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13 Changing Social Security Survivorship Benefits and the Poverty of Widows

Michael D. Hurd and David A. Wise

13.1 Introduction

Survivorship benefit is a feature of most public pension systems. In the United States a widow can receive Social Security benefits following the death of her husband even though she may not have made contributions to the Social Security system during her lifetime. Such a benefit is based on her deceased husband's record of contributions to the Social Security system. The survivor's Social Security benefit is determined by a complex set of rules. A 33 percent reduction in the prior couple's benefit is typical. There is no reason, however, to believe that this reduction is optimal. It is not based on a theoretical principle or on empirical findings. We consider in this paper how changes in U.S. Social Security survivorship benefits might be expected to change the income and poverty rate of surviving spouses and of prior couples. We focus on widows because they constitute more than three-fourths of elderly unmarried persons in the United States.

In principle, a widower can receive benefits based on his deceased wife's earnings record, but in practice this is quite rare because usually his benefit based on his own earnings record will be higher than his widower's benefit and he is entitled to the higher benefit. For this reason, we shall often refer to the survivor's benefit under the U.S. Social Security system as a widow's benefit.

Although the Social Security benefit can fall by as much as 50 percent at

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the death of the husband, a decline of about one-third is typical. Using the Retirement History Survey (RHS), Hurd and Wise (1989) calculate the average Social Security wealth (the expected present value of Social Security benefits) of couples and surviving spouses among families in which the husband died between 1975 and 1977. The average wealth of the couples was $63,700 in 1975. The average Social Security wealth of the surviving spouses was $40,400 in 1977. This implies a reduction in Social Security income of about one-third.

Social Security is the most important component of the income of most elderly families in the United States.[1] In 1988, Social Security benefits were 45.9 percent of the income of elderly unmarried women (Grad 1990).[2] One-third of unmarried women relied on Social Security for at least 90 percent of their income; 20 percent had income only from Social Security. It is not surprising, therefore, that the drop in Social Security benefits at the death of her husband could have large effects on the economic status of the surviving widow, particularly a widow at the lower end of the income distribution, and that the incidence of poverty would be high among elderly widows.

In the United States a single elderly person is said to be "in poverty" if his or her income is below the poverty line, $5,674 in 1988 ($6,729 in 1992). In 1988, 21 percent of unmarried elderly women lived in poverty, and 34 percent had incomes less than 125 percent of the poverty line. The poverty rate depends on living arrangements and age. Among women aged 85 or older who were not living with family members, the poverty rate was 28 percent. In contrast, the poverty rate among couples aged 85 or over was just 6 percent.

Panel data show clearly that the transition to widowhood increases poverty substantially. Table 13.1, taken from Hurd and Wise (1989), shows the poverty rates of couples in which the husband survived between 1975 and 1977 and of couples in which the husband died between 1975 and 1977. In 1975 the poverty rates were about the same, but in 1977 the poverty rate of surviving widows was 42 percent. Even among couples with incomes above the poverty line in 1975, the poverty rate of the surviving widow was 37 percent in 1977 (last column of table 13.1). These results, which are representative of the transitions over other two-year periods, show that the high poverty rates of widows are not just due to widows' being the long-lived survivors of the household; the transition to widowhood is, itself, associated with an increase in poverty rates. The issue is also discussed by Holden, Burkhauser, and Feaster (1988).

The difference between the poverty rates of elderly widows and elderly couples and the importance of Social Security benefits to widows suggest that a restructuring of benefits could have an important effect on poverty. An increase in the widow's benefit financed by a reduction in the couple's benefit—so that expected costs are unchanged—could reduce the poverty rate of widows in a

1. In this paper by "elderly" we mean those aged 65 or over.
2. The great majority of unmarried elderly women are widows.

Table 13.1 **Poverty Rates (percent) According to Marital Transition 1975–77**

	Entire Sample		Not Poor in 1975	
Year	Couple to Couple[a]	Couple to Widow[b]	Couple to Couple[a]	Couple to Widow[b]
1969	5	8	3	5
1971	7	11	4	7
1973	8	8	4	4
1975	8	9	0	0
1977	7	42	4	37
1979	11	40	11	35

Source: Hurd and Wise (1989).

[a]Husband survived between 1975 and 1977.

[b]Husband died between 1975 and 1977.

material way, possibly without increasing substantially the poverty rate of couples.[3] Indeed, such a restructuring could increase aggregate economic welfare.

13.2 Methods and Data

All of our illustrations are designed to be cost-neutral: an increase in the survivor's benefit must be offset by a reduction in the benefit of couples. For example, consider a 70-year-old husband and his 67-year-old wife. If their couple's benefit is $100, typically the surviving spouse would have a benefit of about $67. Suppose that benefit were increased by 20 percent to about $80. What would the reduction in the couple's benefit have to be to keep the expected present value of the Social Security benefits of the couple and surviving spouse (widow or widower) constant? The solution requires iterations using life tables and interest rate assumptions.[4] It depends on the ages of both husband and wife, so it varies from couple to couple. The average required reduction in our data is about 11 percent.

The primary data source for our calculations is the Retirement History Survey (RHS).[5] The RHS is a 10-year panel of about 11,000 households whose heads were aged 58–63 in 1969. The households were interviewed every two

3. Couples cannot by themselves accomplish such a restructuring by saving part of their Social Security benefit so as to increase the resources of the widow because they cannot buy indexed annuities with their savings; therefore, they lose the inflation protection and mortality premium of Social Security. Furthermore, the saving decision by the couple may not be in the best interest of the widow. For example, prior to the Retirement Equity Act of 1984, most private pensions, which were typically in the husband's name, had no survivorship rights (Myers, Burkhauser, and Holden 1987). This suggests that the husband, who typically controls any pension, does not adequately value the utility of the widow.

4. We use a real interest rate of 3 percent in these calculations.

5. See Hurd and Shoven (1985) for a description of the RHS and the data.

Table 13.2 **Average Social Security Benefits (1979 dollars)**

	Couples			Widows			Singles
Year	$k=1.0$	$k=1.1$	$k=1.2$	$k=1.0$	$k=1.1$	$k=1.2$	$k=1.0$
1969	402	384	366	683	752	820	283
1971	854	814	773	987	1,085	1,184	572
1973	2,144	2,036	1,929	1,643	1,807	1,972	1,315
1975	3,325	3,152	2,978	2,149	2,351	2,553	2,157
1977	4,528	4,279	4,031	2,661	2,913	3,164	2,698
1979	4,690	4,419	4,148	2,667	2,921	3,176	2,722

Source: Authors' calculations from the RHS.

years. In addition to extensive data on income and assets, the RHS reports the Social Security earnings records of both husbands and wives through 1974. By combining these data with observed earnings after 1974 we can calculate with considerable accuracy the Social Security benefits of husbands and of wives.

We investigate several alternative increases in the Social Security benefits of survivors. We represent the increase by k. For example, $k = 1.1$ means that the widow's benefit would be increased by 10 percent; $k = 1.2$ means that the widow's benefit would be increased by 20 percent. Given an assumed value of k, we calculate for each couple in the sample the reduction in the Social Security benefit of the couple that would make the assumed increase in the widow's benefit actuarially neutral. By making the calculations for each couple we preserve the distribution of Social Security income and total income so that we can calculate poverty rates.

Our measure of poverty is based on money income: no income is imputed to owner-occupied housing or to noncash transfers such as Medicare. Imputations for owner-occupied housing and Medicare reduce poverty rates very substantially (see, e.g., Hurd and Wise 1989; Hurd 1990).

Social Security benefits in 1979 dollars are reported in table 13.2. Actual Social Security benefits averaged over all households (not just those receiving benefits) are shown in the columns headed "$k = 1.0$." The heads of the households were aged 58–63 in 1969 and 68–73 in 1979. The averages include Supplemental Security Income (SSI) payments, which are additional payments to low-income households. We have not changed SSI by the value of k because SSI is not really an old-age pension; rather it is old-age assistance. As a consequence, the entries for widows for $k = 1.1$ and 1.2 are not exactly 10 percent and 20 percent higher than the entries for $k = 1.0$. We show the mean Social Security benefits of singles for reference. Their benefits are not increased under this system because there is no corresponding couple to pay for the increase through a benefit reduction. The means increase with age primarily because more households receive benefits as household members retire.

Consider the data for 1979. Under the actual Social Security provisions ($k = 1.0$), the mean benefit to married couples was $4,690 in 1979 and the mean

Table 13.3 Effects of Changes in Social Security Benefits on Average Poverty Rates: Marital Transition 1971–73

	Couple to Couple[a]			Couple to Widow[b]		
Poverty Status and Year	$k=1.0$	$k=1.1$	$k=1.2$	$k=1.0$	$k=1.1$	$k=1.2$
Total sample						
1969	0.06	0.06	0.06	0.10	0.10	0.10
1971	0.08	0.08	0.08	0.11	0.11	0.12
1973	0.09	0.09	0.10	0.38	0.38	0.36
1975	0.10	0.10	0.11	0.25	0.23	0.20
1977	0.11	0.11	0.12	0.24	0.21	0.20
1979	0.13	0.13	0.14	0.27	0.22	0.17
Not poor in 1971						
1969	0.03	0.03	0.03	0.03	0.03	0.02
1971	0.00	0.00	0.00	0.00	0.00	0.00
1973	0.05	0.05	0.06	0.34	0.33	0.31
1975	0.07	0.07	0.08	0.21	0.19	0.16
1977	0.08	0.08	0.08	0.20	0.17	0.14
1979	0.10	0.10	0.10	0.22	0.17	0.11
Poor in 1971						
1969	0.47	0.47	0.46	0.61	0.61	0.63
1971	1.00	1.00	1.00	1.00	1.00	1.00
1973	0.55	0.55	0.58	0.71	0.71	0.70
1975	0.50	0.51	0.52	0.61	0.57	0.44
1977	0.51	0.52	0.54	0.57	0.57	0.60
1979	0.55	0.54	0.53	0.67	0.67	0.60

Source: Authors' calculations from the RHS.

[a]Husband survived at least to 1973.

[b]Husband died between 1971 and 1973.

benefit paid to widows was $2,667. With k set to 1.1, the mean benefit paid to widows would have been increased to $2,921 and the mean benefit paid to couples would have been reduced to $4,419 to offset in an actuarially fair way the increase for widows. That is, an increase in the widow's benefit of 10 percent would require a decrease in the couple's benefit of about 6 percent. With k equal to 1.2, the mean benefit for widows would have been $3,176 and the mean for married couples would have been $4,148. As mentioned above, these figures include SSI benefits, which are not adjusted; but SSI is very small on average, so excluding SSI would not change the results in any material way.

Examples of the effects of the Social Security changes on poverty rates are shown in table 13.3. This table shows poverty rates by marital transition between two RHS survey years, 1971 and 1973. To understand the table, consider the heading "Couple to Couple," which pertains to households that continued as couples between 1971 and 1973. Of all couples in this group, 8 percent were poor in 1971 (with $k = 1.0$), and 9 percent were poor in 1973. With $k = 1.1$, 9 percent would also have been poor in 1973, and with $k = 1.2$, 10 percent would

Table 13.4 **Average Poverty Rates at Transition to Widowhood**

Year	N	k=1.0	k=1.1	k=1.2
Prewidowhood year	926	0.10	0.10	0.12
Postwidowhood year	926	0.38	0.36	0.34
Last year of survey (1979)	530	0.30	0.25	0.22

Source: Authors' calculations from the RHS.

Note: Average poverty rates are calculated over households that changed from couple to widow status between 1971 and 1973, 1973 and 1975, 1975 and 1977, and 1977 and 1979.

have been poor. The increase in the poverty rate of couples comes from the actuarial reduction in their Social Security benefits to finance the increased benefits of the surviving spouse.

The next three columns of the table pertain to households that changed from couple to widow status between 1971 and 1973: that is, the husband was alive in 1971 and had died by 1973. Only 11 percent of the couples in this group were poor in 1971 (with $k = 1.0$). Of the spouses surviving in 1973, 38 percent were poor. Had the widow's benefit been 20 percent higher ($k = 1.2$), 36 percent of the surviving widows would have been poor in 1973. By 1979, 27 percent of the widows were poor under the existing Social Security system; 17 percent would have been poor had Social Security benefits been 20 percent higher.

Comparable data are shown for households that were not poor in 1971 and for households that were poor in 1971. The table records considerable movement into and out of poverty. This apparent movement is partly caused by observation error on income, which causes misclassification of poverty status, and partly by true changes in income. Two features of these data stand out. The first is the high rate of poverty among widows who, when their husbands were alive in 1971, were not in poverty. By definition, none were in poverty in 1971; yet 34 percent were in poverty in 1973 following the husband's death. There is some underreporting of income in the year following the husband's death, as emphasized by Burkhauser, Holden, and Myers (1986), but the table makes clear that poverty persists in large part; by 1979, 22 percent of the widows were still poor. The Social Security adjustments have rather large effects on this group: if the survivor's benefit were increased by 20 percent, the poverty rate of widows in 1979 would be reduced from 22 percent to 11 percent.

The second feature that stands out is the small effect of benefit changes on the financial status of surviving widows of households that were poor in 1971. A Social Security increase of 20 percent would reduce poverty in 1979 by only a small amount, from 67 percent to 60 percent. Apparently, most surviving spouses of couple households already in poverty have incomes—including Social Security benefits—too far below the poverty line to be raised above the line by the simulated increases.

The effects of widowhood on poverty are summarized in table 13.4. The

Table 13.5 Poverty Rates by Age

	Couples				Surviving Widows				Original Widows			
Age	*N*	k=1.0	k=1.1	k=1.2	*N*	k=1.0	k=1.1	k=1.2	*N*	k=1.0	k=1.1	k=1.2
58–59	1,602	0.05	0.05	0.05	218	0.42	0.42	0.41	356	0.35	0.35	0.34
60–61	3,526	0.07	0.07	0.07	316	0.36	0.35	0.34	902	0.35	0.35	0.34
62–64	7,827	0.09	0.09	0.09	661	0.35	0.32	0.29	2,227	0.39	0.37	0.34
65–69	11,103	0.09	0.10	0.10	1,319	0.36	0.30	0.25	3,375	0.39	0.34	0.30
70+	4,369	0.09	0.11	0.12	655	0.31	0.25	0.22	1,627	0.43	0.36	0.30

Source: Authors' calculations from the RHS.

first row shows the average poverty rate of couples in the last survey year in which the husband was alive. The averages are over the years 1971, 1973, 1975, and 1977. The second row shows the average poverty rate of widows in the survey year following widowhood. The last row shows the average poverty rate of widows in the last year of the survey, 1979. In the actual data (k = 1.0), the poverty rate increased from 0.10 to 0.38 following widowhood. Increasing Social Security benefits by 20 percent would increase the poverty rate of the couples from 0.10 to 0.12. But it would have a rather large effect on the final poverty rate of widows: the rate would fall from 0.30 to 0.22. We conclude that a rather sizable reduction in the poverty rate of widows could be achieved at the cost of a small increase in the poverty rate of couples.

Poverty rates by age of household head are shown in table 13.5. For example, the row labeled 65–69 shows poverty rates for couples in which the household head is aged 65–69 and for widows aged 65–69. Surviving widows are those whose husbands died during the course of the RHS; original widows were already widowed when the RHS began in 1969. Under the existing Social Security provisions (k = 1.0), 36 percent of surviving widows aged 65–69 were poor. With k = 1.1, only 30 percent would have been poor, and with k = 1.2, only 25 percent would have been poor. The effects for original widows are similar. Restructuring the benefit stream has a substantial effect on the poverty rate of older widows (aged 70+) as desired, with little effect on the poverty rate of couples.

In summary, these calculations show that the changes that we consider would have a noticeable effect on the Social Security benefits of widows and would have a significant effect on their poverty rates. Nonetheless, the poverty rate among widows would remain high relative to the poverty rate of couples. For example, a 10 percent increase in the widow's Social Security benefit would reduce the poverty rate of surviving widows aged 65–69 from 36 percent to 30 percent; a 20 percent increase in the widow's benefit would reduce the poverty rate among widows aged 65–69 to 25 percent. Although the poverty rate of couples would increase slightly, from 9 percent to 10 percent, with a 10 or 20 percent increase in the widow's benefit, it would still be substantially below the poverty rate of widows.

13.3 Future Poverty Rates

As the RHS respondents aged beyond the last survey year, 1979, household changes could not be observed. It is clear, however, that some 1979 widows died, while new widows were added after 1979, when their husbands died. The results presented in this section estimate the poverty rates of these additional widows as the 1979 RHS households aged. As in the previous section, the goal is to show the effect on poverty rates of changing the Social Security survivor's benefit levels, but in this case the focus is on future poverty rather than poverty during the period of the RHS, 1969–79.

The procedure involves several steps. First, future poverty rates of couples and widows under the current Social Security provisions are established. These baseline rates are found by forecasting to 2001 the future income of each couple and widow household in the 1979 RHS data. The forecasts are based on a behavioral model of wealth decumulation by singles and an observed rate of wealth decumulation by couples. The forecasting method and model estimation are described in Hurd (1989a, 1989b). During each year, individuals in the sample are assumed to die in accordance with mortality probabilities taken from life tables. Widows in 1979 leave the sample based on their mortality rates, and new widows are added as husbands die, also according to the life tables. Income and wealth in each future period are estimated from a model of consumption that depends on 1979 wealth and on future Social Security and other annuity income. Based on the resulting income estimate, poverty rates are calculated in each future year (at two-year intervals). In the baseline simulations, the surviving widow is assumed to receive 67 percent of the couple's Social Security benefit. These baseline simulations show what the poverty rates of the 1979 RHS sample will be as it ages to 2001, when the median age of the sample will be about 91. (An alternative interpretation is that the simulations show the poverty rates of an entire elderly population in which each successive cohort has the same resources as the 1979 RHS population.) The average poverty rate over all future years is the weighted (by the number of survivors) average of the poverty rates by age.

In the second step, the forecasts are repeated, but the Social Security survivor's benefit is increased according the factor k, taken to be 1.1 or 1.2, and the couple's benefit is reduced in an actuarially fair way that depends on the ages at which the husband and wife began to draw benefits. Thus the reduction will vary from couple to couple. (On average, the couple's benefit is reduced by about 5 percent when $k = 1.1$.) Based on the new Social Security benefits, income and wealth in each future year are determined according to the model, and these results are used to determine future poverty rates. The differences between the baseline poverty rates and those with $k = 1.1$ and $k = 1.2$ indicate the change in the future poverty rates of couples and of widows that could be expected from changing survivorship benefits. The results are shown in table 13.6. In 1979, when the median age of the RHS widows was about 71, the

Table 13.6 Probability of Poverty: 1979 Income Levels

	Widows					Couples					
Year	*N*	Median Age	$k=1.0$	$k=1.1$	$k=1.2$	*N*	Husband's Age	Wife's Age	$k=1.0$	$k=1.1$	$k=1.2$
1979	5,766	71	0.43	0.39	0.35	7,254	71	69	0.09	0.10	0.11
1981	6.172	72	0.41	0.37	0.33	6,275	73	71	0.09	0.10	0.11
1983	6,514	74	0.39	0.35	0.31	5,296	75	73	0.09	0.10	0.11
1985	6,695	76	0.38	0.33	0.30	4,291	77	74	0.09	0.10	0.12
1987	6.706	78	0.37	0.33	0.29	3,372	79	76	0.09	0.11	0.12
1989	6,537	80	0.37	0.33	0.29	2.568	81	78	0.10	0.11	0.12
1991	6.227	81	0.37	0.32	0.29	1,830	83	80	0.10	0.11	0.13
1993	5,723	83	0.38	0.33	0.28	1.266	84	82	0.10	0.12	0.13
1995	5.059	85	0.38	0.33	0.28	804	86	84	0.10	0.11	0.13
1997	4,262	87	0.38	0.32	0.28	484	88	86	0.10	0.10	0.12
1999	3,355	89	0.38	0.32	0.27	254	90	88	0.10	0.11	0.13
2001	2,573	91	0.39	0.32	0.27	110	92	90	0.11	0.13	0.15
Total	65,589		0.39	0.34	0.30	33,804			0.09	0.10	0.11

Source: Authors' calculations from the RHS.

poverty rate of widows was 43 percent; the rate for couples was 9 percent. If the survivor's benefit were increased by 20 percent ($k = 1.2$) the poverty rate of widows would be reduced to 35 percent and the rate for couples increased to 11 percent. By 2001, when the median age of widows will be about 91, the poverty rate of widows is forecast to be 39 percent. Increasing the survivor's benefit level by 20 percent would reduce this poverty rate to 27 percent, a substantial reduction for the very old. The increase has a larger effect on the poverty rate of couples than previous examples. The poverty rate of couples who survive to 2001 would be increased from 0.11 to 0.15, an increase of 36 percent. However, only 1.5 percent of couples are expected to survive to that year. Overall (averaging over all ages), increasing the survivor's benefit by 20 percent would reduce widows' poverty from 39 percent to 30 percent. This change would increase couples' poverty by about 2 percentage points, from about 9 to about 11 percent.

In summary, the projections show future poverty rates of widows that are somewhat lower than the 1979 rates even without an increase in the Social Security survivor's benefit. The reduced poverty rate of widows results from the greater wealth of the prior couples. There is a positive relationship between life expectancy and wealth. Thus households in which the husband dies later have greater wealth than households in which the husband died at a younger age. And, therefore, the surviving widows also have greater wealth. The effect of increasing survivorship benefits is somewhat larger (in percentage terms) in the future than in 1979. Consistent with the estimates for the RHS survey period that ended in 1979, the poverty rate of future elderly widows is reduced substantially at the cost of a modest increase in the poverty rate of couples.

13.4 Updating Wealth and Income Using the SIPP

The poverty rates reported in sections 13.2 and 13.3 are based on the economic resources of the 1979 RHS respondents. Since 1979, however, the economic resources of the elderly have grown and elderly poverty has declined. For example, in 1979 the elderly poverty rate was 15.1 percent; in 1984 it was 12.4 percent. We consider in this section how such changes affect projected future poverty rates, based on alternative Social Security survivor's benefit provisions. To do this, we adjust the income and wealth reported by the RHS respondents so that on average they are the same as the income and wealth of like households in 1984. We base the adjustments on the 1984 Survey of Income and Program Participation (SIPP). The SIPP is a series of two-and-one-half year panels. The first panel began in 1984 (the last quarter of 1983) and covered 15,000 households, of which about 4,000 had heads who were age 65 or older. Every four months the respondents were asked detailed questions about income, assets, and other household characteristics. Thus, as with the RHS, it is possible to construct a financial picture of a representative sample of the elderly in 1984 and in 1985.

We use Wave 4 of the 1984 SIPP panel to find average levels of income and asset variables in the latter part of 1984. For each variable, we calculate the average over respondents who report a positive value for that income source or asset. We use these values to adjust the levels of the RHS respondents who report a positive value for that income source or asset. That is, the value reported by each RHS respondent for each category is adjusted by the ratio of the SIPP average to the RHS average for that category. Thus, for each household type, the average RHS adjusted level among holders of each income or asset category is the same as the SIPP average.

Based on these adjusted income and wealth values the projections described in section 13.3 are repeated. The new poverty rates indicate how the projected rates are affected by the overall increase in elderly income and wealth. Again, the results are reported for alternative changes in Social Security survivor's benefit provisions.

We compared economic resources in the SIPP and the RHS for the following categories:

Wealth

- Bequeathable wealth excluding housing
- Housing

Income

- Nominal annuities (mostly private pensions)
- Real annuities (military, government, etc.)
- Earnings
- Social Security benefits

Table 13.7 **Comparison of Average Income and Assets: RHS and SIPP**

Household Type and Survey	Bequeathable Wealth Excluding Housing	Housing Wealth	Social Security Income
Widows			
RHS (1979$)	21,444	35,348	2,856
SIPP (1984$)	30,090	46,892	5,035
SIPP (1979$)	21,025	32,766	3,518
Couples			
RHS (1979$)	50,772	48,003	5,419
SIPP (1984$)	82,912	58,404	9,177
SIPP (1979$)	57,935	40,810	6,389

Source: Authors' calculations from the RHS and the 1984 SIPP, Wave 4.

For each resource category we calculated the average level in the 1984 SIPP among holders of the resource, by household type and by age. The household types were couples, widows, widowers, single males, and single females. Calculations were made for each age from 65 to 74. For each category of economic resource this defined a total of 50 cells. Because the SIPP is a self-weighting sample, the number of observations was rather small in some of the cells. This resulted in considerable variation in wealth with age, variation that is undoubtedly due to the small sample size. For example, bequeathable wealth excluding housing was about $30,000 among 68-year-old widows, $42,000 among 69-year-old widows, and $32,000 among 70-year-old widows. These averages are based on about 50 observations in each age group. Were we to use these averages to construct adjustment factors to apply to the RHS variables, considerable random variation would be introduced into the adjusted RHS wealth levels.

Our solution was to calculate age-weighted averages by household type for each of the resource categories in the SIPP, where the weights are the number of households in each age cell in the RHS. This procedure led to the average levels of bequeathable wealth, housing wealth, and Social Security in the RHS and in the SIPP shown in table 13.7. The results for all the variables are presented in appendix table 13A.1.

The most important difference between the SIPP and the RHS variables is the growth in Social Security, the most important source of income for poorer widows. This growth is the result of increases in the Social Security benefit schedule and increases in wages over time. Hurd (1990) reports that new Social Security benefit awards increased by 51 percent in real terms between 1968, when the RHS cohort would have been retiring, and 1977, when the SIPP cohort would have been retiring. This implies that the SIPP cohorts would have retired with substantially higher Social Security benefits than the RHS cohorts, consistent with the values reported in table 13.7.

Table 13.8 shows poverty rates calculated from the new projected incomes of widows and couples. Comparison of tables 13.6 and 13.8 shows that among

Table 13.8 **Probability of Poverty: 1984 Income Levels**

	Widows					Couples					
Year	*N*	Median Age	$k=1.0$	$k=1.1$	$k=1.2$	*N*	Husband's Age	Wife's Age	$k=1.0$	$k=1.1$	$k=1.2$
1979	5,766	71	0.29	0.26	0.23	7,254	71	69	0.06	0.06	0.07
1981	6,172	72	0.28	0.25	0.22	6,275	73	71	0.06	0.07	0.08
1983	6,514	74	0.27	0.24	0.21	5,296	75	73	0.05	0.06	0.08
1985	6,695	76	0.26	0.23	0.20	4,291	77	74	0.05	0.06	0.07
1987	6,706	78	0.25	0.23	0.20	3,372	79	76	0.05	0.07	0.08
1989	6,537	80	0.25	0.22	0.19	2,568	81	78	0.06	0.07	0.08
1991	6,227	81	0.25	0.22	0.18	1,830	83	80	0.06	0.08	0.09
1993	5,723	83	0.25	0.22	0.18	1,266	84	82	0.06	0.08	0.09
1995	5,059	85	0.26	0.22	0.18	804	86	84	0.07	0.08	0.09
1997	4,262	87	0.25	0.21	0.18	484	88	86	0.08	0.09	0.09
1999	3,355	89	0.25	0.21	0.17	254	90	88	0.09	0.09	0.10
2001	2,573	91	0.25	0.21	0.17	110	92	90	0.10	0.11	0.11
Total	65,589		0.26	0.23	0.20	33,804			0.06	0.07	0.08

Source: Authors' calculations from the RHS and the 1984 SIPP, Wave 4.

widows the increases in economic resources between 1979 and 1984 (between the SIPP and the RHS) caused a large fall in the poverty rate. For example, with no change in Social Security provisions ($k = 1.0$) the overall poverty rate through 2001 would be 39 percent with the economic resources of the 1979 RHS respondents. With the larger resources of the same age groups in 1984 (the SIPP respondents), the poverty rate is projected to be only 26 percent. The overall rate for couples is reduced from about 9 to about 6 percent. Undoubtedly, the major cause of the reduction in poverty was the increase in Social Security benefit levels.

As above, the effect on poverty of changing the Social Security survivor's benefit, given the economic resource levels in the SIPP, can be found by comparing the poverty rates in the columns for $k = 1.1$ and $k = 1.2$ with the rates in the $k = 1.0$ column. Among all widows, increasing the survivor's benefit by 20 percent ($k = 1.2$) would decrease projected poverty rates overall from 0.26 to 0.20, a percentage decrease of 23 percent. This is the same percentage decrease obtained using the RHS levels of the variables (table 13.6).[6] As before, the increase in the poverty rate of couples is small in absolute terms but comparable to the fall for widows in percentage terms (about 33 percent).

13.5 Conclusion

The illustrative simulations presented in this paper show that the poverty rates of widows could be materially reduced by an increase in survivorship

6. This leads us to believe that a similar percentage fall in the poverty rate would be found if current levels of the economic resources were used in the forecast.

benefits funded by a reduction in the benefits of couples. The increase in Social Security benefits in the 1970s—between the RHS and the SIPP surveys—can be expected in itself to reduce the future poverty rates of the elderly. If this increase in Social Security benefits were accompanied by a 20 percent increase in the survivor's benefit, the poverty rate of widows would be reduced from about 39 percent (table 13.6, $k = 1.0$) to 20 percent (table 13.8, $k = 1.2$).

Appendix

Table 13A.1 **Means and Medians over Households with Positive Values and Number of Observations with Positive Values: RHS and SIPP**

Household Type	Bequeathable Wealth Excluding Housing	Housing Wealth	Real Annuities	Nominal Annuities	Earnings	Social Security Income
RHS data						
Widow						
Mean	21,444	35,348	2,410	1,767	3,478	2,856
Median	6,200	29,999	1,316	1,270	2,400	2,808
N	1,677	1,195	577	314	369	1,656
Widower						
Mean	26,247	38,965	3,759	2,498	5,255	3,294
Median	8,637	30,000	2,262	1,962	2,400	3,361
N	350	247	112	144	87	360
Single male						
Mean	22,700	32,715	3,791	2,502	5,140	2,968
Median	4,899	25,000	1,687	1,800	2,500	2,856
N	291	132	88	105	76	292
Single female						
Mean	17,072	34,440	3,177	2,316	3,228	2,877
Median	6,675	25,999	2,040	1,765	1,741	2,852
N	457	211	233	105	118	448
Couple						
Mean	50,772	48,003	5,697	3,118	6,835	5,419
Median	18,984	39,000	4,063	2,400	3,429	5,536
N	2,359	2,075	638	931	88	2,328
SIPP data						
Widow						
Mean	30,090	46,892	5,991	2,649	7,557	5,035
Median	14,074	40,000	5,520	1,902	3,252	5,088
N	482	360	89	108	84	491
Widower						
Mean	46,317	51,477	9,382	3,528	8,441	5,754
Median	18,763	30,000	7,416	2,122	7,620	5,760
N	84	57	15	30	13	85

(continued)

Table 13A.1 (continued)

Household Type	Bequeathable Wealth Excluding Housing	Housing Wealth	Real Annuities	Nominal Annuities	Earnings	Social Security Income
Single male						
Mean	39,244	44,120	11,375	3,638	8,744	5,559
Median	12,375	38,500	9,876	3,558	6,000	5,622
N	100	53	22	36	25	96
Single female						
Mean	27,153	45,468	4,971	2,299	4,502	4,743
Median	5,752	40,000	4,818	1,884	5,025	4,758
N	147	81	26	42	28	146
Couple						
Mean	82,912	58,404	10,243	4,093	14,305	9,177
Median	34,864	50,000	8,433	3,600	8,400	9,114
N	987	855	260	399	286	934

Source: Authors' calculations from the RHS and the 1984 SIPP, Wave 4.

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