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

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Abstract

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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 debated. A component of this debate concerns survivor pension. Survivor benefits represent a large share of total benefits in the French retirement system (14 % in 2003, ie 28,6 billions € in 2005). Significant demographic changes occur during the past four decades and ask whether 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 development 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 has been reopened during the preparation of the 2003 pension reform.[1] One of the objective 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 recent electoral campaign, main candidates debated about the opportunity to increase survivor's pensions. Yet french widows do no 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 married retirees).

One conclusion of the debates is that one basic information is missing : with current survivor benefits, does wife's well-being fall after her husband's death ? Indeed, in France, the share of a husband's benefits inherited goes from 50 % to 60 %, depending of the affiliation scheme. It is commonly assumed that this replacement rate maintain 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 widowhood, and to what extent survivor pension may compensate for this loss.[2] One explanation may be a lack of panel data, necessary as soon as a dynamic process is studied.[3] The litterature on other countries is richer (Hurd, 1989, Hurd and Wise, 1989, Holden . . .). 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 loss. In the United-States, women aged between 62 and 69 who become widows experience a drop in their average adjusted income as high as 21 percent, that is more than twice the drop for new widows aged over 70. Besides the issue of equivalence scales, the results are also quite sensitive to

[1] Law n° 2003-775, August 21, 2003

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

[3] 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 %. This income is not an adjusted one. If it was, married women would experience an increase in their living standards after their spouse's death. Other studies are really needed.

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).

Assuming that survivor pension rates maintain the equivalised income relies 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 the only income sources of retired), x the ratio $\left(\frac{P_s}{P_d}\right)$, 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 :

$$HI_1 = \frac{(P_d + P_s)}{(1 + equi)} \quad and \quad HI_2 = (rate * P_d + P_s)$$
$$\frac{HI_2}{HI_1} = (1 + equi)\left(\frac{x + rate}{x + 1}\right)$$

If the objective is to maintain the living standards of the surviving spouse, the rate for survivor's pension must be equal to :

$$\left(\frac{1 - equi * \frac{P_s}{P_d}}{1 + equi}\right)$$

It depends on the equivalence scale chosen and on the share the own pension of the survivor represents in 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 rough assumptions used for this calculation question its validity. It makes the comparison to observed panel data necessary.

2 Objectives of the paper and data used

The objective of the paper is twofolfd. 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 pension is a kind of asset and a part of it must go back to the surviving spouse. The reasons to promote 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 do so, we use an original data set. Since 1996 and yearly, 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 in a panel way. Indeed, 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 supposed to be more reliable to survey ones, 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 panel. Even if being widowed is not a common event in the population[4], the sample will be sufficiently large to permit multivariate analysis. Lastly, income sources are detailed : pensions, earnings, allowances (housing, minimum income guarantee, . . .), asset income, rental income. In particular, asset income play a great role in the inocme of retired people.

We look at mean income changes, measures of income inequality and changes in income sources and compar 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 could be different depending on the scheme). Panel data are useful to disentangle the role of disparities before widowhood (and the link with differential mortality[5]) and of factors directly related to the death of the husband in the evaluation of the economic consequences of widowhood.

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[4] See note 3

[5] At a given age then, 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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