THE JOINT IMPACT OF RETIREMENT AND WIDOW(ER)HOOD: IS THERE DOUBLE JEOPARDY?

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This paper describes changes in incomes associated with retirement and widowhood. Of special interest is the influence of husbands' retirement status prior to death on the income status of widows. Widowhood exacted a more severe one-time change in income when husbands had not retired, but that change was no greater on average than the cumulative impact of husbands' prior retirement and then widowhood for other women. Widowers experienced no change in income at their wives' deaths beyond that attributable to the continuation of their own retirement process.

INTRODUCTION

In nations without a national minimum guaranteed income or universal pension system, the loss of earnings either because of retirement or the death of a spouse can be a major source of economic insecurity. In the United States, public policy efforts have sought to reduce the economic hazards associated with retirement and widow(er)hood through a mixture of public income transfers and the regulation of private pensions. The fruits of this public policy attention to the elderly was most evident during the 1970s, a decade of unprecedented inflation during which median incomes of the aged rose faster than did those of the nonaged (Gottschalk and Danziger, 1985; Radner, 1986, 1987). Median real incomes of all family units in the United States increased between 1967 and 1977 by 23 percent; with incomes of families headed by an individual 65 or older rose by 42 percent compared to the 24 percent gain for younger families (Radner, 1986).

Gains during the 1970s in the relative economic position of the elderly led some researchers and policy makers to question the continuing allocation of substantial public dollars to this population. Calls for a reversal of public policy efforts towards the elderly, however, did not fully consider the fact that though the age group on average showed substantial gains in economic well-being, some family groups were less fortunate as they aged. Indeed, Radner (1986) shows the cohort aged 50-64 in 1967 was distinguished from other elderly groups by declining real median incomes between that year and 1982 (when all were 65 or older). These years coincided, of course, with this cohort's passing through the most retirement-prone ages, but it is over these ages that the number of widowed women also grows most rapidly. Holden, Burkhauser, and Feaster (1988) confirm the economic impact of retirement, showing that the hazard of experiencing a sharp fall in income status increases at the time married men first report being retired and in the years following that decision. But, the death of a husband substantially increases the risk of sharp income declines for women.

This paper looks more closely at the sources of changes in income among couples who during this decade experienced at least one of two critical life-cycle events--retirement and widowhood--for which substantial private and public insurance protection had developed. Of particular interest are those couples in which the husband retired and subsequently died. The question asked about them is whether his retirement status prior to his death made a difference to the wife's income status as a widow.

The influence of a husband's predeath retirement status is of interest since Burkhauser, Butler and Holden, (1989) and Holden, Burkhauser, and Feaster (1988) exclude from their sample the one-third of widows whose husbands died prior to retirement. In addition, variables in those studies and also in Smith and Zick (1986) that are interpreted to indicate the level of protection couples provide against widowhood may in fact reflect only the stage of the retirement process at which widowhood occurs. Sorting out the distinction has methodological and public policy implications which are discussed in the concluding section.

METHODS

Data and Sample

The Retirement History Study (RHS) was conducted by the Social Security Administration to study the retirement process. In 1969 a nationally representative sample of married men and unmarried women and men who were 58 to 63 years of age were interviewed as primary respondents. The interviews were repeated at two-year intervals through 1979. When the 1969 married respondent died, the surviving spouse became the primary respondent.

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The RHS subsample selected for this analysis includes all RHS couples who were not poor in 1968 (the first income-reference year of the RHS) and in which the husband was working full time (defined as 32 hours or more per week) when interviewed in 1969 on a job held for at least two years. This sample definition intentionally excludes men who prior to this first interview may have begun the retirement process with a preretirement job change or a substantial reduction in work hours. Holden (1988) has shown that within the two years prior to retirement, a considerable fraction of retirement-age men shift to jobs that, at lower hours or hourly pay, appear chosen because of desired post-retirement part-time or part-year labor force involvement. A misleading view of income change associated with the withdrawal from work, and consequently of the role of social insurance, is obtained if that change is measured from a year after a preretirement employment shift has already taken place.

Our sample consists of 4,437 couples. Of these, 692 husbands and 370 wives died between 1969 and 1979 and their surviving spouses were interviewed in at least one more survey year. These couples (or the survivor) are followed from the beginning of the survey until either the survey ended or both the husband and wife left the survey. Thus the number of years of data varies across couples. The 96 widowers who remarried are treated as censored at their remarriage.

Income Measures

The RHS is a sample of elderly individuals rather than of households. For this reason, the most accurate and detailed data are for the respondent's immediate family (respondent, spouse, and children under 18 years of age). Respondents were asked the combined income of older children and all other household members, but these data are more often missing and erroneously reported. For this reason, the income measure used here is the income received by the couple and their children under 18.

Because the RHS followed wives even after the death of their husbands, the income changes associated with either spouse's death can be evaluated. Income received during the first income-reference year of reported widow(er)hood is adjusted by the full-year estimation suggested by Burkhauser, Holden, and Myers (1986). This adjustment was necessary since when a spouse dies during the income reference year, a survey asking (as did the RHS) only about the income of current household members during that year will underestimate the income available to the new widow during that transition year.[2]

[2] The adjustment is the full-year method accomplished by adding to the surviving spouse's income the estimated income (and needs) of the husband or wife during the part of the income reference year that he or she was alive.

An innovation of this study is the substitution for reported Social Security benefits of actual benefits paid to the respondents, spouses and any beneficiary children, where the latter is available from the Social Security Master Beneficiary Records (MBR) file for each RHS year. Because on average individuals reported a higher benefit, the use of administratively reported benefits may underestimate total income if individuals know their total incomes accurately, but only misreport the amount from each source. On the other hand, Burkhauser, Holden, and Feaster (1988) and Coe (1988) find not only that real incomes fluctuate during the retirement years, but a large share of those fluctuations are due to changes in Social Security benefit amounts. This is surprising given the nature of the Social Security benefit formula and the small percentage of beneficiaries who have earnings beyond the exempt amount. Thus, there is good reason to suspect that the MBR data may provide a better measure of income levels and stability.[3]

RESULTS

Well-being of RHS Couples over the Decade

Table 1 describes changes in median incomes of the RHS subsample over the 1969-1979 survey period. Three marital groups are distinguished. Intact couples are those couples (and their minor children) in which both spouses were alive in all years the family was in the survey. Eventual widows and widowers are those couples in which the death of a husband or wife, respectively, are observed. Each marital group is further distinguished by whether the husband retired at some time or remained working in each interview year.[4] The income measure shown here is the ratio of family income to an equivalency scale which is the official poverty threshold and takes into account changes in prices and family size over the decade.[5]

[3] The use of actual benefits reduced the number of very large income changes.

[4] Retirement occurred in the first year after 1969 that the husband identified himself as fully or partially retired. For some part-time paid work continued.

[5] The poverty line in 1982, the year to which all dollar figures are adjusted in this paper, was $5,836 for a couple whose head was aged 65 and older, and $4,626 for an elderly person living alone. Appropriate poverty thresholds for younger families and those of different sizes are used. Other equivalency scales might lead to different results. For example, Lazear and Michael (1980) estimated a smaller difference in needs between two- and single-person elderly households and greater absolute poverty rates for both. This implies that this paper's estimates of income-to-needs changes as family size falls are conservative.

Differences across marital and retirement-status groups are striking. Men who never described themselves as retired (cols. 2 and 6) begin and end with higher income-to-needs ratios, even if their wives died. The median income-to-needs of widows of men who did not retire (col. 4) is comparable at the beginning of the survey to that intact couples and eventual widowers. But over time the income-to-needs ratios of retiring couples and widowers and of all eventual widows fall. The median income-to-needs in 1979 of those still in the survey in that last RHS year compared to the ratio in 1969 is less than half for both groups of eventual widows, is about three-quarters for retired widowers and intact couples, but had risen for nonretired intact couples and widowers.

TABLE 1. Median Income-to-needs Ratios: 1969 RHS Couples

Survey Year[a]	Couple Group: Intact, Retired	Intact, Never	Event. Widows, Retired	Event. Widows, Never	Event. Widowers, Retired	Event. Widowers, Never
	(1)	(2)	(3)	(4)	(5)	(6)
1969	3.9	4.1	3.6	4.0	3.5	4.2
1971	3.7	4.1	3.3	3.0	3.2	4.1
1973	3.4	4.4	2.6	2.0	2.8	4.0
1975	2.9	4.4	2.0	1.8	2.4	4.6
1977	2.3	4.5	1.7	1.6	2.2	4.3
1979	2.6	5.4	1.5	1.6	2.2	4.7
10-yr change[b]	0.7	1.2	0.4	0.4	0.7	1.2
N[c]	2,589	729	426	261	315	51

[a] Income is for calendar year preceding survey year.
[b] Change is only for those remaining in sample in 1979.
[c] In 1969.

Differences between the retired and never-retired intact couples confirm the impact for couples of retirement on income security. In contrast, for eventual widows, their husbands' retirement status prior to death appears to make little difference to how well off they are at the end of the survey period--when all were widowed. What is striking in this crude comparison, however, is the apparent relative immunity of men's income status from the influence of a spousal death; at the end of the survey median incomes had fallen by no more than did the incomes of intact couples.

Events Associated with Major Income Changes

The story told by Table 1 is of retirement for men--whether widowered or not--and of widowhood for women. During this decade the average annual gain in median incomes (adjusted for family size) for families of men who remained alive and never reported being retired was comparable to the rate in income growth for nonaged families over this same period (Radner, 1986). But the experience of other couples--those in which the husband retired or died--was quite different. It has been recommended that for middle-income workers to maintain preretirement living standard into retirement, about 65-70 percent of gross preretirement income be replaced in retirement (Schulz, 1985). The median RHS retired couple achieved that goal. But for widows it was most likely that replacement fell far below this targeted level.

Table 2 begins to distinguish the impact of retirement and widowhood for the two groups of couples in which one spouse died. The first panel shows the distribution of couples in which the husbands retired, by the change in income-to-needs from the year before to the first year of retirement. The three groups of couples are similarly distributed; the impending death of a spouse does not appear to lead to a different pattern of change. Intact couples are better off in retirement in part because they begin with significantly higher income-to-needs than do either group of widow(er)ed couples, whose income-to-needs in the two years are not significantly different from each other.

The second panel of Table 2 shows the distribution of eventual widow(er)s by changes in income-to-needs from the last income-year of marriage to the second year of widow(er)hood. The comparison is made to the second year of widowhood to take account of time required for estates to be settled and survivors to discover and receive survivor benefits from public and private programs.[6]

TABLE 2. Income-to-needs at Retirement and Spouse's Death

Income-to-needs	Intact Families	Eventual Widows	Eventual Widowers
I. Ratio of Year After to Before Retirement			
Below .5	15.4	16.9	17.7
Between .5 & .7	19.2	21.4	21.6
Better than .7	65.4	61.8	60.6
Mean Income-to-needs			
Survey before retire	4.6	4.1*	3.9*
Survey after retire	3.7	3.3*	3.3*
II. Ratio of Second Year After to Before Spouse Death			
Below .5		40.0	15.5
Between .5 & .7		28.2	19.3
Better than .7		31.8	65.2
Mean Income-to-needs			
Second before death		3.5**	3.2
Second survey after death		2.1***	2.7

* Using t-test significantly different from intact couples at .01 level
** Using t-test significantly different from eventual widowers at .1 level.
*** Using t-test significantly different from eventual widowers at .01 level.

[6] Requiring a second year of widowhood excludes data on women who were widowed between 1977 and 1979, the last year of the RHS. Comparison to the second year of widowhood reduces the difference between widows and widowers; widows do better in that year---consistent with a delay in the payment of survivor benefits--and widowers do worse as their retirement continues.

Although there was no difference in the retirement experience of these two couple groups, the death of a spouse is associated with a different pattern of income decline. Widowers are most likely to experience no or small changes in incomes-to-needs while that ratio for widows is most likely to fall to below half of its prewidowhood level. After the spouse's death, the income-to-needs of widows is far below that of widowers, even though the widows in this panel include those whose husbands never retired (and who were, thus, excluded from panel 1).

Husband's Retirement and the Financial Status of Widows

What continues to distinguish widows from widowers in our society is the greater dependence of the former when married and widowed on the earnings of the spouse. Dependence when widowed arises from the relationship in Social Security and pensions between workers' earnings prior to death and benefits paid to survivors. Social Security survivor benefits are in general equal to those which the deceased husband would have received if alive.[7] Prior to the passage of the Retirement Equity Act of 1984, it was argued that widows were disadvantaged if their husbands died prior to retirement, since it was then easier for pensions to deny a widow any survivor benefits, and studies showed that these widows of non-retired men suffered a larger decline in well-being.[8] However, Table 2 suggested that whether the husband had retired or not did not matter to the income status of the median widow some years after widowhood. Table 3 offers an explanation of this apparent contradiction.

TABLE 3. Income-to-needs by Retirement Status of Husband

Income-to-needs	Husband Retired	Husband Not Retired
I. Ratio of Second Year After to Before Widowhood		
Below .5	25.9	54.1
Between .5 & .7	28.5	29.3
Better than .7	45.6	16.6
Mean Income-to-needs		
Survey before widows	3.2	4.5***
Survey two after	2.0	2.3**
II. Ratio of Second Year After to Last Worked		
Below .5	53.1	54.1
Between .5 & .7	29.8	29.3
Better than .7	17.1	16.6
Mean Income-to-needs		
Survey last worked	4.1	4.5*
Survey two after	2.0	2.3**

*** Using t-test significantly different at .01 level.
** Using t-test significantly different at .05 level.
* Using t-test significantly different at .1 level.

The first panel of Table 3 duplicates the data for widows in the third panel in Table 2, but distinguishes by the retirement status of husbands prior to death. Widows of husbands who have not retired (col. 2) are far more likely to experience a severe change in their income status. Over one-half of this group have an income-to-needs ratio in the second income-year of widowhood that is less than half of that received when last married, compared to only one-quarter of the already retired group.

The second panel of Table 3 looks at the cumulative impact of retirement and widowhood for all widows by comparing income-to-needs in widowhood with income-to-needs in the last year the husband was not retired. That year is the last of marriage for never-retired husbands, but the last before retirement for the other eventual widows. Here the patterns are identical. The single-period <u>double</u> blow of earnings loss and the husband's death is no worse than is the cumulative impact of the separate retirement and widowhood events.

Table 4 takes the analysis one step further by showing changes in income, by source, upon widowhood. All income figures adjust for price and family size changes. Figures in the first panel (which shows the ratio of income-to-needs in the last year of marriage to that when widowed) show only modest changes and consequent greater income stability in all but the "other" income category for widows of retired men. (The decline in earnings is from a small base; in the last year of marriage earnings accounted for only one-third of these couples' incomes.) But for widows of nonretired men, their husbands' death meant not only a larger immediate decline in total income, but a major redistribution of income by source. Dependent upon earnings (their own and their husband's) for over 90 percent of income prior to widowhood, these women as widows drew substantially greater income from OASI and pensions.

[7] Eligibility rules do not distinguish between male and female survivors. We discuss the case of a wife surviving her husband, since the vast majority of survivor benefits are paid to widows.

[8] Since 1984 the spouse must sign a witnessed agreement when a retiree rejects a joint-and-survivor benefit. However, the GAO finds that most spousal consent forms are difficult to understand and many are misleading (GAO, 1990).

The second panel shows that the combined influence of retirement and widowhood, however, is similar for the two couple groups. Husbands' earnings are replaced by similarly large proportional increases in earnings-related Social Security and pension benefit.[9] Increases in interest or principal withdrawals from assets also provide a form of self-insurance against the impact of earnings loss for both groups.

TABLE 4. Income Changes by Source Upon Widowhood (income adjusted for price and family size change)

Income Source[a]	All Widows	Husband Retired	Husband not Retired
Ratio last year married to second of widowhood			
Total Income	.55	.62	.50
Earnings	.20	.26	.18
Social Security	1.79	1.12	13.94
Pensions/private annuities	1.09	.66	6.55
Interest/Rent	1.83	1.15	2.82
Other Income	1.16	3.00	1.07
Ratio last year worked to second of widowhood			
Total Income	.49	.48	.50
Earnings	.14	.10	.18
Social Security	23.01	40.30	13.94
Pensions/private annuities	5.97	5.58	6.58
Interest/Rent	2.38	1.89	2.83
Other Income	1.35	1.84	1.07

a. Ratios are equal to amount from each source in second year of widowhood to the amount from that source in relevant year of marriage.
Note: Income in each year is adjusted for changes in price and family size.

Earnings Replacement

To summarize the findings of this analysis, Table 5 shows total incomes changes in retirement and widowhood for each couple group and the percent of income replaced by earnings-related insurance. Row 1 shows family income reported in the year prior to the critical event of the husbands' retirement (columns 1, 3, and 5) or the spouses' death (cols. 2, 4, and 6). The widows in column 2 are those whose husbands do not report retirement and who thus experience the simultaneous blows of his retirement and widowhood. Widows in cols. 3 and 4 and widowers experience those events sequentially. Note that all incomes are adjusted both for price and family size differences over time.

All couples are heavily dependent on earned income prior to the husbands' retirement (row 2) and experience a comparable income fall when he retires (17 percent, row 4). Retiring couples have about half of pre-retirement earnings replaced by benefits from Social Security, pensions, and other annuities (last row). It is the widowhood experience that distinguishes eventual widows from the other two groups. When the husband dies after he reported being partially or fully retired (col. 4) the loss in his post-retirement earnings is compounded rather than compensated by a decline in pension income. In contrast, for men, the earnings decline that coincides with the death of a wife (col. 6) exacts no greater toll than that associated with the retirement process. Earnings fall, but are replaced at approximately the same level as at his formal retirement (column 5). For widows who experienced the simultaneous impact and of widowhood of their husbands "retirement" through death and widowhood (col 2), net income and earnings loss is equivalent to that of the two-step process.

CONCLUSIONS

These comparisons across couples during the early retirement-age years show patterns of income change that are not surprising. In a strictly earnings-related retirement system, the loss of husbands' earnings owing either to his retirement and subsequent death or to his death while still employed is likely to result in the same decline in incomes for the survivor. This is a result of the dependence of benefits paid to widows by Social Security and private pensions on the earnings of their husbands. Insurance against widowhood is merely an extension of insurance against retirement rather than a separate form of insurance against a distinct life-cycle event. When a married man retires these programs replace a certain percentage of his earnings; when he dies his survivor will receive a percentage of his retirement benefits even if additional sources of income are lost upon widowhood. When a married individual who is age-eligible for benefits dies prior to retirement any survivor benefit is based on the amount he <u>would have received if alive</u> and in private pensions on the annuity choice he made. While the one-time income shock to the survivor from the death of a nonretired husband may be greater, it is equivalent to what would have been the cumulative effect of his separate retirement and his death. It is only when incomes as a widow are compared to that in the last year of work that the similarity in income protection provided to these two groups of widows becomes apparent.

The methodological importance of this conclusion is its demonstration that the measured impact of widowhood depends on whether retirement occurred prior to the husband's death. For the group of RHS widows examined here, the smaller declines for some were due to the fact that their husbands had already retired rather than to their greater "success" at weathering his death. It is important that studies of income declines among the elderly distinguish those effects due to the retirement-stage at which widowhood occurs from those associated with widowhood itself. Researchers should be careful that the smaller income declines and higher replacement of

[9] Widows of never retired men are somewhat younger that other widows and therefore less likely to be eligible for survivor benefits (first payable at age 60). This may account in part for the smaller increase in their Social Security benefits.

TABLE 5. Income Changes Associated With Husband's "Retirement"

Income Amount/Change	Int. Cple. Retire	Eventual Widows Both	Retire	Widow	Event. Widowers Retire	Widower
	(1)	(2)	(3)	(4)	(5)	(6)
Initial Income[a]	$22,467	$21,754	$20,039	$16,339	$19,091	$14,436
%Earnings	89.8	92.8	92.2	46.6	92.9	37.1
Income Fall[b]	-3,853	-9,698	-3,558	-6,367	-3,120	-1,254
%Fall	17.1	44.6	17.8	39.0	16.4	8.7
Total Earnings Loss	-9,183	-16,685	-8,107	-5,604	-8,677	-4,379
Net Earned-Income Loss[c]	-4,483	-12,749	-4,080	-5,742	-3,852	-2,206
%Replaced[d]	51.2	23.6	49.7	-2.5	55.6	49.6

[a] In the last year of nonretirement for husband.
[b] From initial year to first year of retirement or second year of widowhood.
[c] Sum of change in earnings (including any self-employment income), pension income, and Social Security benefits. Income to both spouses are counted.
[d] Percent of earning income replaced by pensions, Social Security, private annuities.

earnings for widows of retired men not be taken to reflect the greater planning by some husbands for their probable survivor; it is only that some income is already lost, not that these men cared more for their eventual widows' economic well being.

This discussion also helps to explain why the cohort aged 50-64 in 1967 was unique in experiencing a decline in average incomes over the next 15 years. Men in this cohort were at high risk of retirement, but widowhood may also have its greatest impact on economic status during these years when husbands are most likely to die prior to retirement. As couples age together, the events of retirement and widowhood will be separated by increasing numbers of years. It is during the critical retirement-age years (and the period covered by the RHS) that the large income declines experienced by widows of nonretired men contribute most to income changes for the cohort.

These findings suggest a major gap in our income maintenance system. Even after weathering their husbands' retirement, women suffer an additional shock to needs-adjusted income when their husbands die. Pensions are lost; even though pension incomes of eventual widows of nonretired men increase, this represents a decline from the income the husbands would have received if alive. Social Security replaces some fraction of lifetime earnings when the husband retires, but the earnings he continues to receive during retirement are not insured against his death. Our system, based on insuring against the loss in husbands <u>earnings</u>, fails to directly insure the widow's against the loss of postretirement, <u>prewidowhood</u> income.

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