
<th>Pension Option</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Sample</td>
<td>Not Eligible (1)</td>
</tr>
<tr>
<td>Wives</td>
<td>785</td>
<td>23.3%</td>
</tr>
<tr>
<td></td>
<td>Mean income</td>
<td>$21,307</td>
</tr>
<tr>
<td>Widows</td>
<td>382</td>
<td>36.6%</td>
</tr>
<tr>
<td></td>
<td>Mean income</td>
<td>$10,177</td>
</tr>
</tbody>
</table>

Source: Myers, Burkhauser, and Holden, “The Transition from Wife to Widow: The Importance of Survivor Benefits to the Well-Being of Women,” IRP Discussion Paper no. 806-86, 1986. Data are from the Retirement History Study, 1969-79 and cover the years 1969 to 1979. Incomes are from the last survey before and the survey following the first report of widowhood and are reported in 1984 dollars.

On average, for each comparison shown, widows have higher levels of poverty and lower mean incomes than when they were married, regardless of pension eligibility or annuity choice. Comparing the incomes of women as widows and as wives indicates that the share of the couple’s income retained by women after their husbands’ deaths, on average, is less than that assumed necessary by the most commonly used equivalence scales to hold a widow’s well-being constant.

We have simulated the effect on the incomes of widows if all pension-eligible married men chose a joint-and-survivor pension. This increases the mean income and reduces poverty of the widows of men who actually chose a single-life option, assuming no other change in behavior. But the simulation leads to a much smaller effect on the general condition of widows, since only 15 percent of widows who are poor had husbands who were eligible for pension benefits in the first place.

These simulation results represent the upper bound of what is likely to occur as a result of passage of the Retirement Equity Act, since this act does not force men to choose a joint-and-survivor option. Even if future legislation did require all married men to choose this option, simulations of this type remain an upper bound of likely outcomes, because husbands can often adjust their bequest of other assets to offset the higher survivor pension benefits required by law. Hence if husbands, alone or with the consent of their wives, act to maintain the present allocation of resources across their lifetimes, these simulations overstate the increase in the well-being of widows that will occur from a pension policy change.

Two pieces of evidence suggest that some offset is likely. First, in Table 2, the drop in income of women who received survivor benefits (column 5) was not substantially different from that of widows whose pension benefits ended with the death of their husbands (column 4). In fact they have 41 percent of the income they had in the last full year that their husbands were living, whereas the figure is 46 percent for widows whose pension benefits end with the deaths of their husbands. This suggests that for men who chose a joint-and-survivor option, the survivor’s benefit may have been a replacement for other types of assets that could instead have been bequeathed to the wife—e.g., life insurance, other financial assets.

Publications by the Authors on Retirement Income


Second, the pension-option choice is not random. We have developed and tested a model of that choice and have found that the asset position of the couple affects the probability of choosing a joint-and-survivor pension. For instance, men in households with lower overall levels of wealth and those whose pension is a smaller fraction of total wealth tend to choose the single-life option. Forcing such men to take an actuarially fair joint-and-survivor option may induce them to compensate for the reduction in benefits during their lifetime with a faster consumption of other joint assets.

Hence, from a public policy perspective, renewed efforts to direct the annuity choice toward the joint-and-survivor option may only have limited long-term success in changing the distribution of resources across the lives of marriage partners and even less success in changing the well-being of most widows in old age. Nonetheless, it will to some degree assure to women whose husbands are eligible for pension benefits a minimum share of these benefits in widowhood. And it may reduce the chances that these women will become poor in their old age.

New work under way
(continued from p. 20)

Haveman will explore the meaning of inequality, its impact on behavior, and the various measures that have been used to describe it. He will put in perspective the role of the U.S. federal programs to reduce inequality.

The level of inequality in this country when the War on Poverty began was large, both absolutely and relative to other Western industrialized nations. In part this inequality stemmed from the inherent diversity of the United States—racial, ethnic, and regional. There were large gaps between the incomes of blacks and whites, men and women, the North and the South, and professionals and workers. Both the elderly and the disabled were generally seen as living in relative deprivation.

Many of the social programs that dominated federal policy in the 1960s and the 1970s were directed at reducing these gaps. Yet while progress brought certain groups into the mainstream, shifts in the economy and in the structure of society generated new problems. A new set of inequalities was added to the existing set.

The decline of manufacturing and other more traditional employment as a high-technology, service-oriented society developed meant a more unequal distribution of earnings—unskilled menial jobs at one end of the continuum, highly paid professional jobs at the other. The postwar baby boom flooded the labor market with unskilled youth, their relative wages depressed by the increase in supply. Many of them did not find jobs and others took jobs with little opportunity for advancement. Women entered the labor movement in increasing numbers, further depressing low wage levels. Divorce and separation climbed, resulting in an increase in the incidence of single-parent families with children, many of whom found themselves at the bottom of the income distribution. And births out of wedlock produced single-parent families who also tended to be at the bottom of the income distribution.

Furthermore, the policies that were credited with ameliorating inequalities were simultaneously criticized for numerous alleged inefficiencies and misallocations. It was argued that most of the expenditures of the social programs were a matter of taking money from the middle classes in order to return it to the same group. It has been suggested that both income transfers and taxes produced disincentives to work, to save, and to invest, and thereby slowed economic growth. Behavioral changes have been attributed to the incentive effects implicit in the programs: early retirement, out-of-wedlock births, independence in family living arrangements. The existing system is viewed as encouraging dependence on the public sector instead of individual initiative.

Such criticism has encouraged the opinion that the drive for equality has gone too far, that efficiency costs are higher than any social gain that may be realized.

Haveman takes issue with this position. It is his judgment that although reducing inequality remains an important goal, the means for attaining it have not all been efficient. He suggests that it will be possible both to increase equality and to improve the allocation of resources. Therefore, as part of his study he will propose a new strategy to deal with the new inequities and at the same time increase individual responsibility and accountability.