



# Distributional Changes in Income and Wealth upon Widowhood: Implications for Private Insurance and Public Policy

by Karen C. Holden and Cathleen Zick

## Introduction

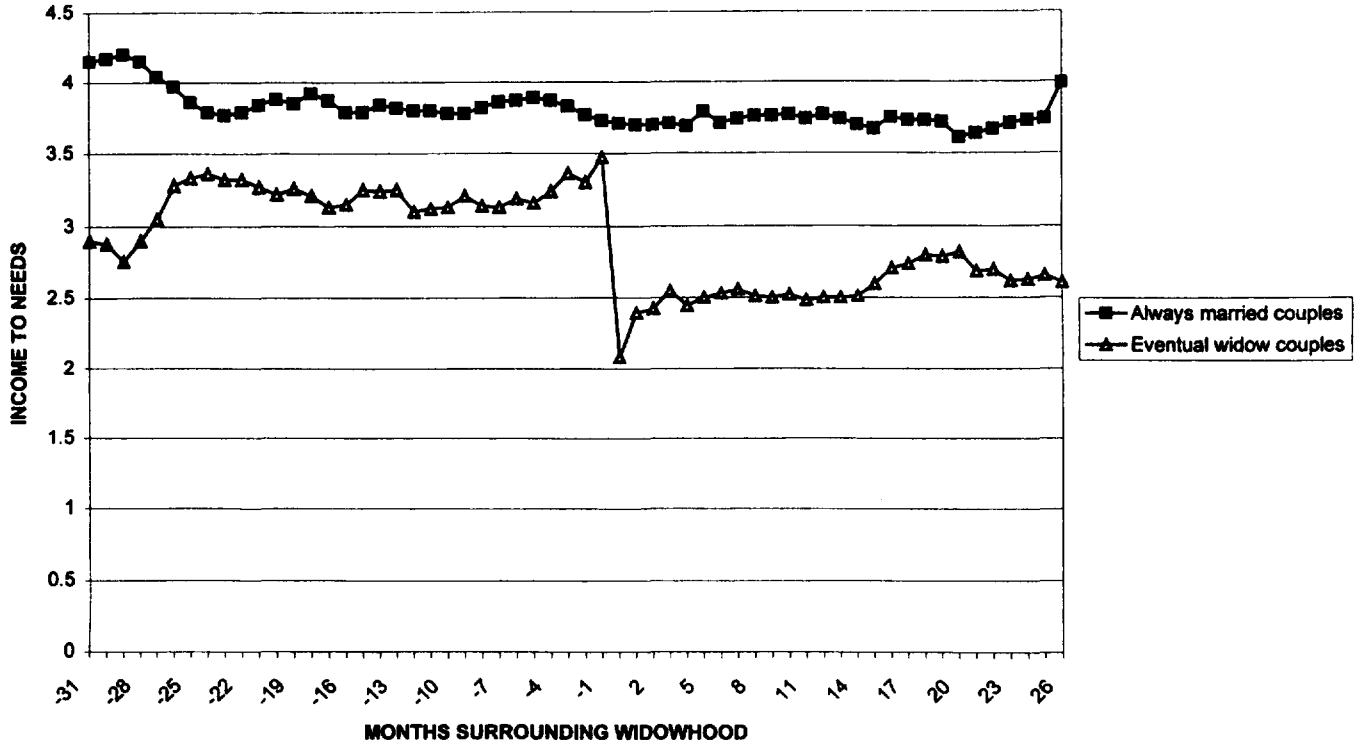
Cross-sectional data consistently show that widows are far more likely to be poor than are women of comparable ages who are married. In 1990, 27% of women 65 and older living alone were poor, compared to 6% of families headed by a person 65 and older (Social Security Administration 1997). Yet cross-sectional data for a single year provide little insight into the actual economic risks associated with widowhood and hence give little financial or policy guidance on how to mitigate that risk. Widows interviewed at a point in time include both women who were widowed many years earlier, when economic conditions and social and private insurance may have been less protective of widows, as well as those recently widowed and subject to the current array of protective policies and economic conditions. Widows, like everyone else, grow older over time, and thus among widows of the same age will be those who have spent many years widowed as well as those whose economic status reflects the short-run consequences of the occurring event of widowhood. Finally, because the probability of death is associated with economic status, widows are likely to be drawn from couples who were already relatively worse off even when the husband was alive. Thus a simple comparison of widows and couples will exaggerate the economic vulnerability

associated with widowhood. To the extent that better-off couples are more likely to have pension coverage, this comparison will also lead to erroneous inferences about the degree to which wives lose pension coverage or pensions fall when their husbands die. It is only from data that follow individual women over time, from years married into widowhood, that we can discover the actual changes in economic well-being associated with widowhood.

This paper uses such data to chart the economic status of women as they move from marriage into widowhood, examining changes in income and income sources that actually occur as women are widowed. The paper begins with information on changes in income relative to a needs standard as women enter widowhood. These are mean changes; to capture the effects of widowhood on the distribution of income we examine changes in one measure of income inequality—the Gini coefficient—and how each major income source contributes to the greater income inequality that is observed in widowhood.

In this paper we are particularly interested in the actual and potential role of pensions in preserving the economic status of widows. Thus we next explore the ability of pensions to change the poverty status of women when they are widowed, defining “poverty” alternatively as having family income below 2.0, 1.5, and 1.0 times the poverty threshold. A concluding sec-

**FIGURE 1**  
**INCOME ADJUSTED FOR NEEDS: COUPLES CATEGORIZED BY HUSBANDS' SURVIVAL**



Note: Month of widowhood = 0.

tion that also draws on other recent research by the authors discusses the implications of the information presented in this paper for retirement planning and policy formation.

### Widowhood and Income Change

The incomes of the elderly, including that of women living alone, have improved over the past several decades (Radner 1993). Yet widows continue to experience relatively high rates of poverty compared to their married peers (Bound et al. 1991; Holden and Zick 1997; Burkhauser, Holden, and Feaster 1988; Hurd and Wise 1989). This is despite the passage of federal laws (the Employee Retirement Income Security Act [ERISA] and the Retirement Equity Act [REA]) that included provisions intended to increase the share of a couple's income that continued to be paid to the widow.

Figure 1 documents the persistence into the early 1990s of the income hazard associated with the widowhood event. Here we use one measure of well-being—the income-to-needs ratio—to compare change over time for

two groups of women, those who become widowed and those who remain married. The data are from the 1990, 1991, and 1992 Panels of the Survey of Income and Program Participation (SIPP).<sup>1</sup> Conducted by the Census Bureau, SIPP interviews a nationally representative sample of households at four-month intervals over approximately a 32-month period (U.S. Bureau of the Census 1987). Each household member present at the first interview is followed in subsequent interview waves, even if the household dissolves and members form other households and unions. Thus when one spouse dies the survivor

<sup>1</sup>Each SIPP panel is a nationally representative sample of households whose members are interviewed at four-month intervals over approximately a 32-month period (U.S. Bureau of the Census 1987). At each interview data are collected on household composition and the incomes of each household member over the four preceding months. In addition, questions from special topical modules, including household wealth and its composition, are asked in each interview. A new panel is introduced each year. The data presented in this paper are from the three SIPP surveys. Sample weights are used to adjust for sampling and response differences.

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remains a sample member.<sup>2</sup> At each interview data are collected on household composition and the incomes of each household member over each of the four preceding months. Although the short time period provides only a narrow window within which to examine the widowhood process, the monthly income data provide a unique opportunity to examine the magnitude of income changes immediately after widowhood.

We define a sample of what we call “eventual widows” (whose data are shown with the lower line of Figure 1) who are women age 40 or older and married (husband present) at the first SIPP interview and whose husbands died at some point during the 32-month interview period. All these women were interviewed at least once as a widow. The economic experience of these women is compared to “intact couples” (shown by the top line) who are married women 40 and older who remained married throughout SIPP.<sup>3</sup> Because women widowed in SIPP are on average younger than those who remain married, we weight the married sample such that the age distribution at the time of the first interview is identical to that of eventual widows. Thus differences in patterns between the two sets of couples are net of differences in age structure.

The graph shows how the ratio of household income to a consumption needs standard changes over the months of the SIPP survey. The standard of consumption “needs” used is the U.S. poverty threshold, which varies with family size and, consequently, is one indicator of implied changes in household consumption needs as household size changes with the death of a husband. In 1991 the poverty threshold for a single person under age 65 was \$7,086 (\$6,532 for those 65 or older) with that for a two-person household 29% higher (26% higher for those 65 or

older). This scale implies that a single-person household requires 77% and 79% respectively, of the income of the two-person household. Thus for the income-to-needs ratio to fall when a married woman (with no other persons in the household) is widowed, the numerator (income) must decline by more than 77% (79%).

The monthly data for each eventual widow are centered on the month in which the woman first reported being widowed. Because this may occur at different months during the SIPP interview period, the aggregate data are arrayed over a 64-month period, even though for any single couple we have a maximum of 32 months of data.<sup>4</sup> A month of “widowhood” is randomly assigned to the latter group of couples, but in such a way that the pattern of death across months is in the aggregate identical for the (weighted) samples. While the continuously married couples are in fact never widowed, an assigned widowhood month allows a comparison of the experience of these two groups of women over a comparable period of time.

Even prior to widowhood, the income-to-needs ratio of eventual widows is about 15% below that of their continuously married counterparts, implying that one component of widows’ lower income may be attributed to long-standing pre-widowhood differences between the two groups. Nevertheless, widowhood exacts an economic toll; the eventual widows’ average income-to-needs ratio was 3.40 in the two months preceding the death, and that ratio drops and stabilizes on average at about 2.7, roughly 70% of that of the comparison couples. Note that the post-widowhood income-to-needs ratio already is adjusted for the change in consumption needs of the now smaller household,<sup>5</sup> from a two-person to a one-person household.

## Sources of Income Change

In this section we look at two descriptors of income change between the pre- and post-widowhood period: sources of income change and change in income distri-

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<sup>2</sup>This contrasts with some other longitudinal data sets in which an individual respondent is the sampled member and in which respondent’s death leads to attrition of the surviving unit. This was true of the National Longitudinal Survey of older men (although the most recent reinterview also tried to locate survivors of sample members). The Retirement History Survey did follow up on widows of married men, but because they were not sampled individuals the follow-up was somewhat less persistent and fewer data were collected on them.

<sup>3</sup>The female respondents must have been age 40 or older when first interviewed. The three-year panel sample contains 512 eventual widows. We compare these to 3,398 continuously married women, actually a 10% random sample of the full number in SIPP. In order to increase the reliability of data in the later months of the post-widowhood period, we include data for 784 widows who had been widowed within the 24 months prior to the first interview.

<sup>4</sup>In the month in which the husband died, the household’s reported income may include income the woman receives as a wife and, subsequently, as a widow (Burkhauser, Holden, and Myers 1986). Thus household income in that month may not be a true measure of the widow’s income. Subsequent months reflect her status as a widow and adjustments in earning behavior or household composition.

<sup>5</sup>See Citro and Michael (1995) for a discussion of the weaknesses and inadequacies of the poverty threshold and its assumed equivalency scale.

**TABLE 1**  
**COMPONENTS OF INCOME CHANGE UPON WIDOWHOOD**  
**(WIDOWS CLASSIFIED BY AGE AT WIDOWHOOD)**

Income Type	Income Change at Widowhood	Percentage Change in Income	Percentage Contribution to Total Income Change
Total income	\$(1,328.57)	-54%	100%
Age < 60	(1,986.54)	-59	100
Age > 60	(1,283.30)	-47	100
Earnings	(408.07)	-51	31
Age < 60	(957.72)	-50	48
Age > 60	(259.36)	-54	20
Social Security	(448.38)	-46	34
Age < 60	(281.74)	-65	11
Age > 60	(489.43)	-44	48
Pension income	(237.68)	-55	18
Age < 60	(118.66)	-37	6
Age > 60	(269.29)	-58	21
Asset income	(213.32)	-40	16
Age < 60	(148.01)	-43	6
Age > 60	(229.41)	-39	22
Unemployment/Workers' Compensation	(62.28)	-91	5
Age < 60	(150.93)	-95	6
Age > 60	(38.81)	-87	4
SSI/FS/Other transfers	(76.69)	-12	1
Age < 60	(261.73)	-12	5
Age > 60	(31.16)	-16	-1
Life insurance/annuities/ estates	57.74	8	4
Age < 60	36.35	22	2
Age > 60	59.81	7	5
Lump-sum payment	58.59	253	-4
Age < 60	29.67	69	-1
Age > 60	66.33	371	-6

tribution by sources. Table 1 shows the absolute and percentage change in individual income sources from the two months prior to widowhood to the two months after the husband's death.<sup>6</sup> The third column shows the contribution of a change in each source to the change in total income. Because nondisabled widows are not eligible for Social Security benefits prior to age 60, we group women by this age cutoff in order to capture the effect of younger versus older age at widowhood. Note that these changes do not adjust for lower consumption needs of the smaller household and so are larger than those shown in Figure 1.

<sup>6</sup>We found that using two-month averages most accurately represented the pre- and post-widowhood periods. There was little change over those periods in the contribution of major income sources to well-being.

Although total income change is only somewhat larger for younger than older women upon widowhood (a decline by 59% versus 47%), the sources of income change are markedly different. Not surprisingly, for younger widows the largest absolute and percentage change is in earnings, accounting for 48% of the total income decline (versus 20% for older widows), whereas for older widows declines in Social Security and pension income account for 67% of the income decline (versus 17% for younger widows).<sup>7</sup> What is notable is that income from all major income sources declines, including asset income. (We say more below about the

<sup>7</sup>Note that the last column accounts for the percentage of the total income decline. In this column a positive number contributes to that decline, and a negative number counteracts that decline.

role of assets as a potential income source for these widows.) Among both groups of widows life insurance and estate income provided only a thin cushion against income declines. What is perhaps the most important message of this table is the contribution of Social Security and income from employer-provided pensions to a total decline that is far larger than that implied by the most commonly used equivalency scale. Figure 2 shows the decline in pension income graphically. Again eventual widows are compared to intact couples, and the income (this time for pension income only) to needs ratio is shown. Thus, even adjusting for the smaller consumption needs of the post-widowhood household, pension income declines sharply upon widowhood.

The changes led to some, but not marked, change in the contributions of each income source to the economic well-being of these widows (see Table 2). Younger women remained dependent on earnings, although at much lower earnings levels, for almost half of their income, with income from insurance and bequests providing only a slightly raised proportion. The story was not much changed for older widows from the pre-

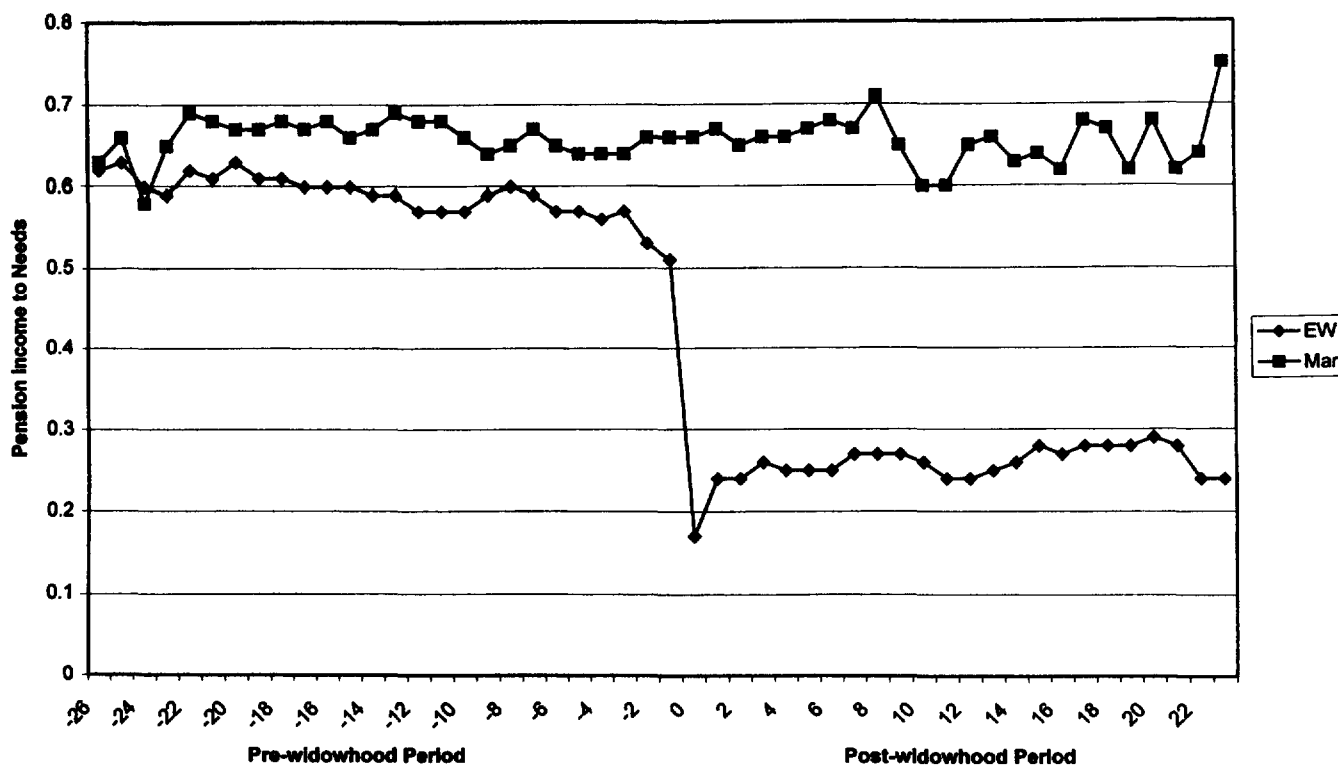
post-widowhood period. Notable for them, however, is the slightly lower percentage of income provided by pensions, although their share from insurance and bequests grew from about 1% to 10%.

## Changes in Income Distribution

Mean income change says nothing about how these income changes were distributed across widows. A decline in mean income could be associated with a uniform shift in the distribution of income downward or with sharp declines for some widows and increases in incomes for other. A decline in mean income that resulted largely from falling incomes among higher-income widows, leading to greater income equality, probably would be a lesser public policy concern than would be a decline in mean income that followed from a growing spread between lower- and higher-income widows.

A frequently used measure of income distribution is the Gini coefficient, which summarizes the degree of

**FIGURE 2**  
**EFFECTS OF WIDOWHOOD ON PENSION INCOME TO NEEDS RATIO**



Note: Month of widowhood = 0.

**TABLE 2**  
**SHARE OF INCOME BEFORE AND AFTER WIDOWHOOD: PERCENTAGE SHARE OF INCOME**  
**BY AGE AND PRE- OR POST-WIDOWHOOD**

Income Sources	All Ages		<60		>60	
	Before	After	Before	After	Before	After
Social Security	33.4%	33.1%	12.8%	22.0%	40.5%	36.2%
Earnings	26.9	20.4	56.3	49.3	17.6	20.6
Asset income	18.5	20.5	10.2	10.0	21.4	20.8
Pension income	14.6	12.5	9.6	9.4	16.9	11.3
Unemployment/Workers' Compensation	2.4	0.4	4.7	0.4	1.6	0.3
SSI/FS/ other transfers	2.0	2.7	2.0	3.0	0.4	0.5
Other income	1.2	1.3	3.1	0.3	0.6	1.5
Life insurance/estates and trusts	0.2	3.9	0.0	1.9	0.3	4.0
Lump-sum payments	0.8	5.2	1.3	3.7	0.7	4.9
Total income	100	100	100	100	100	100

inequality in the distribution of income. This index ranges between 0 for perfect equality and 1 for perfect inequality and shows the percentage redistribution of that income that would be required to achieve perfect equality, defined as equal percentages of the total population holding an equal percentage of total income.

Table 3 shows the cumulative and individual Gini for each income source with the cumulative showing how each additional source changes the Gini coefficient. We note that an income source may be highly unequally

distributed (as shown by a high individual Gini) yet increase income equality (that is, lower, the cumulative Gini) if that source is paid to a high proportion of relatively low-income individuals. The table begins with the Gini for earnings alone, the magnitude of which reflects the highly skewed distribution that is consistent with the high percentage of couples with both spouses out of the labor force prior to widowhood. Social Security sharply reduces that unequal distribution of earnings in part because it is paid to vir-

**TABLE 3**  
**GINI COEFFICIENTS OF INCOME BEFORE**  
**AND AFTER WIDOWHOOD**

Component	Income Source and Widow Period	Cumulative Gini	Individual Gini
1	Earnings		
	Before	0.822	0.822
2	After	0.807	0.807
	(1) + Social Security		
3	Before	0.419	0.314
	After	0.450	0.474
4	(2) + pensions		
	Before	0.385	0.640
5	After	0.463	0.861
	(3) + asset income		
6	Before	0.390	0.762
	After	0.462	0.801
7	(4) + other income		
	Before	0.393	0.994
8	After	0.464	0.992
	(5) adjusted for needs		
9	Before	0.491	0.352
	After	0.416	0.416

**TABLE 4**  
**WEALTH HOLDINGS: GINI COEFFICIENTS**

Status	Total Household Wealth			Household Financial Wealth	
	<i>n</i>	Mean	Gini	Mean	Gini
Married <sup>a</sup>	3,489	\$166,576.43	0.482	\$64,307.46	0.694
EW-NYW <sup>b</sup>	273	141,887.86	0.510	57,869.24	0.738
EW-AW <sup>c</sup>	343	115,751.20	0.529	41,352.12	0.753

<sup>a</sup>Continuously married women (couples).

<sup>b</sup>Eventual widows but not yet widowed at time of wealth module.

<sup>c</sup>Eventual widows who are widowed at time of wealth module.

tually all retirees and because the progressive benefit formula reduces pre-retirement earnings inequality. Interestingly, pensions *prior* to widowhood reduce income inequality but increase it after widowhood. Income from assets leaves the distribution largely unchanged. Other income, which includes means-tested income, reduces inequality in both periods. Finally, adjusting for needs (that is, the composition of these women's households) increases inequality in the pre-widowhood period but reduces it in the post-widowhood period. This would result if the propensity to share housing with other family members is more strongly and negatively correlated with a couple's income in the pre-widowhood than in the post-widowhood period. For example, it may be that poorer couples are more willing to share housing with adult children or friends who contribute more to family consumption needs than family income, whereas upon widowhood the propensity to do so is more alike for poorer and wealthier widows.<sup>8</sup>

Table 4 shows, not the distribution of income, but the distribution of asset holdings, both total wealth and wealth excluding housing and other property. SIPP gathers asset data only once during each panel, and so we divide the eventual widows into two groups: those who were widowed at the time the asset data were gathered and those who were not. Because the timing of the asset module is unconnected with widowhood timing, we take the cross-sectional measures as strong indicators of asset

<sup>8</sup>The following is an example of why this may be true. It may be that better-off couples in which the wife is disabled are more likely to hire outside help to assist the husband in caregiving, whereas poorer couples pay for such help by providing room and board for nonearning family members. Post-widowhood, when both poor and wealthy widows are in need of more continuous home care than can be provided by outside agencies, wealthier widows may now also provide room and board for nonearning family members.

changes before and after widowhood.<sup>9</sup> The wide ownership of housing among this group causes total household wealth to be more evenly distributed than is financial wealth. Nevertheless, wealth is more unequally distributed than is income (comparing to (4) in Table 3), and financial wealth, from which asset income is derived, is far more unequally distributed than is either income or income from assets. Although not by a large amount, asset value appears to fall with widowhood and grow somewhat more unequally distributed.

The final table describing inequality is Table 5, which shows subgroups of eventual widows and the change in inequality from before to after widowhood. Dividing couples into those in which the husband worked and in which he did not modifies the earnings inequality observed in Table 3, although note that these figures look at total income, not just earnings. What is striking in this table is that although there are differences in the Gini measure among these groups, they are not large, the sharpest being between Hispanic and White couples, with the latter showing somewhat less inequality. But for all groups inequality increases upon widowhood.

## Pension Income before and after Widowhood

Table 1 shows how mean income from employer-provided pensions changed upon widowhood across all eventual widows. The mean change included women who experienced no or only a modest decline in pension amount as well as many for whom the decline was total—they lost the full amount of their husbands' pensions. We

<sup>9</sup>In addition, we examined whether the timing of widowhood over the panel was associated with the level or change in income. It was not, and so we conclude that the fairly random selection of the asset module timing will not influence who is seen to be already widowed.

**TABLE 5**  
**GINI COEFFICIENTS BY FAMILY**  
**CHARACTERISTICS**

Characteristic	<i>n</i>	Mean	Gini
Total income (monthly)			
Before	623	\$2,966.00	0.377
After	596	1,701.82	0.452
Minority status			
White			
Before	526	3,033.43	0.382
After	504	1,754.60	0.452
Black			
Before	50	2,543.27	0.353
After	46	1,292.37	0.426
Hispanic			
Before	32	2,571.43	0.339
After	31	1,383.05	0.473
Age			
<60			
Before	139	3,463.35	0.377
After	136	1,967.72	0.479
≥60			
Before	484	2,823.16	0.363
After	460	1,623.21	0.439
Working status			
Husband Mpre = 0			
Before	431	2,578.63	0.363
After	415	1,586.48	0.439
Husband Worked			
Before	192	3,835.56	0.356
After	181	1,966.27	0.468

do not know for the SIPP sample whether nonbeneficiaries were eligible for a pension and, therefore, whether their wives were potentially eligible for a survivor benefit. While 61% of the husbands of the eventual widows received a pension prior to death, only half that many of the wives of these pensioners report a pension as a widow, including only 59% of the widows of pensioners. Among the couples in which the husband reported pre-widowhood pension income and the wife did not, but in which pension income was reported by the widow, post-widowhood pension income was 71% of the husband's pre-widowhood pension income, implying a selection by husbands on average of a two-third's survivor benefit.<sup>10</sup>

In Table 6 we examine what would be the effect on well-being if all widows continued to receive pre-wid-

owhood pension income after their husbands' deaths. We look at this by first substituting for actual pension income in the post-widowhood period a pension amount equal to 77% of the pre-widowhood pension. We take this fraction since it is the equivalency scale implied by the two- versus one-person poverty threshold. If we substituted total pension income, then clearly widows would be made better off in terms of poverty status since, at least in terms of pension income, they would have more than the equivalent amount needed to maintain the consumption of a widow relative to a couple. We use this simulated income amount to examine the ability of higher pension income to keep widows from crossing the poverty threshold, a threshold 1.5 times the poverty level, and a threshold 2.0 times the poverty threshold.

The last column of Table 6 shows the actual changes in poverty status as women moved from being married to widowed. Over 4% of the eventual widow sample were poor in both the pre- and post-widowhood period, but an additional 17% moved into poverty upon widowhood. The percentages are higher with a higher threshold, for both those who remain and those who become poor. After widowhood the majority of widowed households (57%) fall below a threshold twice the poverty level (see bottom panel).

The bottom row of each part of the table shows how these percentages would change if a consumption-equivalent pre-widowhood pension amount continued to be paid to widows. If this were to happen, the percentage of poor widows would be sharply reduced.<sup>11</sup> Six percent of widows who move into poverty would be kept out of poverty (using the actual poverty threshold), reducing the poverty rate from 21.2% to 15%. Adopting a higher poverty threshold increases the antipoverty effectiveness of pension income. Some widows who would be classified as poor under the higher thresholds would move out of poverty (3.7% and 13% using the 1.5 and 2.0 times poverty thresholds, respectively), and a higher percentage would remain out (22% and 28% respectively). With this pension income even a threshold higher by twice the current poverty threshold would leave fewer "poor" widows (15.5%) than are in fact observed poor (21%) in the post-widowhood period.

Table 7 presents the same data for Social Security, asking whether ensuring receipt of approximately three-

<sup>10</sup>The ratios are not substantively different for couples in which the wife had pre-widowhood pension income. For these couples it is more difficult to separate the share of post-widowhood pension income that is the survivor benefit component from the wife's own retirement pension.

<sup>11</sup>It is possible for some women to be worse off under this simulation if family pension income actually increased in the post-widowhood period. This causes a few women who were in fact out (or moved out) of poverty to remain in (or move into) poverty.



**TABLE 6**  
**EFFECTS OF CHANGE IN PENSION INCOME ON POVERTY STATUS OF EVENTUAL WIDOWS**

Actual Change	Simulated 0.77 × Pre-widow Pension				
	Remain Poor	Move Out	Move In	Remain Out	Total
Threshold = 1 × Poverty					
Remain poor	4.41				4.41
Move out		1.25			1.25
Move in			10.58	6.3	16.88
Remain out			0.64	76.83	77.47
<b>Total</b>	<b>4.41</b>	<b>1.25</b>	<b>11.22</b>	<b>83.13</b>	<b>100.00</b>
Threshold = 1.5 × Poverty					
Remain poor	8.53	3.71			12.24
Move out	0.15	3.37			3.52
Move in			6.6	21.39	27.99
Remain out			0.34	55.91	56.25
<b>Total</b>	<b>8.68</b>	<b>7.08</b>	<b>6.94</b>	<b>77.3</b>	<b>100.00</b>
Threshold = 2 × Poverty					
Remain poor	11.47	13.04			24.51
Move out		5.64			5.64
Move in			4.15	28.32	32.47
Remain out				37.38	37.38
<b>Total</b>	<b>11.47</b>	<b>18.68</b>	<b>4.15</b>	<b>65.7</b>	<b>100.00</b>

Note: Percentages are of all women in each category.

**TABLE 7**  
**EFFECTS OF CHANGE IN SOCIAL SECURITY INCOME**  
**ON POVERTY STATUS OF EVENTUAL WIDOWS**

Actual Change	Simulated 0.77 × Pre-widow Social Security				
	Remain Poor	Move Out	Move In	Remain Out	Total
Threshold = 1 × Poverty					
Remain poor	4.02	0.38			4.4
Move out	0.63	0.62			1.25
Move in			5.25	11.63	16.88
Remain out			1.83	75.63	77.46
<b>Total</b>	<b>4.65</b>	<b>1.00</b>	<b>7.08</b>	<b>87.26</b>	<b>100.00</b>
Threshold = 1.5 × Poverty					
Remain poor	6.73	5.51			12.24
Move out		3.52			3.52
Move in			4.63	23.36	27.99
Remain out			0.38	55.87	56.25
<b>Total</b>	<b>6.73</b>	<b>9.03</b>	<b>5.01</b>	<b>79.23</b>	<b>100.00</b>
Threshold = 2 × Poverty					
Remain poor	7.66	16.85			24.51
Move out		5.64			5.64
Move in			4.08	28.39	32.47
Remain out				37.38	37.38
<b>Total</b>	<b>7.66</b>	<b>22.49</b>	<b>4.08</b>	<b>65.77</b>	<b>100.00</b>

Note: See Table 6.

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quarters (rather than the current one half to two-thirds) of a couple's pre-widowhood Social Security benefits would reduce poverty among widows. Because Social Security is a broadly received income, it is not surprising that a higher percentage of widows would remain out of poverty with a greater share of Social Security income than with a greater share of pension income. But what is surprising is that the percentages are so similar. For example, adopting a threshold twice the official poverty level, we find that in both cases (with the simulated change in pensions and Social Security) 28.4% of widows would be kept from otherwise moving into poverty. Even using the lowest (actual) poverty threshold, at which there should be fewer potential pension recipients, an additional 6% of widows are kept out of poverty by the simulated pension income change compared to 12% by the simulated Social Security income change. These changes lead to a simulated poverty rate of 16% and 12%, respectively.

Holden and Zick (1999) estimate the effect of annuitizing wealth on poor and near-poor rates for these same widows; that is, by how much would income rise and poverty rates fall if widows purchased an annuity with their wealth that would provide a monthly amount over their estimated remaining lifetime? We find that poverty would fall for the women already widowed from the 19.2% estimated for the module month to 17.3%, or by 10%, if financial assets alone were counted, and to 11.7%, or by 30%, if total net worth, which includes the value of owner-occupied housing, were annuitized. Indeed, annuitizing financial wealth makes a smaller difference to poverty levels than does assuring pension continuation to poor widows, which also reduces the poverty rate by 45%.

## Discussion

The antipoverty effectiveness of higher pension income paid to widows may seem counterintuitive to the known selection of relatively better-off workers into jobs with pensions and the observed receipt of pensions by relatively well-off retirees. Why then is the potential effectiveness so high? We present the following reasons:

- Although pension *income* is unequally distributed (see Table 3), coverage is fairly broad, with almost two-thirds of couples in our sample of eventual widows receiving a pension prior to death. Even fairly modest pensions received by relatively low-income workers, if continued to widows, would be sufficient to raise those widows out of poverty.
- Widows are drawn from relatively worse-off couples who are likely to be in the lower regions of pension

income distribution already. Data on pension receipt across all elderly are weighted heavily toward better-off couples, at lower risk of widowhood, and therefore both exaggerate the inequality in pension coverage or receipt among those deemed at risk of widowhood and underestimate the gain to well-being from continuing pension receipt in widowhood.

- Men who receive smaller pensions are more likely to reject the joint-and-survivor benefit (see Holden and Nicholson 1998), leaving wives who are already more vulnerable to entering poverty because of low income when married even more so upon widowhood. Thus the determinants of pension choice are more likely to affect the poverty risk of low-income widows, and, consequently, the continuation of pension income will have a large effect on the well-being of these widows.

In this sample of eventual-widow couples, those in which the husband appeared to reject a survivor pension were worse off in the pre-widowhood period than those who appeared to select a survivor pension (income-to-needs ratio of 3.18 versus 3.93), and the average decline in the income-to-needs ratio upon widowhood was larger (to 67% versus 78% of their pre-widowhood period). Pension coverage contrasts to asset holdings. Although holdings of financial assets are unequally distributed, drawing from these assets fails to raise incomes of poor widows by as much as would a widow's pension, in part because assets are unequally distributed and, when small holdings are annuitized, pay very small amounts.

The discussion of this conference centers around "needs," both the estimates of needs in retirement and how to meet those needs through private or public decisions. Our study of widowhood shows that the widowhood event itself is associated on average with a change in income that is greater than the estimated reduction in needs of the smaller post-widowhood household. This reduction may not be of serious policy concern if it occurs among relatively well-off couples. But evidence that inequality increases after widowhood and that poverty rates rise sharply indicates that widowhood presents a serious economic risk for many widows.

What does this mean for public policy and, specifically, public policy that may be within the domain of actuaries, either as lobbyists or implementers of policy? We are convinced that far more needs to be done to make couples aware of the risk of widowhood. These average income declines are observed across the income spectrum: Although better-off women may not be at risk of poverty, they are at risk of sharp income

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falls upon widowhood. Second, findings by Holden and Nicholson (1998) that the 1974 ERISA legislation increased the chances of a couple choosing a joint-and-survivor option by 27.1%, even after controlling for other economic determinants of that choice, suggest that not only legislation but also good financial advice may be important to that decision. To the extent that men with smaller pensions are more likely now to reject that option, financial advice to accept it will affect the incomes of women at risk of being below the poor or near-poor threshold.

We conclude that upon their husbands' deaths widows on average see a decline in virtually every income source—including that from Social Security, pensions, and assets, income sources designed to cushion the loss of husbands' earnings and retirement benefits. On average these losses are larger than that implied by the poverty threshold equivalency scale as necessary to maintain the economic well-being of the now smaller household. A large percentage of widows whose husbands were receiving a pension lose that pension upon widowhood. We have simulated two alternative scenarios: annuitizing wealth holdings over the remaining lifetimes of widows, and continuing in widowhood a share of pre-widowhood pensions. We estimate that annuitizing asset holdings would not make as large a difference to poverty rates as would the guaranteed continuation of pension income into widowhood.

The importance of pension income to reductions in poverty shows that actuaries do have a role in improving the well-being of those most at risk of being poor in old age. They can also influence Social Security policy that would increase the share of the couple's Social Security benefits going to the widow, a policy that is now being seriously considered in Washington and a policy that would markedly reduce the risk of being poor in widowhood.

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*See the discussion of this paper by Patricia Scahill (p. 209).*