

MRRC RESEARCHER

Julie Zissimopoulos discusses her MRRC supported research

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How Marriage and Divorce Impact Earnings, Savings, and Wealth

MRRC: Your paper states that individuals who divorce experience a loss of wealth two to four years before the divorce. How large is this loss and when does it occur?

JZ: Individuals over age 50 who experience a divorce lose almost 60 percent of their wealth over a short window of time. They lose about 14 percent over the two years prior to the divorce and the remaining 46 percent over the two years in which the divorce occurs. This is more than half their wealth – that is, it is not just a loss of wealth reflecting the division of two persons' wealth into two parts. More research is needed to better understand why. Is the wealth loss due to costs associated with divorce proceedings, or are there events such as health shocks or job loss that lead to wealth loss and also break-up marriages?

MRRC: In your conclusion, you write, “By comparing wealth levels and lifetime earnings at age 55 of married and remarried individuals by whether they go on to divorce over the next 14 years, we found patterns consistent with the role of both selection and wealth loss due to marital dissolution in explaining why married individuals around age 55 have higher wealth than not married individuals.” What do you mean by selection?

JZ: Married individuals have more than twice the wealth of single individuals at age 55. It may be that marriage has a direct effect on wealth, that is, marriage makes people well-off. Alternatively, it may be that individuals who save more are more likely to marry and stay married. That is, well-off people marry. I found evidence consistent with both explanations. The average wealth and lifetime earnings at age 55 of married couples that remained married over the next 14 years was higher compared to those married couples that went on to divorce consistent with a story that well-off people are more likely to stay married. Comparing those married couples who remained married to remarried couples who remain married, I found remarried couples had slightly higher lifetime earnings but lower wealth. This suggests that there may be a wealth loss associated with divorce that may be difficult to recoup.

MRRC: In earlier work, you found that divorced women have substantially lower wealth levels near retirement age than divorced men. Is this because of lower earnings over their lifetime or do they save less?

JZ: Previously, we found that divorced women had lower lifetime earnings than divorced men but that did not fully explain why wealth levels near retirement were lower for divorced women. In this paper, I find that over a two-year period, the increase in wealth of divorced women is lower than that of divorced men. That is, after accounting for observable differences between men and women, such as differences in education, lifetime and current earnings, they appear to save less than divorced men. This may be explained by differences in expenses such as those associated with children that vary for men and women.

MRRC: Why are these findings relevant to economic or Social Security policy?

JZ: Older adults in the United States today are more likely than the past to have experienced at least one divorce. Retirement income security is a focus of increasing attention with population aging and uncertainty about the solvency of Social Security. Moreover, the provisions of Social Security distribute retirement income across groups of individuals by both current marital status and past marital events, and it is important to understand how current rules impact vulnerable groups.

Julie M. Zissimopoulos is Research Associate Professor at the University of Southern California. Her research focuses on lifecycle behavior with regards to earnings, wealth, and marriage, and topics in the economics of aging including health and socio-economic status, labor force behavior, savings behavior, and familial support networks.



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