

SCHWARTZ CENTER
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POLICYNOTE

OLD-AGE POVERTY: SINGLE WOMEN & WIDOWS & A LACK OF RETIREMENT SECURITY

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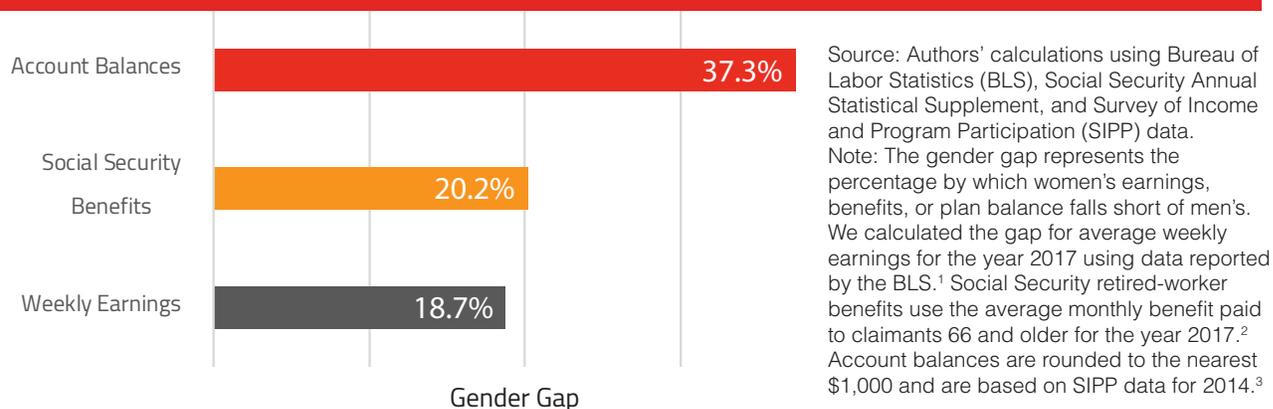
ELEVATOR PITCH

Rates of elder poverty among widows and single women are higher than among couples and men. Poverty among single women reflects low lifetime earnings and spotty pension coverage, whereas poverty among widows results from the exhaustion of financial resources. In both cases, women will benefit from the creation of Guaranteed Retirement Accounts (GRAs), a source of independent retirement income lasting a lifetime.

KEY FINDINGS

- The gender pay gap is 18.7%, measured by the difference between women's and men's median weekly earnings.
- Larger gender gaps in Social Security retired worker benefits (20.2%) and defined contribution account balances (37.3%) reflect women's interrupted work histories.
- Nearly 2/3 of women married at retirement will outlive their husbands by an average of 8.5 years.
- Elder poverty rates among never-married women (25.7%), divorced women (16.2%), and widows (14.2%) are higher than among married women (4.5%).

Table 1: The Gender Pay Gap in Retirement Resources Exceeds the Pay Gap



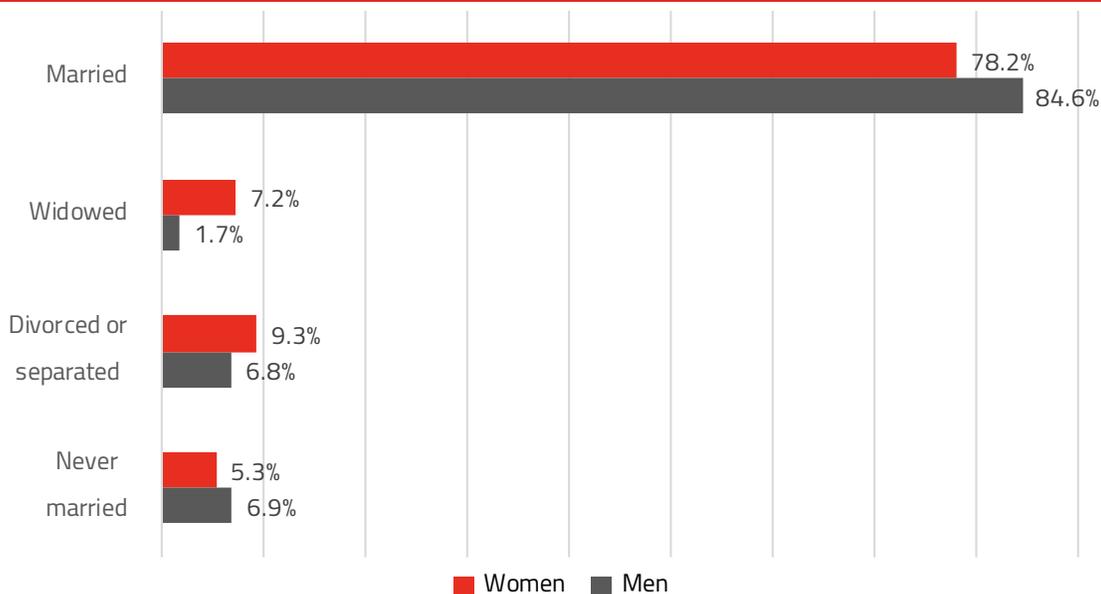
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2/3 OF MARRIED WOMEN OUTLIVE THEIR HUSBANDS BY AN AVERAGE OF 8.5 YEARS

Over three fourths of women in the 1931-51 birth cohort (78.2 percent) entered retirement as part of a married couple (Table 2). Most of these women will spend a considerable part of their retirement in widowhood, due to women's greater longevity and the average age difference

between husbands and wives of 4.2 years.⁴ Assuming population average mortality for the relevant birth cohorts, we forecast that 64.2 percent, almost two-thirds, of married women born between 1931 and 1951 will outlive their husbands by an average of 8.5 years.

Table 2: Marital Status at Age 60 by Gender



Source: Authors' calculations using Health and Retirement Study data for cohort 1931-1951 using HRS sample weights.⁵

RETIREMENT POVERTY RATES ARE HIGHEST AMONG SINGLE WOMEN, WIDOWS, AND WIDOWERS

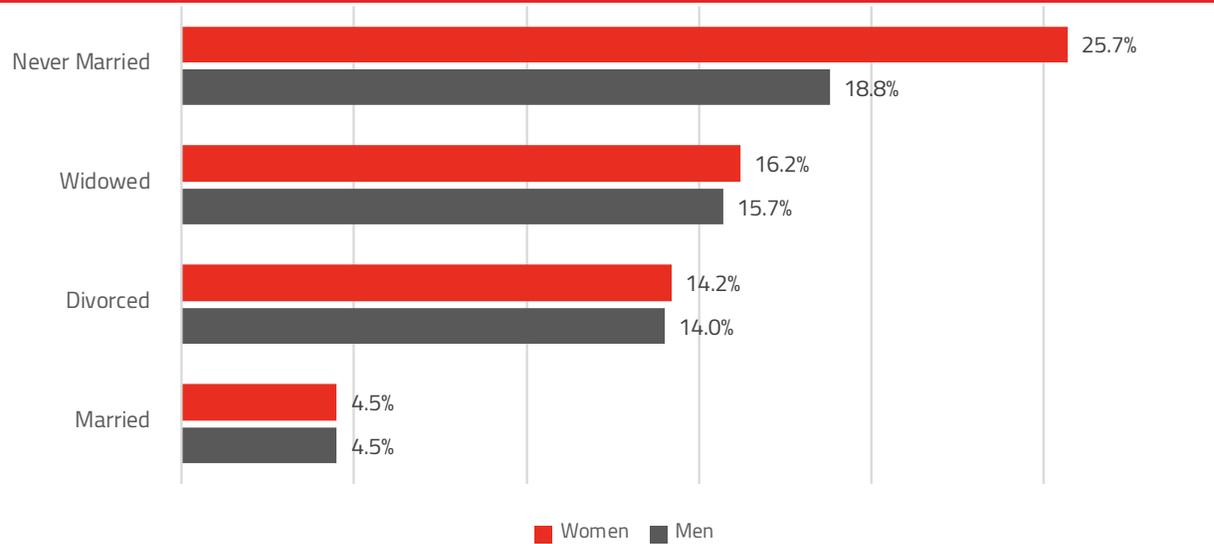
Divorced, widowed, and never-married women outnumber unmarried men at age 60 – 21.8 percent of women vs 15.4 percent of men (Table 2). This reflects both age differences between husbands and wives and women's greater life expectancy. Therefore, the remainder of this brief focuses on women.

Unmarried women over age 65, whether never married, divorced or widowed, have higher rates of poverty than married women and men of any marital status. At 25.7 percent, the over-65 poverty rate is highest among women who never married, compared to 16.2 and 14.2 percent for

divorced women and widows, respectively, and 4.5 percent for married women (Table 3).

The statistics mask the underlying poverty rate because 17.4 percent of widows 65 and older (often those with low incomes) live with family members with whom they are assumed to pool resources. If widows were counted as separate households and poverty was based on their income alone, older-widow poverty would increase from 14.2 to 22.4 percent and the number of older widows in poverty from 1.26 million to 1.98 million.⁶

Table 3: Poverty Incidence in Old Age (65+)



Source: Authors' calculations using 2016 Current Population Survey data.

GENDER GAPS IN SOCIAL SECURITY AND DC WEALTH EXCEED EARNINGS GENDER GAP

Disparities in poverty rates partly reflect the greater prevalence of widowhood among low socioeconomic status women. Poor men are more likely to die young and their surviving spouses remain poor after widowhood.⁷ But disparities also reflect gender gaps in pre-retirement earnings and structural features of the retirement system.

Women's median weekly earnings are 18.7 percent lower than those of men (Table 1), \$769 vs \$946 in 2017. This reflects both the gendered distribution of paid work as well as wage and workplace discrimination.

But the gender gaps in median Social Security benefits and median defined contribution (DC) wealth of 20.2 and 37.3 percent, respectively, exceed the 18.7 percent earnings gap. The Social Security benefit formula takes as its starting point the average of the highest 35 years' wage-indexed earnings. Women are more likely than men to interrupt work for child and elder care, which leads to fewer years in the workforce

than men and lower average earnings. Were it not for the progressivity of the Social Security benefit formula, which gives low lifetime earners higher replacement rates, the gender gap in Social Security benefits would be even greater.

Men ages 55-64 have a median DC balance of \$118,000 compared with \$74,000 for women. This gap does not reflect disparities in participation rates between men and women workers, which are an identical 52 percent. Rather, the gap reflects women's lower earnings and interrupted work histories.

These gender gaps result in women having lower average retirement incomes than men and contribute to the high poverty rate among women who never married. The disparity in retirement income does not affect the poverty rate for married couples, which is calculated under the assumption of income pooling between spouses. However, it does expose married women to the risk of substantial income declines upon divorce or the death of a husband.

REDUCTIONS IN INCOME AFTER THE DEATH OF A SPOUSE

Social Security was initially designed to provide insurance only to workers who contributed to the program. Benefits were later expanded to spouses and widows, providing better protection for women who did not contribute or had lower worker benefits than their spouses.⁸ Today, married women and men are entitled to three distinct types of Social Security benefits: 1) benefit based on their own earnings records; 2) spousal benefit; and 3) survivor benefit payable upon the death of a spouse if it exceeds their own retired worker benefit (as it almost invariably does for women in currently retired birth cohorts).⁹

On the death of a spouse, Social Security benefits typically decrease between a third (for couples in which the husband claimed retired worker benefit and the wife spousal benefit at their full retirement ages) to one half (for two-earner couples with the

same wage-indexed earnings and who both claim at the same age). In contrast, the Federal Poverty Level for a single individual is only 26 percent less than that for a couple. The decline in benefits may be sufficient to push a surviving spouse into poverty.

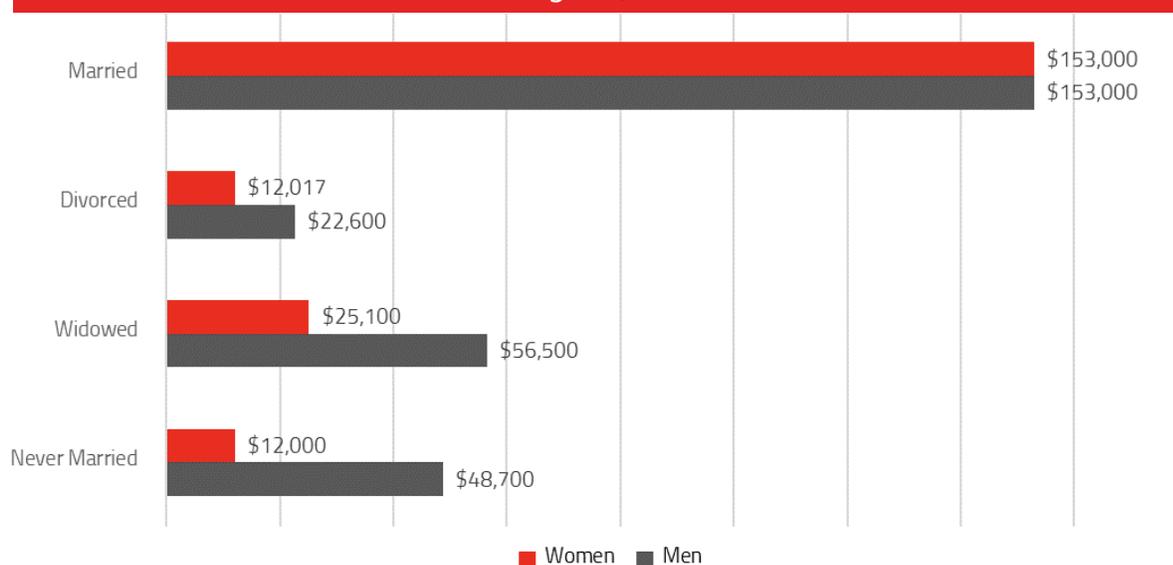
Loss of and reductions in pension income also make widows vulnerable to poverty. Most men with defined benefit (DB) pensions follow the default of a 50 percent survivor benefit reduction. Private sector DB pensions are almost invariably fixed in nominal terms and subject to erosion as a result of inflation. Widows' median annual DB pension income is only 50 percent that of intact couples - \$8,760 compared with \$17,664, although part of the difference reflects widows' lower socioeconomic status prior to widowhood.¹⁰

WIDOWS AND DIVORCEES CAN'T CUSHION THE LOSS OF SOCIAL SECURITY AND DB PENSION INCOME

Married couples' median non-housing wealth is approximately \$160,000. In contrast, non-married households have almost no wealth to cushion the effects of reductions in Social Security and defined benefit pension income. To some extent, the wealth disparity reflects age differences and

pre-existing socioeconomic disparities, but it also reflects the impact of end-of-life medical and long-term care costs. For households with median income, medical out-of-pocket and funeral/burial expenditures can amount to as much as 37 percent of annual income when a spouse dies.¹¹

Table 4: Median Non-Housing Wealth by Marital Status and Gender of Household Head at Age 65, current USD



Note: Wealth is defined as the net value of all non-housing wealth including real estate other than equity in the primary residence; IRA/Keogh accounts, stocks and mutual funds; checking, savings, and money market accounts; CDs, government savings bonds, and treasury bills; bonds and bond funds; and other types of savings minus total debt.

MOST WIDOWED AND DIVORCED WOMEN DEPEND ON SOCIAL SECURITY FOR THE MAJORITY OF THEIR INCOME

Widowed, divorced and never-married women are more likely than married couples to depend on Social Security for the majority of their income, reflecting disparities in pre-retirement income and structural features of the U.S. retirement system described above.

Among married couples over 65, 47.8 percent depend on Social Security for more than half their income, compared with 69.0, 58.5, and 52.5 percent of widowed, divorced, and never-

married women. Widowed, divorced, and never-married women are also more likely than married couples to depend almost entirely on Social Security. Among married couples over 65, 27.3 percent depend on Social Security for more than 90 percent of their income, compared to 36.5, 35.3, and 30.5 percent of widowed, divorced, and never-married women.¹²

Social Security Auxiliary Benefits: Spousal and Survivor Benefits

Spousal benefits are based on the spouse's claim age and the insured worker's primary insurance amount (PIA). A married person whose spouse has already claimed retired worker benefit can claim spousal benefit as early as age 62. Divorced spouses who did not remarry prior to age 60 can also claim spousal benefit if the marriage lasted ten years or more. Spousal benefits can equal up to 50 percent of the worker's PIA depending on the spouse's claim age; spouses claiming benefits before their full retirement age (FRA) will receive benefits reduced by a percentage based on their claim age.

Survivor benefits for widow(er)s depend on their claim age and the deceased spouse's monthly benefit amount. Widow(er)s can claim as early as age 60 and will receive reduced benefits according to the number of months before FRA, subject to a minimum monthly amount of 71.5 percent of the deceased worker's PIA. Widow(er)s who claim at full retirement age can receive an amount equal to 100 percent of their deceased spouse's monthly benefit amount, subject to a minimum monthly amount of 82.5 percent of the deceased spouse's PIA.

POLICY RECOMMENDATIONS

The gendered distribution of paid and unpaid work, labor market inequalities, and interrupted work histories reduce women's Social Security benefits and retirement savings, exposing women to an elevated risk of poverty in old age. To reduce the risk of poverty, policymakers should both strengthen Social Security and ensure all workers are covered by a retirement plan.

Proposals to strengthen Social Security to better meet the needs of widows and widowers range from applying incremental changes to the rules for spousal and survivor benefits -changing the widow(er)'s limit, varying the percentage of PIA for auxiliary benefits, changing the rules related to years in marriage - to creating a basic universal benefit that guarantees insurance benefits regardless of marital history.¹³

Guaranteed Retirement Accounts (GRAs) are individual accounts financed by mandatory employer and employee contributions and a fair and adequate refundable tax credit. GRAs are particularly important to women's financial security in retirement because they provide an independent source of lifetime income that continues after a husband's death and are flexible and portable, accommodating women (and men) with interrupted work histories.¹⁴

ENDNOTES

1. Authors' calculations based on information from the Bureau of Labor Statistics (BLS) from the fourth quarter of 2017 published in the News Release of January 2018. The gender earnings gap equals the percentage by which the median earnings of women workers ages 16 and older falls short of those of men. The BLS notes that: "The women's-to-men's earnings ratio varied by race and ethnicity. White women earned 80.5 percent as much as their male counterparts, compared with Black women (96.0 percent), Asian women (72.3 percent), and Hispanic women (88.4 percent)."
2. Authors' calculations based on information from Social Security's Annual Statistical Supplement 2018, table 5.b1 using the total average monthly benefit (without reduction for early retirement and with delayed retirement credit) for men – \$2,089.45 – and women – \$1,666.84. The Social Security benefit gender gap equals the percentage by which 2017 mean monthly benefits of women ages 66 and older falls short of those of men.
3. Ghilarducci, Papadopoulos, and Webb (2017). Calculations are based on 2014 Survey of Income and Program Participation. Total amounts are in current 2014 Dollars.
4. Authors' calculations using Health and Retirement Study data. We calculate the age difference between married women born between 1931 and 1951, and their husbands. Using this information, we estimate the probability of women outliving their husbands and the average number of years women will remain as widows.
5. Using Health and Retirement Status data for waves 1 to 14, we observe women born in cohorts from 1931 to 1951 on their 60th birthday and classify them by marital status.
6. The over-65 poverty rate is defined as having an income of less than the 2016 Federal Poverty Level (FPL) of \$11,770 for single individuals and \$15,930 for married couples. We calculate the alternative poverty measure using the FPL for a single-person household for the year 2016 using income information from Current Population Survey released in 2017 and corresponding to the year 2016.
7. Sevak, Weir, and Willis (2004)
8. Harrington Meyer (2005)
9. Munnell and Soto (2007)
10. Information based on Health and Retirement Study data. We estimate the median income from all pensions for wave 12 of HRS differentiating by marital status at wave 12.
11. Fan and Zick (2004). The authors use Consumer Expenditure Survey data to estimate the effect of out of pocket medical expenses and funeral/burial expenses on the annual income of couples aged 50 and older who later become widowed. Their findings show that in the case of median income couples, the death of a spouse can take up to 37 percent of annual income. Their estimations show that end of life medical expenses account for 9.4 percent and funeral/burial expenses 25.8 percent of these couples' annual income.
12. Authors' calculations using Current Population Survey data for 2017.
13. See Weaver (2001) and Favreault and Steuerle (2007) for further discussion on proposed changes to Social Security.
14. Ghilarducci and James (2018)

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