Economic consequences of union disruption at old age in France

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Introduction

Family economics explains that union disruption (widowhood, divorce, break up...) entails the loss of the gains (scale economies, income pooling, specialization, fiscal advantages...) which made the union profitable in the first place. That conclusion has been backed by an empirical literature that emphasizes the gendered economic consequences of union disruption (Finnie 1993, McManus, DiPrete 2001, Bonnet et al. 2016). Women lose more than men. Yet, the effect of union disruption on the economic well-being can vary through the life cycle. Indeed, transitioning out of union after 50 years old, seems likely to be different to transitioning earlier in life.

First, the size of the economic loss can be higher for older population than for younger ones. The gender gap between husband and wife in individual incomes can be wider. Indeed, after 50 years, the length of union duration is often long and thus specialization in the couple is more intense. Yet, people over 50 tend to have fewer resident children. Hence, the absence of children's cost can mitigate the financial effects of union disruption relatively to younger people, and change the components of living standards: no more child custody payments or public transfers targeted on family size for instance. Second, younger and older people may be trying to adapt to their economic loss through different strategies (by increasing their labor activity, re-partnering, claiming pensions and social benefits). As retirement is approaching, there are less opportunities on the labor market, especially for women who spent time out of work during their marital life. Going back to the marriage market can be harder, in particular for women who tend to face a scarce demand due to the enduring age difference within couples and the sex-unbalanced marriage market. Finally, older people don’t have access to the same social policies as younger ones.

Our first contribution to the literature lies in the description of a specific and increasingly important subset of the population. We intend to measure the loss in living standards following union disruption for men and women after 50. In this study, union disruption encompasses widowhood and divorce. Our paper is the first to compare the effects of different types of union disruption in a French context. Though the divorced and the widowed both lose scale economies, income pooling and expense pooling, those populations are very different and face different correcting policies. Especially thanks to France's generous survivor pension, we expect divorce to have worse economic consequences than widowhood in the short term and to allow for better recovery after initial shock. Our large administrative panel data allows us to study effects in the medium term, thus giving us the opportunity to draw a full picture of the effect of union disruption on the living standard of older women and men.

Our second goal is to identify how the diverse components of living standards vary with union dissolution. Living standard is defined as net total income adjusted for household size, through consumption units. The net total income is mainly composed of earnings (wage, retirement pension, survivor pension...), public transfers (social benefits, allowances) and private transfers (child and spousal alimony). Does the variation in living standard only result from a change in consumption units? Is individual income varying as one cannot count on one’s partner's income? Are wages, pensions or transfers mitigating the consequences of union disruption in the medium run? To answer those questions, we will take advantage of the reliability and diversity of information available in french fiscal data. Thanks to them, we intend to give a descriptive picture of the recovering behavior of retired and close to retirement workers after a marital break-up.

Our preliminary results show that divorce is associated with a decrease in living standards in the short run for women while the adjusted household income of men remains quite stable. Widowhood comes with an increase in living standards, for both women and men, the increase being larger for the latter. Several mechanisms are involved; in particular, survivor pension mitigates the effects of the death of one's partner. In the medium run, the divorcees recover. That dynamic may stem from the younger divorcees' increasing earnings in the labor market.

Background

The literature on union dissolution's economic consequences is growing. Yet, the focus on old age is still scarce, especially in the case of divorce. For younger people, the international literature shows notable differences in those consequences for men and women after divorce. Women go through a bigger decrease in economic well-being than men (Uunk, 2004). With regards to widowhood, studies tend to exclude men, and focus on older women. It is shown that widowhood does not decrease living standard in the short term (Burkhauser and al., 2003). In France, a 2016 working paper shows that upon divorce, women face a 19% decrease in living standards, while men's living standards remain mostly constant (Bonnet and al., 2016). With regards to widowhood, the spouse's death is correlated with a 17% rise in living standard for men while it results in a stable living standard for women (Bonnet & Hourriez, 2008).

Divorce and widowhood have been mostly studied separately. Our paper will be the first to measure the economic consequences of divorce and widowhood on a French representative sample of the population and to compare them. Papers on divorce tend to focus on people before retirement while papers on widowhood target retired people. This has two consequences.

First, on one side, studies on divorce have generally excluded people over 60 years old. Yet, persons divorcing after 50 is the fastest increasing population amongst newly divorced in France (Prioux & Barbieri, 2012), but also in other countries, a trend called the "gray divorce revolution" (Brown & Lin, 2012). A recent study on Nouvelle-Aquitaine (a region in western France) has shown that the economic loss due to divorce of women over 65 is twice as large as that of women aged from 25 to 34 (Lacour, 2018). On the other side, widows and widowers under 65 are also left aside. Facing widowhood before 65 is rare, but is associated with dire consequences (Volhuer, 2012). Our paper takes all union disruptions occurring after 50 years into account, intending to shed light on those understudied populations.

Second, the dichotomy « active »/« inactive », often chosen to study either divorce or widowhood respectively, is likely to be misleading. Indeed, we know that employment decisions are intertwined with marital trajectories (Poortman, 2005 ; Stancanelli, 2014). Only selecting retirees excludes people choosing to work longer to make up for higher loss upon union disruption. The age limit we chose, instead of employment status, allows to spot recovering strategies on the labor market for older populations in a political context in which they are more and more encouraged to work longer.

That raises the question of how different sources of income can vary to produce our aggregated result on living standard. The literature on this topic is scarce for old divorcees. Earlier in life, it underlines the importance of labor market earnings and public welfare in women's recovery after divorce (Bonnet and al., 2016 ; Uunk, 2004), and private transfers' role in decreasing men's gains (McManus & DiPrete, 2001). With regards to the widowed welfare transfers and survivor pensions have been shown to mitigate the impacts of widowhood (Burkhauser and al., 2003). Those findings are very likely to vary over age when union disruption happens, and through the years following the event. Our study aims to take into account those sources of variation, as we follow the components of income and standard of living, several years after the transition out of union.

Data, sample and methods

To identify the consequences of union disruption on people aged 50 and over, we use the French Permanent Demographic Sample (EDP). That dataset is a panel following 4.4% of the French population every year. Attrition is limited as EDP allows the follow-up of individuals even in the event of a move (linked to union disruption for instance). The EDP, as a large sample, enables the observation of a high number of divorces and transitions into widowhood, which are usually rare and result in small sample sizes in usual surveys. In 2015, we observe 1 087 242 persons who are older than 50 years old. The same year, 3 603 divorced, 8 665 lost their spouse.

Since 2011, the EDP is matched with data from the fiscal administration. First, that kind of income information is a reliable and precise tool to create a standard of living measure. Second, thanks to those data, we are able to distinguish the diverse components and origins of household and individual incomes (wage, retirement pension, alimony, profits, welfare benefits…). Fiscal records ask questions about marital status. With those questions from 2011 to 2017, we can identify transitions in and out of marriage for 6 years. In our window of observation, there are 14 997 divorces and 38 913 events of widowhood. We are thus able to evaluate the variation in standard of living and income between a year before the separation and a year after, but also track possible recovering effects up to five years after union dissolution on a subset of 2442 divorces and 7981 beginning of widowhood.

Preliminary results

Our main goal is to describe the change in living standard undergone by women and men whose union ends-up after 50 years old through divorce of widowhood. Living standards are defined as net household income adjusted for the household's size. The variation in living standard is calculated by comparing adjusted income the year after union's dissolution to adjusted income the year before that event. Fiscal data are exploitable for 12 264 newly divorced and 33 161 newly widowed.

First, in the short term, divorce tends to decrease living standard (see figure 1 that shows absolute amounts). The shock hits women harder. Their average living standard drops by 20.6% a year after divorce compared to men's 1.3% decline. Second, transition into widowhood is associated with an increase in the average living standard. Men seem to gain more (+19.7%) than women (+4.8%) however. The results are quite similar for the variation of the median adjusted household income. This means that our results are not driven by extreme values. Divorced women lose 19.3% of their former adjusted household income, while men only lose 1%. Women and men who lose their spouse gain respectively 6.1% and 22.3% of their former adjusted household income. We expected such a difference between widowhood and divorce. Those gender gaps are in line with the literature.

Changes in living standards following union disruption may result from different mechanisms: changes in the household's size (and then in the number of consumption units used to adjust net household income, also called disposable income), changes in the income of the partner (loss of or new income if repartnering) and changes in income of the divorced or widowed individuals. Holding total income constant, a drop in consumption units increases living standards. The question arises whether the gain of people transitioning into widowhood is only due to change in consumption units. Indeed, we observe (Figure 2) that when considering household disposable income, and not living standards, newly widowed are worst of after union disruption (women's mean disposable income drops by 25% and men's by 13.4%). Their loss is nonetheless lower than for newly divorced (women's mean disposable income drops by 40.6% and men's by 29.5%), whose loss is also softened when looking at living standard. Most of that loss seem to result from the loss of the spouse's income assumed to be shared within the couple.

Figure 1 :

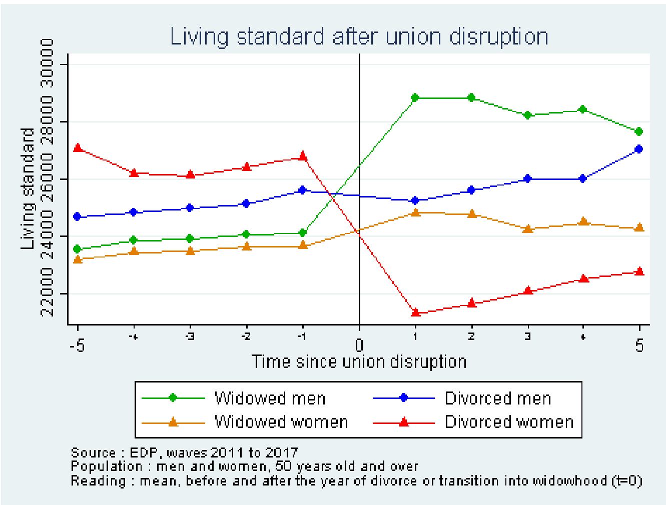
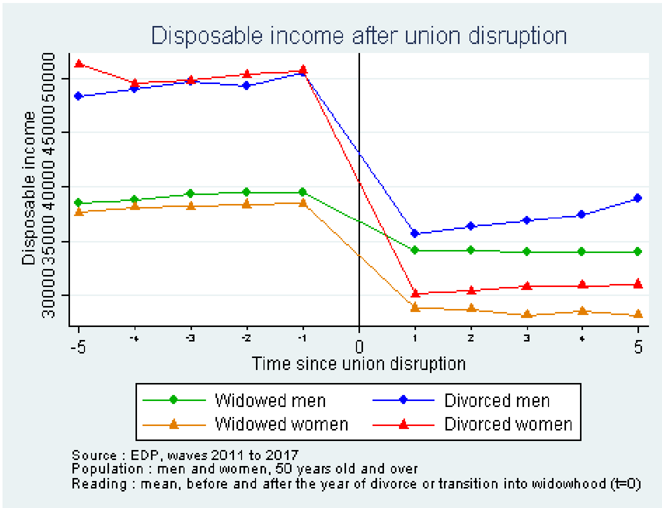


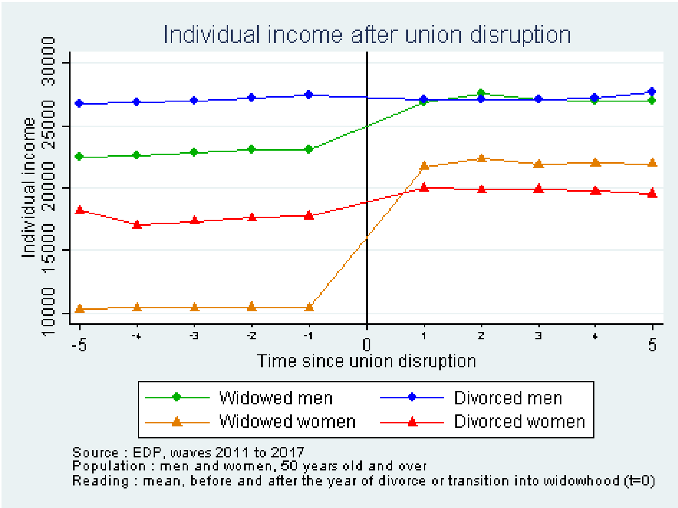
Figure 2 :



Second, as evidenced by figures 1 and 2, in the medium term, the divorced seem to recover. In the five years following divorce, women and men's living standards re-increase. After five years, the average living standard of divorced women is 15.1% lower than the year before divorce (compared to 19.3% the year just after divorce), and men's living standard have overgrown pre-divorce living standard by 5.7%. Widows' and widowers' living standards appear to remain constant several years after the break up. The divorced's recovery can be seen in the medium term on their disposable income too. It is not only caused by new change in consumption units (for instance by repartnering).

Third, we look to how individual income (individual income is the sum of wages, pensions, alimony and self-employed earnings for an individual) varies after union disruption (Figure 3). Following divorce, women's individual incomes tend to increase (women's mean individual income increases by 12,6% a year after divorce), while men's remain constant (1.3% decline). Past divorce's shock, both men and women's individual earnings remain constant in the medium term. The linear increase in living standard and disposable income observed after the shock in figures 1 and 2 might be due to increasing labour market income for individuals divorcing in their early fifties and to the repartnering of others. Transitioning into widowhood, both men and women's average individual incomes rise. Men's increases by 16,7% while women's rises to a very high 108,7% of their former individual income. Such a rise explains partly why the drop in disposable income following widowhood is smaller than the one following divorce. Survivor pension is generous in France. It is very likely to be the driving force behind the surge in individual income following the death of one's spouse. Survivor pension seem to succeed in its purpose of equalizing people's standard of living when transitioning into widowhood.

Figure 3



Next steps

Our preliminary results are still descriptive. The characteristics of the divorced and the widowed are likely to be very different. The divorced are mainly in their fifties whereas the widows are mostly seventy and older. Preliminary results show that after 65 recovery after divorce is very weak. To isolate furthermore the impact of divorce and widowhood we will control for different variables, among which age.

Fiscal datas are limited in the amount of information they give beyond income and basic data on marital histories. There might be unobserved variables affecting both the probability to divorce or become a widow and our living standard and income outcomes. We will deal with that issue using a panel fixed effect regression strategy.

Finally, the effect of union disruption on living standards might be different across the income distribution. Preliminary descriptive results show that variation in living standards due to divorce are smaller at the bottom of the distribution. We will use quantile regression to assess those differences. The share of transfers, wages and pensions also varies across the income distribution. To understand why people are affected differently across the income distribution, we will analyze income's components' variation after union disruption for different quantiles across the income distribution.

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