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Death of a Spouse: The Impact on Income for Senior Men and Women

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Death of a Spouse: The Impact on Income for Senior Men and Women

**André Bernard, Small Area and Administrative Data Division and
Chris Li, Income Statistics Division**

Summary

We would like to imagine that the life of elderly people as a quiet moment to enjoy. However, the death of a spouse can be one's most painful situations, especially for many survivors who have to face the future alone, often for the first time. At a moment they are emotionally vulnerable, they have numerous decisions to make about the future, including important financial decisions. Survivors may also be left financially vulnerable, particularly those who cannot re-enter the labour market.

This study uses data from Statistics Canada's Longitudinal Administrative Databank for 1993 to 2003 to compare the dynamics of income during widowhood among women and men aged 65 and over.

Widowhood affected the income of women differently compared to men. Senior widows saw their median income decline continuously in the five years following the loss of the spouse. On the other hand, widowers' median income was higher five years after the wife's death when compared to the year before that event.

In this article, income is measured as total family income before taxes in constant 2003 dollars, adjusted for family size and composition.

Not only did widows' adjusted income decline, but also more of them fell below the low-income threshold following widowhood. After five years of widowhood, 8.7% of widows were living in low income, compared with 5.1% of widowers.

Overall, 51% of widowers suffered a loss of adjusted income after five years of widowhood, only slightly higher than the proportion of 49% who incurred a gain. On the other hand, 72% of widows suffered a loss.

Senior women at all income levels saw declining income during widowhood—even those with the highest incomes. After five years of widowhood, the 25% of senior women with the highest family income saw their income drop 8.6%. For widows, the loss came mainly from lower pension income and earnings.

For senior widowers, differences appear when the various levels of income are analysed. Senior widowers in the lowest income groups appear to be more affected economically by widowhood. Lower earnings contributed the most to the decrease in adjusted income.

An aging population

As is the case in many developed countries, Canada's population is aging. In 1971, the number of people aged 65 and over made up 8.0% of the population. In 2005, this proportion reached 13.1%. Demographic projections indicate this trend will accelerate, fuelled by low birth rates and gains in life expectancy.

The death of a spouse is an event that can have a big impact on a senior's economic and social well-being. This often leaves the survivor more vulnerable financially, and it is often accompanied by a sharp decline in income.

For widows, a Statistics Canada's study clearly established that the negative consequences of widowhood on their adjusted income worsen over time.¹

Women and men have different patterns in labour market participation and savings at all periods of their lives. Consequently, the objective of this study is to verify whether the decrease in standard of living that happens to widows also touches widowers. Is there a common trend among women and men, or a major difference?

Lost of income for widows, not for widowers

Comparing changes in adjusted family income from one year before the loss of the spouse to five years afterwards reveals important differences between widows and widowers.

In this article, total family income before taxes and expressed in constant 2003 dollars is used as a measure of income. Income is further adjusted to take into account family size and composition. An assumption is made that a drop in family size, all things being equal, should be associated with a redistribution of the family income. Therefore, the loss of a spouse may be associated with an increase in adjusted family income even if the unadjusted family income did not change. This result should not be confused with a rise in unadjusted income resulting from the loss of the spouse.

Widowers' adjusted median family income rises immediately after the death of the spouse. It then declines gradually during the next five years to a level above where it was before the spouse's death.

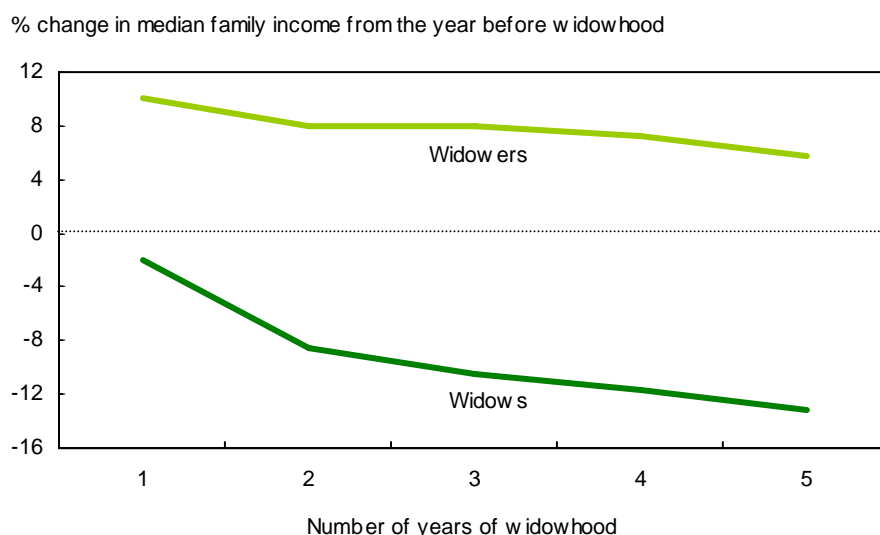
More precisely, the adjusted median income one year before widowhood amounted to \$27,800 among senior men who lost their spouse. After one year of widowhood, it rose 10.1% to \$30,600. Five years down the road, at \$29,400, it was 5.8% higher than in the year before widowhood.

Widows walked a much different path. Adjusted income declined continuously among senior women during widowhood. In the first year following the death of their spouse, the decline was limited to 1.9%, from \$25,800 to \$25,300.

However, this was followed immediately by successive declines. Five years after the death of the spouse, senior women incurred a decline of more than 15%. This indicates the importance of long term follow-up to evaluate the real consequences of widowhood.

1. See Chris Li, "Widowhood: Consequences on Income for Senior Women", *Analysis in Brief*, Statistics Canada, Catalogue no. 11-621-MIF2004015, July 2004. The values of the indicators for widows may be different in the present article for two reasons: the reference years are not the same and some definitions have been reviewed.

Chart 1 Adjusted median income for widowers stayed higher than its initial point, while it declined continuously for widows



Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

More widows than widowers in low income

Widowhood creates sharp differences over time between men and women with respect to the incidence of low income and the long term effects are more important.

For this analysis, Statistics Canada's low-income measure (LIM) was used to determine low income. It is strictly a relative measure of low income. An individual is considered to be in low income if his or her adjusted family income, before taxes, is less than half the median adjusted family income for the population as a whole. The low-income rate is the proportion of senior men or women who are part of the low-income group.

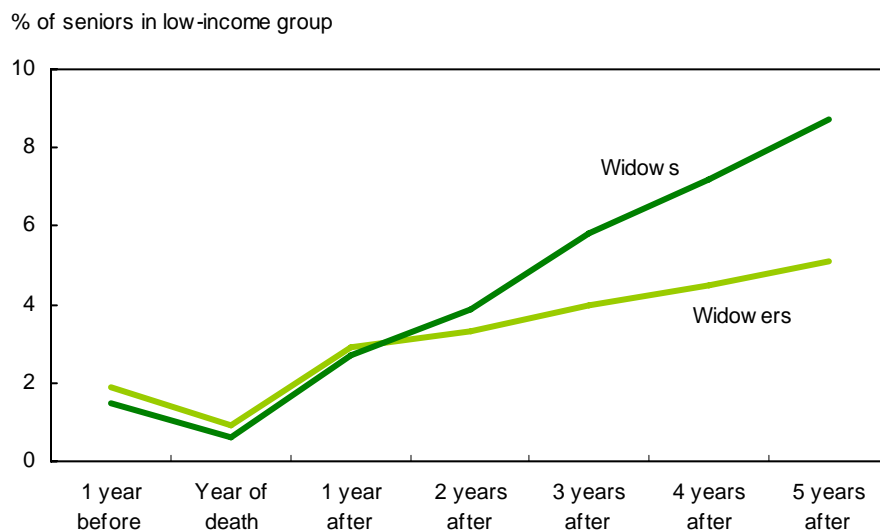
Initially, low-income profiles of senior widowed men and women were similar. One year prior to widowhood, about 1.9% were in low-income. After one year of widowhood, the low-income rates of both senior women and men rose to 2.5%.

However, in the following years, the low-income rate rose at a much faster pace for widows than widowers. After five years of widowhood, widows' low-income rate was almost five times higher than their rate one year before the death of the spouse. The widowers' rate was about 2.5 times higher.

As a result, five years after the death of the spouse, widows' low-income rate had risen to 8.7%, which is much higher than widowers' rate of 5.1%.

Although widows and widowers had different low-income rates, those that did experience low income faced similar challenges. Once these senior widows and widowers slipped into low income, it was very difficult to climb out. The decline below the low-income threshold was temporary for only one-third of widows as well as widowers, when considering the five-year period of widowhood.

Chart 2 Low-income rate of widows rises faster than that of widowers



Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

More widows enter low income

The proportion of senior men and women who were not in low income one year before widowhood, but who subsequently entered low income was examined. Again, the results suggest notable gender differences.

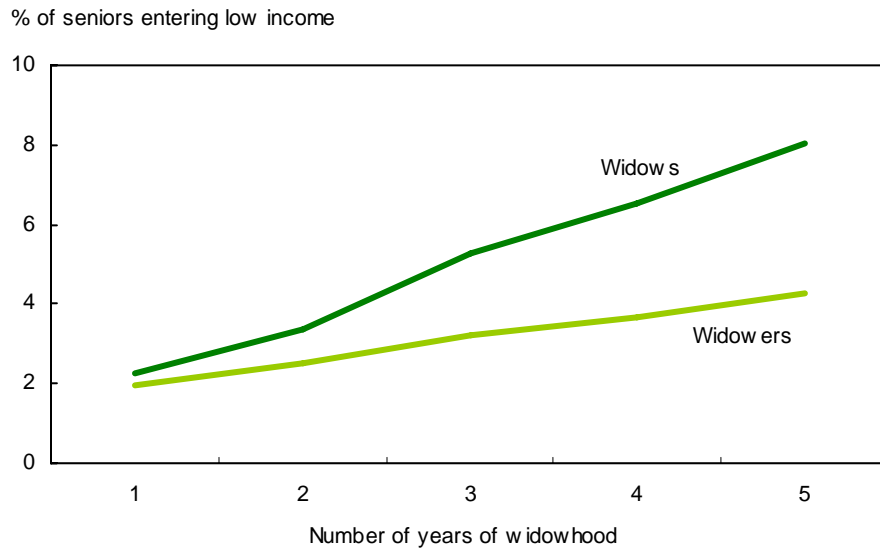
More senior widows than widowers entered low-income status in the years after losing a spouse. After one year of widowhood, 2.2% of widows and 1.9% of widowers had fallen below the low-income threshold.

However, just four years later, this proportion had more than tripled to 8.0% for widows, and it had doubled to 4.3% for widowers, again showing the importance of a long-term follow-up.²

Five years after the death of their spouse, the proportion of widows entering low-income status exceeded the proportion of widowers by 2 to 1.

2. These percentages are slightly lower than those presented in the previous sections as they exclude seniors who were already in low income before widowhood.

Chart 3 Widows twice as likely to enter low income

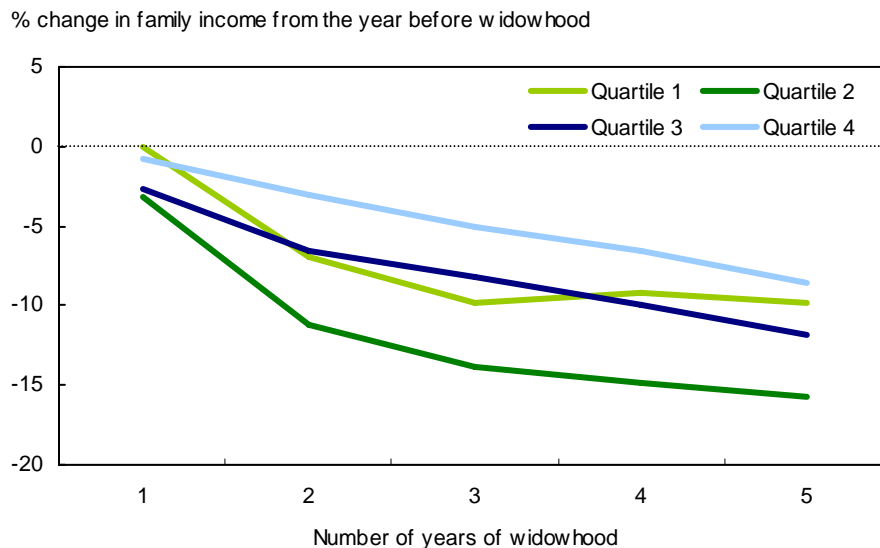


Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

Widowhood affects women at all income levels

The study evaluated whether the economic consequences of widowhood varied for men and women at different income levels. To do so, all widows and widowers were ranked on the basis of their initial adjusted family income, and then divided into four equal groups called quartiles.

Chart 4 Women at all income levels suffered a decline during widowhood



Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

Widows in all four quartiles saw an overall and substantial decline in adjusted income. Five years after the death of the spouse, the richest widows (those in the fourth quartile) experienced an 8.6% decline, compared with a 9.8% drop among the poorest.

Adjusted income fell the most for the quartiles in the middle: it dropped by 15.7% for those in the second quartile, and 11.9% for widows the third quartile after five years of widowhood.

These results confirm once more the long-term consequences of widowhood on income for senior women.

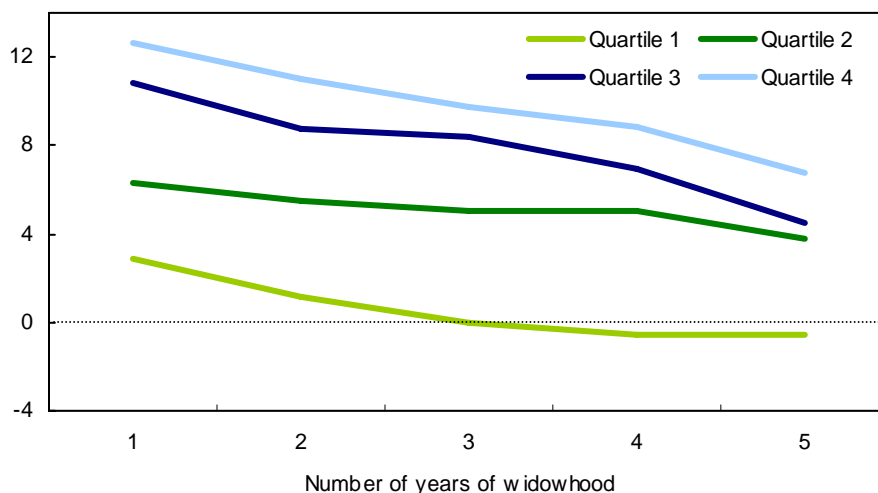
The poorest widowers suffer loss of adjusted income

On the other hand, the consequences of widowhood at each income quartile for senior men were different compared with those of widows. The poorest widowers saw a small decline in their adjusted income five years after the death of their wife compared with one year before while all other widowers ended the period with an increase in adjusted income.

The decline was 0.6% for the poorest (first quartile), while widowers' income of the three other quartiles rose respectively 3.8%, 4.5% and 6.8% after five years of widowhood.

Chart 5 Poorest widowers were more affected

% change in family income from the year before widowhood



Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

Sources of income change due to widowhood

Overall, 51% of widowers suffered a loss in their adjusted income after five years of widowhood, only slightly higher than the 49% who incurred a gain. On the other hand, 72% of widows sustained a loss.

To get a better idea about the sources of income contributing to a rise or a decrease after the death of a spouse, total family adjusted income was divided into six components: Old Age Security, pensions, other transfer payments, earnings, asset (investment) income and 'other income'. ('Other income' includes private income sources not included elsewhere such as income from partnerships.)

The decline in adjusted income for senior widows and widowers after five years of widowhood was a consequence of a decrease in almost each component, but the degree of contribution varied. The "other transfers" was the only component not to have an impact.

Loss of pension income affected widows the most among those who suffered a loss. This component contributed 28.6% of the loss in adjusted income for these women. On the other hand, pensions played a minor role for widowers, contributing only 1.1%.

For widowers, earnings contributed the most to the loss of adjusted income while it was the second most important source of decrease for widows. After five years of widowhood, earnings contributed 27.8% to the loss for widows and 37.0% to the loss for widowers.

For some individuals, the deceased spouse was still active in the labour market at the time of their death, so earnings contributed an important share of the family's income. However, the difference between widows and widowers' loss in income was not as striking for earnings as it was for pension income.

Despite a small rate of labour force participation among seniors—less than 10%—earnings of the spouse played an important role in the change of adjusted income for both women and men. This kind of loss in income seemed very difficult to compensate after the loss of the spouse.

Income from assets (investments) played an important role for both widows and widowers who suffered a loss of adjusted income. For widows, it accounted for one-fifth of the loss while it explained one-third of widowers' loss.

Chart 6 Widows more affected by loss of pension income after five years of widowhood



Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

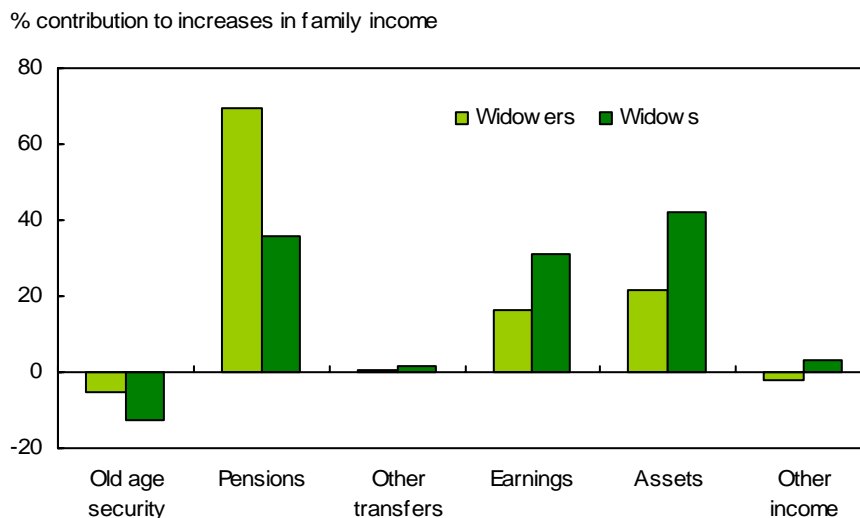
Among the 49% of widowers and the 28% of widows whose adjusted income rose five years following the death of the spouse, three components of income played an important role.

Income from assets (investments) accounted for the lion's share's increase in income for widows (42.2%). Even if it was only the second most important contributor for widowers, income from assets accounted for 21.4% of the increase in income after the loss of the spouse.

The most important contributor to the increase of income for widowers was pension income. More than \$2 out of every \$3 gained in adjusted income after five years of widowhood came from pension income. For widows, more than \$1 out of every \$3 was a result of an increase in pension income.

For both widows and widowers, earnings were the third largest cause of increase in adjusted income after the death of the spouse. For widows, after five years of widowhood, earnings accounted for twice as much compared to one year before widowhood going from 6.4% to 12.3%. While for a majority of widows, earnings contributed to an important loss of income, it became an important source of income for those who saw their income rise. It confirms that despite a small rate of labour force participation among seniors, the possibility to work has important consequences for widows and widowers.

Chart 7 Pension income played an important role for both widows and widowers whose income rose five years after the death of the spouse



Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

Income source definitions

Old Age Security consists of Old Age Security pension, Net Federal Supplements and non-taxable income.

Pensions comprise Canadian Pension Plan (CPP) and Quebec Pension Plan (QPP), pension and superannuation income and RRSP income.

Other transfers include family benefits, provincial refundable tax credit, employment insurance benefits, Goods and Services Tax (GST) and Harmonized Sales Tax (HST) credits, workers compensation payments, child tax benefits, child tax credits and social assistance payments.

Earnings consist of employment income from T4 slips, other employment income and net self-employment income.

Asset income comprises dividends, interest and investment income and net rental income.

Other income consist of components such as retiring allowances, death benefits from employment service (less any tax free amounts), loans and transfers of property tax, amounts distributed from a retirement compensation arrangement, RRSP income for persons aged 65 and over (excluding annuities reported as pension income), alimony or support income and income from partnership.

Data sources and methods

The data source for this analysis is the Longitudinal Administrative Databank (LAD). It is a 20% sample of the T1 Family File (TIFF), a yearly cross-sectional file of all tax-filers and their families. Census families are created from information provided annually to the Canada Revenue Agency on personal income tax returns or applications for Child Tax Benefits.

In this article, total family income before taxes and expressed in constant 2003 dollars is used as a measure of income. Income is further adjusted to take into account family size and composition. An assumption is made that a higher number of people sharing a dwelling being associated with potential economies of scale. Therefore, the loss of a spouse may be associated with an increase in adjusted family income even if the unadjusted family income did not change. Thus, an increase in adjusted income should not be confused with a raise in unadjusted income.

The adjustment for family size is the sum of individual factors: one adult is counted as 1, each additional adult as 0.4; and each child under age 16 is counted as 0.3—except in a family with only one adult, where the first child is counted as 0.4.

Results were also adjusted to take into account the different age structure of widows compared with widowers. For reasons such as the difference in life expectancy between men and women, widows are typically a few years older than widowers on average. Since income tends to decline with age, the structure of the population of widowers must be adjusted to the structure of the population of widows to avoid a distortion of the interpretation of the results.

Low income measure used represents 50% of the median adjusted family income taken from the entire population.

The terms “in the year before” and “one year after” refer to the tax years and not the twelve month period ending with, or starting with, the death of the spouse.

The results from the last section are based on a contribution to change analysis (absolute variation in a source of income divided by the absolute change in the total).

The sample used in this study includes all men and women 65 years of age and over who lost their spouse during the period 1993 to 2003. The sample consists of approximately 6,175 senior widowers and 19,880 widows. Only widows and widowers who survived the entire five-year period of analysis and who did not remarry were included in the analysis. However, a sensitivity analysis concluded that the inclusion of widows and widowers who died less than five year after the loss of their spouse does not change the conclusions of this study.

Tables

Table 1 Source of income for widows and widowers with a decline in income

	Widows		Widowers	
	One year before widowhood	After five years of widowhood	One year before widowhood	After five years of widowhood
	\$			
Total adjusted family income	32,500	24,800	36,700	27,500
Old Age Security	8,300	6,900	8,000	6,700
Pensions	13,900	11,700	14,400	14,300
Earnings	2,700	560	4,800	1,400
Assets	5,900	4,500	6,800	4,000
Other transfers	770	750	860	740
Other income	1,000	320	1,800	450

Note: The sum of the components might not add up to the total due to rounding.

Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.

Table 2 Source of income for widows and widowers with an increase in income

	Widows		Widowers	
	One year before widowhood	After five years of widowhood	One year before widowhood	After five years of widowhood
	\$			
Total adjusted family income	34,500	45,400	34,500	46,200
Old Age Security	7,400	6,000	6,900	6,300
Pensions	16,200	20,100	18,400	26,500
Earnings	2,200	5,600	2,100	4,000
Assets	7,300	11,900	5,300	7,800
Other transfers	610	780	650	740
Other income	780	1,100	1,200	960

Note: The sum of the components might not add up to the total due to rounding.

Source: Statistics Canada, Longitudinal Administrative Databank, 1993 to 2003.