

Economic consequences of widowhood: Some lessons for Survivor Pension reform in France?

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1 - Background and general problematic

Pension reforms are on the agenda in many countries and the way pension systems should adapt to an ageing population is under debate. A component of this debate concerns survivor pensions. Survivor benefits represent a large share of total benefits in the French retirement system (14 % in 2003, i.e. 28.6 billion in 2005). Significant demographic changes have occurred during the past four decades, raising the question of whether the survivor pension system needs to be reshaped (Favreault, Steuerle, 2007, Iams and Sandell, 1997, 1998, Favreault, Sammartino, Steuerle, 2002). The growing labour force participation of women, the sharp rise in divorce rates, the growing number of single parents, mostly women, challenge the survivor's pension system, set up in 1945 in a context of the predominance of the breadwinner model. The debate on the evolution of survivor pensions was reopened during the preparation of the 2003 pension reform³. One of the objectives was to include more types of income in the means test. The result would have been to reduce survivor pension rights for some widows. This part of the project met with sharp criticism and triggered many protests. It was then suspended. During the recent electoral campaign, the main candidates debated the question of increasing survivor's pensions. Yet french widows do not constitute a poor population anymore. Moreover, along with the increase in their own pensions, adjusted income of future widows could be higher during widowhood than during marriage (widower's equivalised income is already higher than that of married retirees). One conclusion of the debate is that one basic item of information is missing: with current survivor benefits, does the wife's standard of living fall after her husband's death? Indeed, in France, the share of a husband's benefits inherited by his widow ranges from 50 % to 60 %, depending on the affiliation scheme. It is commonly assumed that this replacement rate maintains the equivalised income of the surviving spouse (COR, 2007). But in fact, no precise information is available. Surprisingly, very little is known about the income change as people move from marriage to

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widowhood, and to what extent survivor pensions may compensate for this loss.⁴ One explanation may be a lack of panel data, which become necessary as soon as a dynamic process is studied.⁵ The literature on other countries is more abundant (Hurd, 1989, Hurd and Wise, 1989, Holden and Kim, 2001). Burkhauser and alii (2005) found that women over 70 who become widows experience a decrease in their adjusted income of about 7 percent in the United States, 4 percent in Canada and 20 percent in Great-Britain. In Germany, the adjusted income remains the same before and after the death of the partner. The figures are sensitive to the age at the partner's death. In the United-States, women aged between 62 and 69 who become widows experience a drop in their average adjusted income of as much as 21 percent, more than twice the drop for new widows aged over 70. Besides the issue of equivalence scales, the results are also quite sensitive to the measure selected for income, whether it includes social security transfers, taxes, and private transfers or not, and to the statistic chosen to characterize groups (mean or median) (Holden and Kim, 2001, Weir and alii, 2002).

The assumption that survivor pension rates maintain the equivalised income is based on a rough calculation. To explain this point, we use a very simplified example. Suppose that P_D and P_S are the own pension of the deceased spouse and of the survivor (and pensions are their only income source), x , the ratio $\frac{P_S}{P_D}$, HI_1 and HI_2 , the household equivalised income before and after widowhood occurs, $rate$, the survivor pension rate and $equi$ the equivalence scale for a two-adult household. Household adjusted income before and after widowhood can be written:

$$HI_1 = \frac{(P_S + P_D)}{1 + equi} \quad \text{and} \quad HI_2 = (rate \times P_D + P_S) \quad \text{and} \quad \frac{HI_2}{HI_1} = (1 + equi) \left(\frac{x + rate}{x + 1} \right)$$

If the objective is to maintain the living standards of the surviving spouse, the rate for the survivor's pension must be equal to : $\left(\frac{1 - equi \times \frac{P_S}{P_D}}{1 + equi} \right)$

This depends on the equivalence scale chosen and on the contribution of the survivor's own pension to the total household income before the death of one spouse (COR, 2007). Theoretical survivor pension rates computed by this method are close to the observed rates. But the rough assumptions used for this calculation cast doubt upon its validity. Comparison with observed panel data is necessary.

⁴ Some elements on the mean economic position of widows compared to married couples are available, in a cross-sectional approach (COR, 2007)

⁵ In fact, some elements on the economic consequences of widowhood for France are available, based on the European Community Household Panel (Ahn, 2004), but the longitudinal sample for France consists of 65 men and 192 women being widowed during the 1994-2001 period. Ahn reports that the net income of widows living alone after their spouse's death decreases by 17 %. It is not clear in the paper whether this income is an adjusted one.

2 - Objectives of the paper and data used

The objective of the paper is twofold. It aims at rethinking the question of the optimal survivor pension rate (or rules), regarding the different objectives of the survivor benefits. Three objectives can be considered: preventing widows from entering poverty after their spouse's death, maintaining the living standards of the surviving spouse or assuming that a pension is a kind of asset and that a part of it must go back to the surviving spouse. The reasons for promoting these objectives and their implications, in particular in terms of redistribution between (married) couples and singles, men and women or income groups, are explained.

The second and main part, of the paper assesses the income consequences of widowhood. To this end, we use an original data set. Since 1996 and on a yearly basis, the Labour Force survey is matched to fiscal administrative records (the "Revenus Fiscaux" survey). Until now, it has been used in a cross-sectional approach, but it is possible to use it longitudinally. Indeed, the French Labour Force survey is a panel with three successive annual waves. It is then possible to observe people around the date they become widowed. This data set has several advantages. Administrative data on income are in principle more reliable than survey data, which could be subject to measurement errors (Burkhauser, Holden, Myers, 1986), especially when dealing with income variation between two years. Secondly, the sample size is large. It consists of four successive samples of 50,000 individuals each, followed in a panel. Even if being widowed is not a common event in the population⁶, the sample is large enough to permit multivariate analysis. Lastly, income sources are detailed: pensions, earnings, allowances (housing, minimum income guarantee . . .), asset income, and rental income. In particular, asset income is a major component of the income of retired people. We look at mean income changes, measures of income inequality and changes in income sources and compare these effects with those found in other countries. We highlight the differences in economic consequences depending on income groups, age at widowhood, gender and previous job status of the dead spouse (survivor's pension rules may differ between schemes). Panel data are useful to disentangle the role of disparities before widowhood (and the link with differential mortality⁷) and factors directly related to the husband's death in evaluating the economic consequences of widowhood.

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⁶ See note 3

⁷ At a given age, women who are widowed have, on average, been in poorer families than those who remain married and thus have higher poverty rates (Holden, Burkhauser, and Myers 1986; Weir, Willis, and Sevak 2002). Life expectancy is indeed positively correlated with income.

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