

## GAIN AND LOSS: MARRIAGE AND WEALTH CHANGES OVER TIME

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Considerable research finds married couples have higher income and better health than people who are not married. Less is understood, however, about the effect of marriage on wealth. Yet, wealth is arguably a more important measure for older individuals because it represents resources available for consumption in retirement.

There are several ways in which marital status may affect wealth. Married couples' higher household income may translate into higher wealth, even if they save at the same rate as unmarried individuals. Also, married couples may consume many goods and services jointly such as entertainment and housing for the same cost as a single person and this may translate into additional wealth. Because marriage is associated with better health, married couples may save more to protect against outliving their resources. On the other hand, marriage reduces risk associated with fluctuations in income and thus may lower precautionary savings against income shocks or other shocks.

The need to understand whether marriage makes people better off, whether better off people marry, or both, and why, is crucial and timely. Older adults today are more likely than in the past to have experienced at least one divorce, having lived through the dramatic increase in divorce rates and a decline in remarriage rates in the United States over the past 25 years.

We employ eight waves of panel data from the Health and Retirement Study to study the relationship between wealth changes and marital status among individuals over age 50. This research advances understanding of the relationship by (1.) incorporating measures of current and lifetime earnings, mortality risk and other characteristics that vary by marital status, into models of wealth change; (2.) measuring the magnitude of wealth loss and gain associated with divorce, widowhood and remarriage; and (3.) estimating wealth change before and after marital status change so the change in wealth change is not the result of individuals entering or leaving the household, and other sources of unobserved differences are removed from estimates of the effect of marital status on wealth.

Comparing wealth levels and lifetime earnings of married individuals at age 55, and following them over a period of 14 years, we found that those individuals who later divorced already had lower wealth at age 55 than individuals who remained married, although their lifetime earnings were similar. Remarried individuals had lower wealth at age 55, but higher lifetime earnings, than married individuals the same age. Thus, we found patterns consistent with both selection (better off people marry) and wealth loss due to marital dissolution

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(marriage makes people better off) in explaining why married individuals around age 55 have higher wealth than those who are not married.

Among individuals with a stable marital status over time, we found the higher savings of couples compared to all types of unmarried men (except partners) was accounted for by observable differences such as economic status, pensions and mortality risk. Observable differences accounted for between a third and one-half of the average savings differences between married and divorced, widowed and partnered women, and all of the difference between couples and never married women. Estimates from models that controlled for fixed and unobserved heterogeneity by modeling the change in wealth change revealed no difference in the change in wealth change for men and women who are not married, compared to those who are married consistently over four consecutive waves.

We found wealth change associated with changes in marital status. Divorce was associated with wealth loss beginning while married — that is, between two and four years before the divorce occurred — substantially more wealth loss over the two years that the individual transitioned from married to divorced, and wealth recovery in the form of increased savings after the divorce. Remarriage was associated with wealth increases at the time of marriage consistent with the addition of an individual bringing wealth into the household, and was followed by future wealth increases at rates similar to those who do not change marital status. In the short-term, divorce at older ages is costly, remarriage is wealth enhancing and people appear to change their savings in response to changes in marital status. Over time, the pattern of changes in wealth of married, divorced, widowed, never married and partnered men and women at older ages are similar.

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