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THE WEALTH AND POVERTY OF WIDOWS: ASSETS BEFORE AND AFTER THE HUSBAND'S DEATH

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ABSTRACT

We verify that widows are much more likely than couples to be poor and that they make up a large proportion of the poor elderly; 80 percent are widows or other single individuals. Then we seek to explain why the single elderly are poor, with emphasis on widows. We do this by tracing back over time their financial status, using the Longitudinal Retirement History Survey. The death of the husband very often induces the poverty of the surviving spouse, even though the married couple was not poor. While only about 9 percent of prior couples are poor, approximately 35 percent of the subsequent widows are. A large proportion of the wealth of the couple is lost when the husband dies. In addition we find that: (1) the prior households of poor widows earned and saved less than the prior households of non-poor widows, (2) more of the smaller accumulated wealth was lost at the death of the husband, (3) the absence of survivorship benefits or life insurance insured that the loss in wealth would leave the widow poor thereafter.

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THE WEALTH AND POVERTY OF WIDOWS: ASSETS BEFORE AND AFTER THE HUSBAND'S DEATH

by

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Although the economic position of the elderly has improved over the last fifteen years, substantial numbers, especially single elderly, are still in poverty. For example, according to the official poverty statistics, 22.1 percent of single elderly men and 27.7 percent of single elderly women were poor in 1983. Our goal in this paper is to discover why so many of the single elderly are poor. Because many of the single elderly are widows, and in our data set we can observe the economic changes that accompany widowhood, we concentrate on explaining how so many widows came to be poor. Our analysis is based on the Longitudinal Retirement History Survey (RHS), which follows retirement-age households over ten years, between 1969 and 1979. Our method is to trace back over the years of the survey the wealth of widows who were poor, and to compare their wealth paths with the wealth paths of non-poor widows and of couples. In this way we can determine, for example, if poor widows come from families that

[1]We are grateful to the Commonwealth Fund for financial support and to Tom Prusa for excellent research assistance. John Shoven, Victor Fuchs, and Judy Bentkover provided very useful comments on the paper.

were poor when the husband was alive. By comparing wealth paths we can find if, in the years near the husband's death, wealth drops in an unexplained way. We can also examine the components of wealth; we want to know, for example, if the family held life insurance.

As one would expect, we find that poor widows tend to come from families that were poor when the husband was alive. But in addition we find that the mortality rates of the poor are higher than the mortality rates of the well-to-do. This differential mortality by wealth level will, by itself, tend to cause a greater fraction of widows to be poor than the fraction of poor among all elderly. Furthermore, at the time of the husband's death a considerable fraction of the family's economic resources are lost: We find that about 32 percent of non-housing wealth and most of job-related pensions disappear during the two-year interval in which the husband dies. This wealth loss puts in poverty many widows that came from families that were not poor before. In fact, more than 75 percent of poor widows were not poor when their husbands were alive. We have not found striking differences in life insurance by poverty status. Even though there is some variation in the amount of life insurance, the differences are not great enough to affect poverty status in an important way.

The findings reported in this paper set forth the circumstances that lead to the poverty of widows. In doing this, the paper also draws attention to our limited understanding of the underlying determinants of some of these circumstances. These are issues that must be addressed in subsequent research. For example, why do families in which the husband dies at an early age accumulate fewer assets by the age of retirement than families in which the husband dies at a later age, even if their lifetime earnings are apparently similar? We return to this question and others at the end of the paper.

The conclusions reached in the paper are based on a large number of calculations, some of them in the form of detailed tables. To facilitate exposition, we have included in the paper itself only summary tables or illustrative excerpts from the more extensive tables. The full tables are in a separate appendix volume. We begin in the next section with documentation of the wealth and poverty status of the elderly. We then consider the circumstances that lead to the disproportionate poverty of widows.

I. Wealth, Income, and Poverty Status

In this section we discuss our data. Then we give some wealth and income measures for the elderly population we study. Finally, we offer several definitions of the poverty level. One of them is quite close to the official Bureau of Labor Statistics definition; using that definition we find fractions in poverty that are similar to those found in the official statistics. Other, more inclusive definitions, reduce the fraction in poverty substantially.

A. Data

Our data come from the Longitudinal Retirement History Survey (RHS). The RHS is a self-weighting sample of heads of households who were born in 1905-1911. The heads were initially interviewed in 1969, and either they or their survivors were reinterviewed every two years through 1979. Of the original sample, about 63 percent were married couples, about 21 percent widows (original widows), and 16 percent singles. Over the ten years of the survey, many husbands died: by 1979 about 15 percent of the sample are surviving spouses.

The survey collected extensive data on the income, assets, work behavior and health of the households. We have aggregated more than forty income and asset categories into our income and wealth measures. Details may be found in the appendix volume. No single wealth or income measure is completely satisfactory in assessing the economic status of widows; therefore we use a number of measures.

One measure we call bequeathable wealth. Roughly speaking it is the sum of stocks of wealth except housing equity. The main components are saving accounts, stocks and bonds, equity in a business, property, loans receivable, all net of debt. The reasoning behind our use of this wealth measure is that it gives the amount of wealth, other than housing, that may be inherited by a widow; it measures liquidity better than other wealth aggregates; and changes in its level are probably the best measure of desired wealth change. We also study housing wealth, which is the estimated market value of the house less debts on the house. Because it is costly to vary consumption of housing services, housing wealth is less useful as a measure of desired wealth change. It is, of course, useful in understanding economic well-being.

Social Security wealth is the expected present value of future Social Security payments. Annuity wealth is the expected present value of future pension payments. The other income and wealth measures we use are direct responses from the questionnaire.

The value that we place on Medicare-Medicaid services is the per person value transferred into the Medicare-Medicaid system.[2] Our thinking is that it represents the cost of a fair medical insurance policy which is given each year to those eligible. Whether the insurance is valued at its true cost by those who use the services is another question. The value of the services to users who pay very little for them is likely to be much less than the cost of providing them. On the other hand, a large fraction of persons covered by Medicare-Medicaid would be willing to pay much more for the coverage than this cost. Many of these would be unable to purchase such insurance in the private market at the per person value of transfers, and for many it would be unavailable at any price. Thus the average value of such insurance to its recipients may be more or less than its cost. Because of these

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[2] A similar treatment is followed by Hurd and Shoven [1983].

ambiguities we offer several wealth measures that exclude Medicare-Medicaid.

In our discussion of wealth we usually refer to medians rather than means. This is because the wealth of the elderly is highly skewed; the means may give a misleading impression of the situation of most of the elderly. The drawback is that one cannot sum the medians of the individual components to obtain an aggregate median.

B. <u>Wealth and Income</u>

As shown in table 1, widows have much less wealth and income than married couples. The mean of (non-housing) bequeathable wealth for married couples is about $58,000 in 1979, but little more than $21,000 for widows and only $18,000 for other single persons. The medians are much smaller. Half of widows, for example, have less than $6,000 in financial saving. Widows have much less wealth in other categories as well. Their median housing value is only $12,000, compared to $30,000 for couples. More than half have no pension income. The average of pension income is just $936 compared to $2,605 for couples. As we shall see, this difference reflects the fact that many private pensions do not have survivorship rights; but, in addition, the husbands who died during the survey years began with smaller pensions than the husbands who survived during the survey years.

Human capital is the expected discounted value of future labor earnings. At the advanced ages of the RHS population in 1979, the stock is not very important even though earnings are about 19 percent of the income of couples and 13 percent of widows' income.

By far the largest source of income for widows is Social Security: their average benefits are $2,732 per year, somewhat more than half of the mean level of benefits received by couples. A substantial proportion of income of both couples and widows is in the form of medical care provided through Medicare or Medicaid. For widows, we estimate its average value to be about 11 percent of all income.

Data for the other survey years show a pattern very similar to that for 1979, except that Medicare-Medicaid income was much lower in the earlier years. Because eligibility for these programs does not begin until age 65, most of the elderly did not have Medicare-Medicaid income in earlier years.

C. Poverty

Poverty levels were originally determined by considering the cost of goods and services that would be necessary to maintain a minimum acceptable standard of living. Goods and services include such items as housing and health care. In practice, the poverty level is usually defined by the income necessary to buy these goods and services. If some goods and services are provided through owner-occupied housing or through social insurance, less current income is required to maintain this standard of living, and the definition of a poverty level becomes ambiguous. In principle, the income definition used should correspond to the services included in the market basket used to determine the poverty income level. The ambiguity is especially acute for the elderly; 70 percent live in houses that they own, and many receive large amounts of health care covered by Medicare or Medicaid. Because there is no single unambiguous way to account for these services, we have elected to present estimates of the proportions of persons in poverty based on several income definitions that are progressively more inclusive. The first includes all standard measures of income; the second adds car services and subtracts interest payments on some forms of debt; the third adds the value of housing services from owner-occupied housing; and the fourth adds the annual value of Medicare-Medicaid coverage.[3] In evaluating the change in the financial status of the elderly over time, the latter addition is especially important, although difficult to measure precisely.

The mean and median levels of income by these definitions, together with the proportion below the poverty line are shown in table 2 for 1979 and for 1969.

Almost 37 percent of widows were poor in 1979, according to the most limited income definition. Fewer than 10 percent of married couples were poor by this measure. The median income of widows was only 42 percent of the median for couples. Adding the transportation services from owned cars and adjusting for debt servicing (B) changes these numbers very little. Including the cost of renting owner-occupied housing does reduce somewhat the

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[3]The precise definitions are found in table 2.

percent below the poverty line.[4] For example, the proportion of widows with incomes below the poverty line is reduced from 36.7 percent to 29.6 percent. We will show below that most widows with low income and total wealth also have little housing wealth. This means that most could not improve their financial position significantly by converting their housing wealth into current consumption, say by means of a reverse mortgage. Most have little to mortgage: as we reported in table 1, median housing wealth was only $12,000. Other single elderly have even less housing wealth, as indicated by the very small reduction in the percent below the poverty line when housing services are counted as income.

Judging by economic theory, our income measure (C) is probably more accurate than (A) or (B): it adds to the usual kinds of income, flows from non-financial assets. Although there is some difference in income levels from measure (A), the general impression is the same: many more widows and singles than couples are poor. Of course, it is difficult to compare incomes across family sizes as one does not know the right correction for economies of scale. The official poverty scale for the elderly suggests that a single person requires about 79 percent of the income of a couple. The Social Security survivorship rights of a

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[4] Our measure (C) is a rough measure of the added income that could be obtained from selling the house, and investing the equity in a bond that would both maintain its real value and return an additional 3%. Thus (C) is a slight understatement, but not a great understatement, of the income potential from converting housing equity to measured income flow.

widow suggest a widow requires about 67 percent of the income of a couple. Whichever is correct it is clear that widows have considerably less, about 45 percent according to (C). Thus, even if there are economies of scale in household production and consumption, at the median widows are considerably poorer than couples.

Counting as income our rather crude measure of the value of Medicare-Medicaid, however, has a very substantial effect on the number of elderly that are classified as poor, reducing the percent poor from 29.6 to 17.1. Counting housing services and Medicare-Medicaid almost halves the percent poor. The reduction is even greater for single persons, from 35.9 to 14.9 percent. While almost 10 percent of married couples are counted as poor by the standard definition of income, fewer than 3 percent are below the poverty line when Medicare-Medicaid and housing services are counted as income. These large changes in the fraction in poverty underscore two important points.

First, it is clear from a comparison of the 1979 with the 1969 numbers that accounting for Medicare-Medicaid can have a substantial effect on the poverty status of the elderly. This happens mainly because we included in (D) an income flow from Medicare-Medicaid only if an individual was eligible. But because the age of eligibility is 65, almost no one had an income flow from Medicare-Medicaid in 1969. By 1979 most of the sample were eligible (except young widows). In addition, benefits under Medicare-Medicaid increased faster than the Consumer Price Index, so the imputed income from the medical programs increased faster than the poverty cutoff. Nonetheless, although there can be dispute about how to measure precisely the benefit from the medical programs, these programs were intended to help the elderly population and by these measures they have done just that. Second, it is evident from the 1979 numbers that relatively small changes in income can have a large effect on the proportion below the poverty line. For example, a $2,748 increase in income for married couples removes from the poverty roles 70 percent of those who would otherwise be there. This sensitivity to definition indicates of course that the incomes of many of the poorest elderly are close to the poverty line.

To avoid confusion, all of the calculations below are based on income definition (A). In addition, all money values are in 1979 dollars. For simplicity, we have not reported sample sizes in the tabulations; differences and other patterns that are revealed in the data should be taken to be statistically significant, however.

II. The Husband's Death and the Transition to Poverty

The death of a woman's husband increases very substantially the likelihood that she is poor. This is shown in the first panel of the tabulation below.

Percent Poor, by Marital Transition, 1973 -> 1975[a]

Year	Couple → Couple	Couple → Widow	Single → Single	Widow → Widow
		Total Sample		
1971	8	8	30	28
1973	8	9	29	33
1975	7	42	29	24
		Poor in 1973		
1971	50	50	72	48
1973	100	100	100	100
1975	51	85	78	50
		Not Poor in 1973		
1971	4	4	12	19
1973	0	0	0	0
1975	4	37	9	11

a. The entries are percents. The husbands in the couple to widow category died between 1973 and 1975. The data for 1971 are shown for comparison.

The tabulation classification is based on the transition between 1973 and 1975. A couple is classified in the first column if the husband and wife were alive in 1973 and in 1975; a couple is classified in the second column if the husband died between 1973 and 1975. The last two columns pertain to singles and widows respectively. The data for the groups with no change in marital status provide a control for economy-wide trends that may have affected the changes in poverty rates from one year to the next.

In 1973 the poverty rate of couples in which the husband survived until 1975 was 8 percent (first column of the first panel), just slightly lower than the 9 percent poverty rate of couples in which the husband died between 1973 and 1975 (second column). Yet in 1975 the poverty rate of the couples fell to 7 percent while the poverty rate of the surviving widows rose to 42 percent. A similar pattern is found in other years.[5]

The second and third panels show, as expected, a strong relationship between the poverty status of the couple when the husband was alive and the poverty status of the widow. For example, 85 percent of widows from couples that were poor in 1973 were poor in 1975. What is surprising, however, is that fully 37 percent of widows from couples that were not poor in 1973 were poor in 1975. This confirms the pattern in panel 1; the death of the husband is a strong predictor of the poverty of the surviving household.

The second panel also illustrates the difficulty in drawing welfare implications from poverty status defined by income. Poverty is not a permanent state even among the elderly. It varies substantially from year to year. For example, (in the first column) only half of the couples that were poor in 1973 were also poor in 1971; and only half were poor in 1975. Column 4 shows similar results for widows. More detailed data show that the poverty of widows and singles is more likely to persist than the

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[5]Although these data based on the 1975-1977 transition suggest that the prior poverty rate of households in which the husbands died were about the same as those in which he did not, the data for all possible comparisons made it clear that this is not the case. In 10 of a possible 14 comparisons, the continuing couple group had a lower rate of poverty than the couple to widow group. In the other 4 comparisons, the rates were equal.

poverty of couples; nonetheless we find considerable movement into and out of poverty.[6] From a social point of view temporary poverty is not as serious as permanent poverty.

Instead of income, suppose that poverty is defined by wealth. Our wealth poverty line is chosen so that the same proportion of households has total wealth below this cutoff as the proportion that has income below the official income-based poverty line. In addition, we distinguish surviving spouse widows from original widows. The husbands of surviving spouse widows died during the RHS survey years; heads of households who were already widows when the survey began are called original widows. Using these definitions, we find the following prevalence and persistence of poverty:

Percent Poor and Persistence, by Poverty Definition and Marital Status[a]

1979 Marital Status	Percent Poor In 1979 (Income Definition)	Percent Of Total Poor In 1979 (Income Definition)	Percent Also Poor In 1969, (Income Definition)	Percent Also Poor In 1969, (Wealth Definition)
Married	10	20	32	72
Surviving Spouse	34	21	21	60
Original Widow	45	39	60	82
Single	36	20	61	77

a. The last two columns show, of those who were poor in 1979, the percent who were also poor in 1969. Surviving spouses in 1979 were married in 1969.

[6]Errors in reporting will of course affect the proportion classified as poor and the change in the proportion from one survey period to the next. If a large fraction of those classified as poor are close to the poverty line, as the data above suggest, reporting errors will have a greater effect.

Note that the percent of surviving spouses poor in 1969 pertains to the poverty status of these widows when they were married; all were married when the survey began. Original widows are the most likely to be poor.[7] They have been widowed the longest and presumably their husbands died at the youngest ages. The poverty status of original widows and singles is by far the most persistent, based on the usual income definition. But this conclusion is much less obvious if poverty is based on wealth. The poverty status of all groups is much more permanent based on the wealth definition. This is particularly true for married couples and surviving spouses, who appeared to have the greatest fluctuation in financial status based on the income definition.

III. Causes of Poverty

We have shown above that the death of the husband in itself induces poverty. To understand how widows come to be poor, we consider their financial position prior to widowhood, and how it changed when their husbands died. We also consider other prior attributes, such as health status and the age of the husband at his death, which may be considered proximate causes of poverty. It will help at this point to outline how we shall proceed:

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[7]More detailed data show that new surviving spouse widows are the most likely to be poor. But original widows are more likely to be poor than surviving spouses who have been widows for a few years.

- We show first that the husband's death is associated with less prior accumulation of wealth; mortality is associated with differential wealth.

- Loss of wealth when the husband dies is then described in detail. It is shown that the prior households of poor widows had much less wealth than the prior households of non-poor widows. And, a larger proportion of the wealth of poor widow households was lost at the husband's death.

- Next it is shown that transfer of wealth to children when the husband dies does not explain the loss of wealth at his death.

- The relationship of earnings to wealth accumulation for poor and non-poor widows is then explored, albeit in a rather crude fashion, and the potential effect of health on saving is investigated. The households of poor widows apparently accumulated much less wealth per dollar of earned income than the households of non-poor widows. The husbands in the prior households of widows also had poorer health than the husbands in the continuing couple households. In addition, the husbands of poor widows had poorer health in prior years than the husbands of non-poor widows.

- Finally, there is a brief discussion of the extent of support from children. It is very limited, but greater for poor than for non-poor widows.

A. Differential Mortality

The early death of the husband is itself associated with less prior wealth accumulation. The tabulation below gives total wealth in earlier survey years by change in marital status between 1977 and 1979.

Median Total Wealth, by Marital Transition 1977 -> 1979[a]

Year	Couple → Couple	Couple → Widow	Single → Single	Widow → Widow
1969	$120,919	$112,021	$45,797	$99,380
1973	150,962	136,582	62,488	109,581
1977	144,683	132,821	54,152	80,932
1979	134,953	87,878	46,807	73,312

a. The column categories are defined by change in marital status between 1977 and 1979. The entries are in 1979 dollars.

This tabulation, and others not reported, give convincing evidence of differential mortality by wealth level. In all the years before the husband's death the prior couples of widows (column 2) had less wealth than the continuing couples (column 1). For example, in 1969, fully eight years before the husband died, wealth was 7 percent lower. While it may be reasonable to suppose that wealth is lower in the year just before the husband's death because of medical expenses associated with his death, it seems unlikely that wealth differentials of such persistence could be attributed to differences in medical expenses. Rather the results raise the possibility that lifetime health differences are associated with differences in lifetime earnings (and, hence, differences in retirement-age wealth), and differences in mortality rates.

We have shown above that original widows are the most likely to be poor. And given that households in which the husband later died had less wealth, prior to his death, than households in which both the husband and wife lived, one might expect that surviving spouse widows would be more likely to be poor the younger the husband was when he died. The evidence is not consistent with this presumption, however. As the tabulation below shows for widows in 1979, there is essentially no relationship between the percent who are poor and the age of the husband at his death.

Percent Poor Widows in 1979 by Age of the Husband at His Death

Age	Percent Poor
59	32
61	36
63	34
65	33
67	37
69	36
71	30

There is also no relationship between the proportion of widows who are poor and the number of years since the husband's death.

B. Wealth Loss When the Husband Dies

We have verified, as expected, that a widow is likely to be poor if the prior couple was poor. Furthermore, differential mortality implies that widowhood, itself, is an indicator that the prior couple was poorer than the average couple. From these facts alone, one would expect higher than average poverty rates among widows. Yet this is certainly not the only cause of the high poverty rates. In this section we show that substantial wealth loss accompanies the husband's death.

The following tabulation verifies substantial wealth loss at the husband's death. We classify according to poverty status in 1977 and consider wealth in 1977 and in 1975. We again present data for those who had no change in marital status during this period, as well as the data for widows in 1977 whose husbands were alive in 1975. The first number of each pair pertains to 1975 and the second number to 1977.

Median Wealth in 1975 and 1977, by Marital Transition 1975 -> 1977, Wealth Category, and 1977 Poverty Status[a]

Wealth Category	Couple → Couple	Couple → Widow	Single → Single	Widow → Widow
		Poor in 1977		
Total	$65,556	$85,433	$29,780	$47,250
	62,941	54,159	29,590	48,043
Bequeathable	1,348	4,389	281	1,187
	1,677	3,139	240	772
Life Insurance	1,349	3,372	539	674
	1198	1,198	0	898
Annuity	4,709	9,804	1,551	3,433
	2,468	1,359	789	1,975
Social Security	46,584	53,981	23,623	32,953
	45,129	35,310	24,303	33,881
Housing	6,743	12,138	0	7,642
	8,624	11,978	0	4,212
		Not Poor in 1977		
Total	149,844	129,353	70,051	95,334
	150,851	92,939	71,549	100,563
Bequeathable	17,532	11,005	8,698	12,542
	17,755	15,810	8,795	13,205
Life Insurance	6,743	6,237	1,349	1,349
	5,151	1,198	1,198	1,198
Annuity	21,704	23,292	19,631	10,399
	25,061	14,938	21,550	12,211
Social Security	70,542	69,484	35,858	43,261
	69,807	44,552	35,943	44,631
Housing	26,973	21,915	0	21,578
	29,945	21,956	0	21,560

a. The first of the two entries pertains to 1975 (when the husband in the couple to widow category was living) and the second entry to 1977 (after he had died). The entries are in 1979 dollars.

The classification is by poverty status in 1977. The data in the second column of the first panel, for example, refer to the wealth of widows who were poor in 1977 and whose husbands died between 1975 and 1977. Of course, the tabulation shows that the families of poor widows had less wealth in 1975, when the husband was alive, than the families of non-poor widows. But an additional fact is evident. Although both poor and non-poor widows lost wealth over the period of the husband's death, the poor widows lost a higher fraction, 37 percent versus 28 percent. The poor widows had less wealth than non-poor widows in all categories, both before and after the husband's death. But, an interesting finding is that the difference in Social Security wealth is much smaller than the differences in other kinds of wealth.

To the extent that Social Security wealth is proportional to Social Security benefits for people of the same sex and age, and Social Security benefits are related to lifetime earnings, the similarity of Social Security wealth indicates that the two groups of widows came from families whose lifetime earnings were not widely different. Of course, the progressivity of the Social Security benefit schedule dampens earnings differences; nonetheless, the differences between Social Security wealth, on the one hand, and bequeathable wealth and housing wealth on the other hand, suggest that part of the cause of poverty is a failure of the family to accumulate assets during the working life. These data do not indicate why some families accumulated assets and others did not; but differential mortality, emphasized below, is consistent with the hypothesis that health was different during the working life. That, in turn, suggests that medical expenditures may have been greater during the working life. Of course, it is certainly possible that rather small lifetime earnings differences lead to large ex post differences in assets at retirement.

Possibly the most striking result is the difference between the private annuities of poor and non-poor widows. The annuity wealth of poor widows was virtually eliminated at the death of the husband, declining from $9,904 to $1,198. Widows who were not poor had much more annuity wealth when married and lost much less of it when the husband died, 36 percent instead of 88 percent. Presumably recent legislation will reduce very substantially this kind of wealth loss when a spouse dies.

Even though widows who were not poor had about twice as much life insurance as those who were poor, neither group had much. Apparently the life insurance collected by non-poor widows led to the increase in bequeathable wealth, whereas the bequeathable wealth of poor widows fell at the death of the husband. Whatever the interpretation of the reported face value of life insurance, the tabulation makes it clear that life insurance was not sufficient to make up for the loss in other wealth.

In summary: If the husband in a household dies, the probability that the household is poor typically increases from less than 10 percent to more than 35 percent. We find that households in which the husband died accumulated less wealth than households in which both the husband and wife survived. This effect is especially pronounced for personal saving. The prior couples of poor widows accumulated much less wealth than the prior couples of non-poor widows. A large fraction of the wealth of the couple is dissipated when the husband dies, and the loss of wealth is greater for poor than for non-poor widows. In the next sections, we explore further the potential reasons for the lower prior household wealth of widows and the particularly low prior wealth of poor widows.

C. Transfer of Wealth to Children?

An explanation for the wealth decline at the husband's death is that children receive inheritances. In the next tabulation we give data that allow an informal test of that hypothesis and which also confirm the differential wealth by mortality. Again the tabulation differentiates households according to whether the husbands died in the 1977-1979 interval; wealth of the households is shown back to 1969 by that classification. In this tabulation, however, only housing wealth and non-housing bequeathable wealth are shown, that is, wealth that could be passed on to children. Once again we see differential by mortality and wealth loss at the husband's death. The wealth difference extends back to 1969, at least eight years before the husband's death. We can see that the wealth differential in the year or two before the husband's death is due to a permanent differential, not one caused by sharp wealth declines that would be associated with high medical expenses in the three or four years just preceding the husband's death.

Median Housing and Non-Housing Bequeathable Wealth, by Change in Marital Status 1977 -> 1979, and by Year and Whether the Household Had Children[a]

Year	Couple → Couple	Couple → Widow	Single → Single	Widow → Widow
		Total Sample		
1969	$38,743	$31,814	$10,022	$27,261
1973	43,303	36,754	9,650	31,623
1977	48,763	47,236	10,604	31,598
1979	48,763	47,236	10,604	31,598
		Households With Children		
1969	37,004	32,235	4,493	26,334
1973	42,434	36,754	4,358	31,426
1977	47,903	47,455	3,856	31,574
1979	50,193	45,439	3,472	28,480
		Households Without Children		
1969	49,706	25,603	16,224	34,936
1973	53,337	31,347	14,802	36,585
1977	55,509	37,359	16,041	32,580
1979	59,157	34,340	15,250	32,222

a. The column categories are defined by change in marital status between 1977 and 1979. The entries are in 1979 dollars.

The middle and last panels give wealth changes according to whether the household has children.[8] We see that, if anything, there was more wealth destruction in the households without

[8] Because the sample averaged about 70 years old, very few of the children would be living in the couple's household.

children than in those with children. This pattern is also found in the other years. Thus it seems unlikely that the wealth decline is due to the transfer of wealth to children. The tabulation also shows that couples with children have substantially less wealth than couples without children. We explore this issue further below, but note now that raising children substantially decreases the retirement assets of households.

One anomaly of the data for this year is that there appears in some years to be little differential mortality in families with children. In comparisons for all other two-year periods differential mortality is revealed. Indeed, the association between early death and the accumulation of personal saving is much more pronounced than the relationship for all wealth, including government directed saving--Social Security--and saving through firm pension plans. The data typically look like those above for households without children.

D. <u>Prior Earnings, Wealth Accumulation, and Health</u>

The data on Social Security wealth suggest that continuing couples had somewhat greater wage earnings over their lifetimes than the prior couples of widows, 2 to 7 percent less depending on the year for which the calculation is made. The following tabulation shows prior Social Security wealth, housing and other bequeathable wealth, and total wealth of couples, by change in marital status in the 1975-1977 interval. Those who became widows during that period are distinguished by whether they were poor in 1977.

Median Social Security versus Other Wealth by Marital Transition 1975 -> 1977[a]

Year	Couple → Couple	Couple → Widow	Couple → Not Poor Widow	Couple → Poor Widow
		Social Security Wealth		
1969	$49,725	$48,021	$51,368	$40,565
1975	69,414	63,741	69,484	53,981
1977	68,176	40,374	44,552	35,310
		Bequeathable Plus Housing Wealth		
1969	39,581	23,096	32,201	15,196
1975	46,847	26,973	35,065	14,363
1977	49,427	30,722		16,093
		Total Wealth		
1969	121,993	97,627	114,143	72,066
1975	144,527	110,492	129,353	85,433
1977	145,867	78,696	92,939	54,159
		Ratio: Bequeathable Plus Housing Wealth to SS		
1969	.80	.48	.63	.37
		Ratio: Total Non-SS Wealth to SS		
1969	1.45	1.03	1.22	.78

a. The column categories are defined by change in marital status between 1977 and 1979. The dollar entries are in 1979 dollars.

Prior couples of widows had about 3 percent less Social Security wealth in 1969 than continuing couples; they had about 8 percent less in 1975. The 1969 prior Social Security wealth of poor widows was about 21 percent less than that of non-poor widows; 1975 Social Security wealth was about 22 percent less.

Differences in wealth accumulation were much greater. If Social Security wealth is taken as an index of earnings and other wealth as an index of saving, households in which the husband died saved much less than households in which the husband did not die. And, households in which the death of the husband left a poor widow saved very much less than those in which the widow was not poor. Thus this admittedly crude indicator of saving suggests that the early death of the husband was associated with considerably less saving out of earnings and that poverty of widows is partially explained by the failure to accumulate assets while the husband was living.[9]

Measures of health status indicate, in turn, that the lower saving rate may be associated with poor health. We have speculated about the role of the husband's health in the eventual poverty of the widow. In the next tabulation we offer direct evidence that poor widows tend to come from families in which the husband had bad health. The tabulation records the average of a subjective health indicator: the higher the value the higher the respondent rates his own health. The health indicators are presented for the same marital transition categories as in the tabulation just above.

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[9]This is not to say that ex-ante these households made inappropriate saving decisions, or that they were based on incorrect knowledge or predictions about the future; they may have chosen to consume more earlier, running greater risk of limited financial circumstances later in life. According to this view, luck was against them when they became old.

Subjective Health Indicator of Respondent by 1975 -> 1977 Marital Transition

Year	Couple → Couple	Couple → Widow	Couple → Not Poor Widow	Couple → Poor Widow
1969	63	49	50	48
1971	61	45	47	43
1973	59	40	42	38
1975	63	37	37	38
1977	61	55	56	54

a. The column categories are defined by change in marital status between 1977 and 1979.

The last response in the couple to widow column is that of the surviving spouse and is approximately equal to the response of continuing couples, typically that of the husband. We see, for example, that in 1969 the mean response of the husbands of continuing couples was 63, whereas the mean response in that year of the husbands of 1977 widows was 49. In later years the difference becomes much greater: by 1975 the figures are 63 and 37 respectively. In addition, just as poor widows came from families with lower levels of wealth than non-poor widows, they also came from families in which the husband had worse health. The difference between the poor and non-poor widows is not very pronounced, however, whereas the comparable differences in wealth were very large. Data not shown indicate that poor widows also tend to rate their health worse than non-poor widows do.

An obvious explanation for the change in bequeathable wealth at the husband's death is medical expenses. We do not have complete medical expenditure data, but we do have information on expenditures for doctor bills. The tabulation below shows that they are small on average, and, that they generally are larger for those surviving spouses who were not poor in 1979 than for those who were poor. If doctor bills are a good indicator of total medical expenditures, it does not appear that poor widows became poor because of unusually high medical expenditures.[10]

Mean Doctor Bills Paid by Prior Households
of 1979 Surviving Spouses, by Poverty Status in 1979
and by Year

Year	Poor	Non-Poor
1969	123	186
1971	142	154
1973	76	108
1975	--	--
1977	164	122

E. Support from Children

Although intergenerational transfers is not the focus of this paper we offer some evidence on how they might affect the poverty status of the elderly. The RHS does not have information on amounts transferred from children. As reported in Hurd and Shoven (1985), the amount transferred from relatives is very small: $12 per year in 1979; $23 per year for single females most of whom would be widows. For this project we collected data on the number of children who gave transfers. We report by poverty status in 1979 the average number of living children and the average number

[10]Data were not collected in 1975.

from whom support is received:

Number of Children and Support from Them, by Marital Status and Poverty Status, 1979[a]

Entry	Married	Widow	Single
	Poor		
Living Children	4.15	3.32	1.80
Receive Support From	0.21	0.51	0.15
	Not Poor		
Living Children	2.63	2.24	0.78
Receive Support From	0.05	0.08	0.04

a. The entries are number of children.

Again we see that the poor elderly have more children than the non-poor. Only a small fraction of the elderly receive any support at all from their children, but the poor elderly are more likely than the non-poor to receive support, no matter what their marital status. Poor widows are more than twice as likely as poor married couples to receive support. Although transfers may alleviate poverty somewhat, apparently the levels of support from children don't go far in alleviating the poverty of widows.

IV. Summary and Conclusions

We verified that widows are much more likely than couples to be poor and that they make up a large proportion of the poor elderly; 80 percent are widows or other single individuals. We also verified that widows have substantially less wealth than couples; thus, the high frequency of poverty among widows when poverty is defined by income is also found when poverty is defined by wealth. There is an enormous amount of movement in and out of poverty when it is defined by income, however. The wealth definition provides a much better measure of permanent poverty; defined by wealth, there is much less movement from poor to non-poor poverty status. Were one to include sources of income such as the value of housing services, the general conclusions about the incidence of poverty would be unchanged, although the proportions classified as poor would be somewhat lower. Our rough valuation of Medicare-Medicaid transfers, however, reduced very substantially the fraction in poverty. It is clear that what is counted as income, together with assumptions about the cost of living for a single person versus a couple, can have an important effect on the proportion of the elderly classified as poor.

The death of the husband very often induces the poverty of the surviving spouse, even though the married couple was not poor. A large proportion of the wealth of the couple is lost when the husband dies. Poor widows had much less wealth when married than non-poor widows had and the loss in wealth at the death of the husband was greater for poor than for non-poor husbands. The prior private pension wealth of poor widows was almost totally lost when the husband died. The prior households of poor widows had accumulated very little housing (or other bequeathable) wealth. Thus the potential for widows to increase current consumption through reverse annuity mortgages, for example, is very limited. The value of life insurance was typically very small and, among subsequently poor widows, rarely enough to offset the loss in wealth when the husband died.

In addition, families of husbands who died during the period of the survey had accumulated less wealth than those who lived until the end of the survey; those in which the widow was poor had accumulated even less. The earnings of husbands who died were less, judging by Social Security wealth, than the earnings of those who lived throughout the survey; those who left poor widows earned the least. The crude evidence that we were able to use suggests also that the prior households of poor widows saved much less than the households of widows who were not poor. There is some evidence that the lower earnings of those who died, and especially those who left poor widows, may have been associated with poor health. Indeed, the prior households of poor widows may have saved less than the prior households of non-poor widows because of poor health as well. Poor health may have caused low earnings and low saving early in life, and then an early death later in life. In short: the prior households of poor widows earned and saved less, more of the smaller accumulated wealth was lost at the death of the husband, the absence of survivorship benefits or life insurance insured that the loss in wealth would leave the widow poor thereafter.

Several important issues have been addressed only tangentially in this paper,but should be addressed in future research. As emphasized above, there is a need to develop a more robust measure of poverty that includes income transfers like medical insurance that were intended to help the elderly. The valuation method could produce wide swings in the fraction of the elderly that is thought to be poor.

The data that we reported suggests that saving differentials may have played an important role in the poverty of widows. The RHS data can be used to obtain accurate measures of lifetime earnings for each individual in the sample and these earnings can then be compared to individual lifetime wealth accumulation. This would yield a measure of saving out of saving for each individual. The rate of saving can in turn be related to the likelihood that the death of the husband will leave a poor widow. The extent to which differential saving is do to differences in individual attributes such as health status and number of children should also be established.

Indeed more formal analysis of change in wealth with change in marital status should in future research be based on the aggregation of individual changes over time, rather than the comparison of medians of wealth and other measures by marital status. This work should be pursued in such a way that the effect of different definitions of poverty on the apparent wellbeing of the elderly can be formally analyzed.

Having estimated the loss in wealth when the husband dies we are also now in a position to consider the amount and cost of survivorship insurance that would be necessary to prevent poverty among widows. We can also determine the effect on the income of widows of the recent legislation on survivorship arrangements, that will be incorporated in firm pension plans in the future. This may have changed the importance of and need for other forms of life insurance.

Many original widows are in poverty in the earliest year of the RHS, and they remain in poverty over the ten years of the survey. Their Social Security benefits, which typically will be based on their deceased husbands' earnings, are lower than average. This is at least a partial explanation for original widows' poverty. For this group in particular, life insurance could have had an important effect on the financial fortunes of the widows. Yet we have little information on the life insurance coverage of their husbands. Future research can explore this issue by studying more carefully the life insurance coverage of the husbands who are still working in the RHS. In fact the RHS has a special section in several of the survey years in which surviving spouse widows were asked specific questions on the estate left by the husband. In this way, one could learn more about the wealth value of life insurance and its potential effect on the poverty status of widows.

A final topic that we need to pursue further is the change in poverty levels as the RHS population ages. To the extent that widows maintain their financial position by drawing down bequeathable wealth, the prospect is for greater poverty in the future. We cannot explore this issue simply: what is needed is a utility-based model that will explain how consumption and wealth holdings vary with age. Such a model could be used to forecast future poverty levels. Initial work on this topic is represented by the companion paper to this one.[11]

[11]See Hurd [1987].

References

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Table 1. Wealth and income by marital status and by wealth and income category, 1979.[a]

	Married		Single		Widowed	
	Mean	Median	Mean	Median	Mean	Median
Wealth						
Bequeathable	57,953	22,411	17,973	5,084	21,461	5,745
Housing	35,630	30,000	11,267	0	20,020	12,000
Social Security	58,372	60,413	26,067	25,979	26,411	27,784
Pension	16,064	4,447	10,191	0	6,588	0
Medicare/ Medicaid	23,422	23,584	11,959	12,408	12,344	12,408
Human Capital	6,198	0	926	0	1,862	0
Other	1,188	0	1,011	0	1064	0
Income						
Capital Income	2,631	45	898	69	1,079	73
Wages	3,050	0	854	0	925	0
Housing	1,069	900	338	0	601	360
Social Security	4,690	4,926	2,746	2,772	2,732	2,892
Pension	2,605	729	1,513	0	936	0
Medicare/ Medicaid	1,662	1,513	1,080	1,246	795	1,246
Other	176	0	141	0	152	0

a. Figures are in 1979 dollars.

Table 2. Mean and median income and percent below the poverty line, by marital status and income definition, for 1969 and 1979.

Income Definition[a]		Married	Single	Widowed
		1969 ($)		
(A)	Mean	10,037	4,295	3,622
	Median	8,350	3,490	2,762
	Percent below poverty line	7.26	30.99	35.11
(B)	Mean	10,072	4,315	3,635
	Median	8,371	3,474	2,783
	Percent below poverty line	7.20	30.92	34.97
(C)	Mean	10,462	4,451	3,847
	Median	8,735	3,601	3,008
	Percent below poverty line	6.27	29.76	31.73
(D)	Mean	10,473	4,451	3,847
	Median	8,748	3,601	3,008
	Percent below poverty line	6.24	29.76	31.73
		1979 ($)		
(A)	Mean	13,056	6,130	5,780
	Median	9,998	4,425	4,248
	Percent below poverty line	9.56	35.92	36.71
(B)	Mean	13,152	6,152	5,825
	Median	10,093	4,439	4,280
	Percent below poverty line	9.32	36.03	36.36
(C)	Mean	14,221	6,490	6,425
	Median	11,035	4,805	4,985
	Percent below poverty line	7.38	33.22	29.62
(D)	Mean	15,884	7,571	7,220
	Median	12,746	5,978	5,790
	Percent below poverty line	2.81	13.85	17.09

a. See next page for income definitions.

Table 2, continued.

Income Category Definitions are as follows:

(A) includes: Business services/debt, real property services/debt, interest income, wages, Social Security income, SSI, pension income (all forms), income from relatives, workman's compensation, unemployment insurance, AFDC, state cash sickness, income from other public assistance, income from non-Social Security disability, income from private welfare, and income from other private individuals.

(B) includes: (A) + car services, and interest on the following debt: car, medical, store, bank, and private.

(C) includes: (B) + housing services/debt.

(D) includes: (C) + Medicare/Medicaid income.