Changes in the Economic Well-Being Following the Death of a Spouse: Are Public Survivor Pensions Sufficient? The Case of France

Discussion

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About

- Normative and Positive
- Start with Positive (easier)
The Positive Question:

Upon death of retired spouse:

- ↓ household income
- ↓ expenses

How to ensure equal standards of living for surviving spouse?

- Choosing the right standards equivalence scale
- Survivor pension: formula as a function of own and deceased spouse’s pensions
The Right Equivalence Scale

- General population: OECD scale is $N^{0.70}$
- Old population: Proportion of expenditure on public vs. private goods different? (Housing, health care, hired aid, transportation...)
- Compare expenditure of general pop. with that of hh $> 65$, and find similar scale
- Accounting for low mobility of widows $\rightarrow N^{0.62}$
- Difficulties:
  - Composition of older hh different from general pop.
  - Missing counterfactual: cons. of spouse had he survived (burden or boost?)
  - Habit consumption: Do widows fail to reoptimize cons. st new budget? Is their choice a consequence of available budget or a necessity? How stubborn are habits? Should government accomodate for them?
Equivalence Formula and Current Pension Plans

- Equivalence formula as function of own and spouse’s pension

\[ SP = \frac{2}{3} P_D - \frac{1}{3} P_S \]

- Current legislation:
  - Basic scheme and complementary scheme:
    - fixed % of deceased spouse’s pension
    - → pension as asset, as inheritable entitlement
  - Means tested scheme: survivor pension reduced beyond a threshold for
    (survivor pension + own pension)
    - → pension as insurance for women who don’t have own revenue
  - None of the two schemes guarantees equivalent living standards.
    Ambiguous results.
Empirical Analysis

- In reality, do living standards increase or decrease on average upon widowhood?
- Data: Income Tax survey 1996-2001, rotating panel of 3 years
- Living standards rankings for individuals over 65 (controlling for socio economic variables)
  - Women: divorced < widowed < single < avg. pop
  - Men: single < divorced = avg. pop < widowed
- Reasons:
  - Change in income
  - Unobserved heterogeneity (spouse’s occupation, age at death...)

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Empirical Analysis II: 2 approaches

- Longitudinal:
  - Compare income in 2 years: Pre (Death year) Post
  - Drop in income and living standards for widows, drop in income and increase in living standards for widowers
  - Potential difficulty: income in first year following death can be different from long run (sale of property and assets, inheritance, aid from other sources...)

- Cross-sectional:
  - Break down ratio of living standards for widows / couples
  - Half of gap due to change in resources after death of spouse
  - Other half due to pre-existing differences
  - Most important predictor of change: LFP of widow(er)
The Normative Question

Objective of survivor pension: Equal standards of living to widows

Reasons:
- Support couples as systems of hh production and raising children
- Pension as replacement of labor income

Questions:
- Is it appropriate to reduce pension in some cases?
- Should pension depend on previous and current hh composition?
- Division of labor and presence of children
- Does means testing penalize couples who both worked during lifetime?
- More generally: how much insurance should the pension system provide, given effects on lifetime choices such as fertility and LFP?
Discussion

- Forecasting: given current family structure and LFP
- Feasibility and government budget
- Implications on never married
- Look further into old’s consumption and income based on city/countryside, age, education, family situation