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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- 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
    $\longrightarrow$ pension as asset, as inheritable entitlement
  - Means tested scheme: survivor pension reduced beyond a threshold for (survivor pension + own pension)
    $\longrightarrow$ 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...)

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