Let us share things fairly: wealth differences following a reform to divorce legislation in England.

Work in progress, please do not quote

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Background

- Concern among policymakers about wealth inequality which has been growing in recent decades
- Evidence suggests there is significant variation in wealth and its subcomponents by: social background, education, occupation, housing tenure, age and gender.
- Range of reforms made by 1997 government related to devolved administrations, House of Lords etc
- This has implication for living standards throughout life and also in retirement
    - Ageing and longevity; social care/support

Motivation

- Significant life events such as purchasing a home, having children, marriage and divorce can affect wealth levels
- Rising level of single parenthood and divorce have been labeled 'New Social Risks'
- Working patterns, occupational sorting, historical social norms around childcare:
  - imply women have historically had lower levels of wealth, **especially pension wealth**
- The Welfare Reform and Pensions Act 1999 sought to ensure wealth was split evenly in the event of divorce (Joseph and Rowlingson, 2012)
  - Absence of risk sharing at older ages

Aims

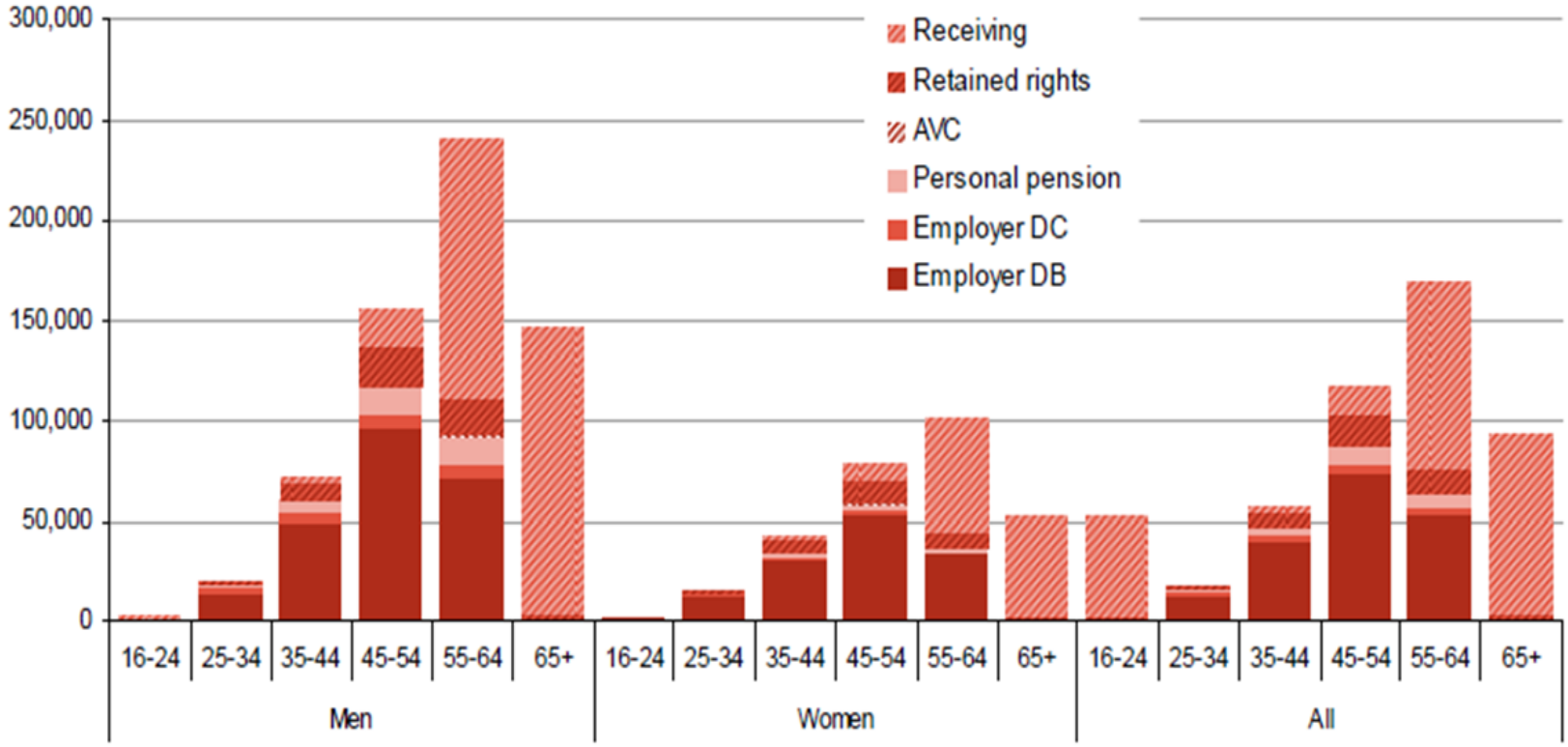
- Analyse the effect of the Welfare Reform and Pensions Act 1999, specifically:
  - Did the reform have any effect on (pension) wealth of affected individuals?
    - H_0^1 post-reforms wealth differentials of divorced men and women narrowed
    - H_0^2 post reforms ratio should be unity
  - How important was the reform in a monetary sense?
  - Did the reform have other implications?

Pension wealth differences: WAS wave 1

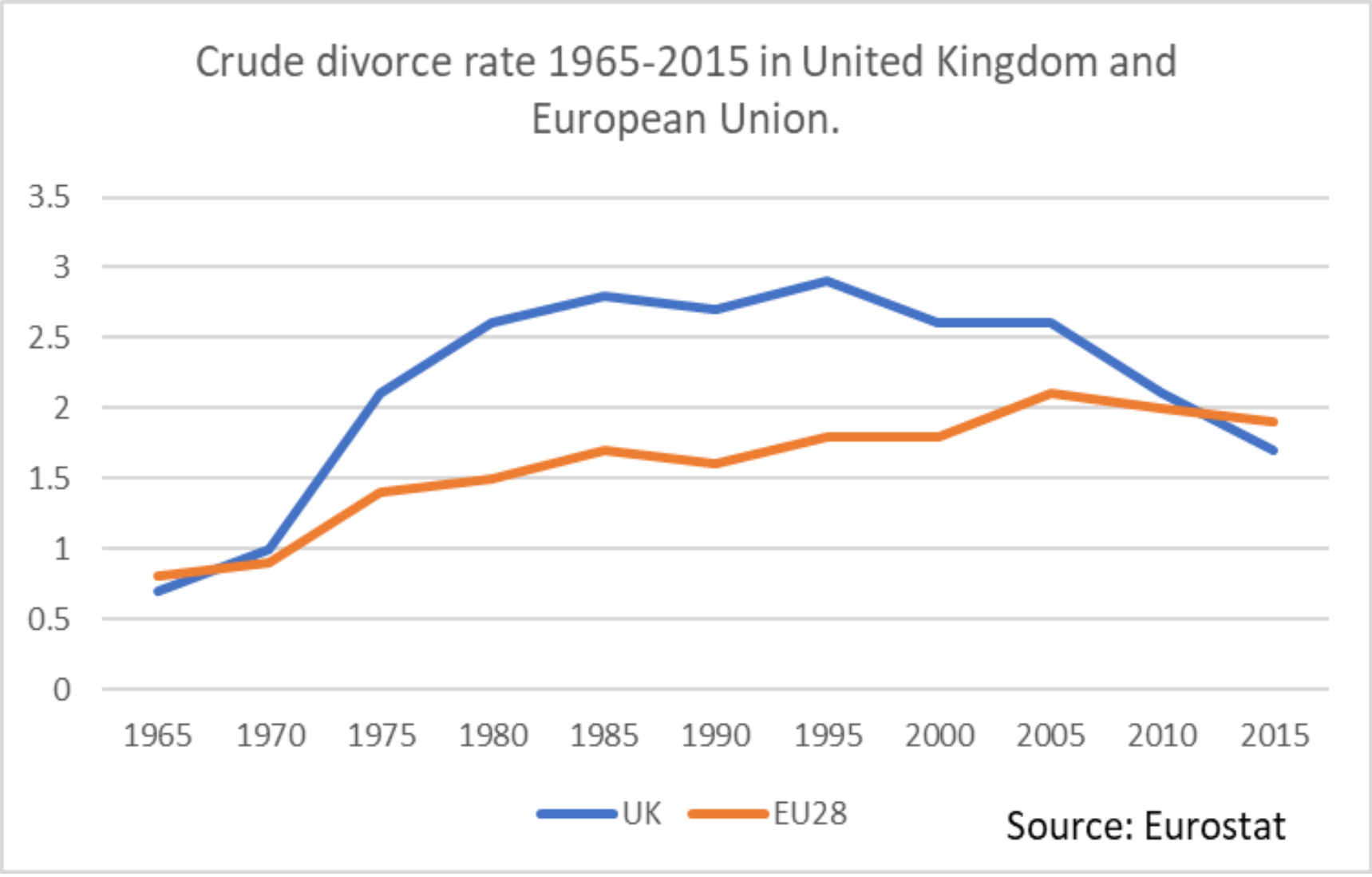
Mean wealth held by individuals in private pensions[1]: by type of pension, age and sex, 2006/08

Great Britain

£

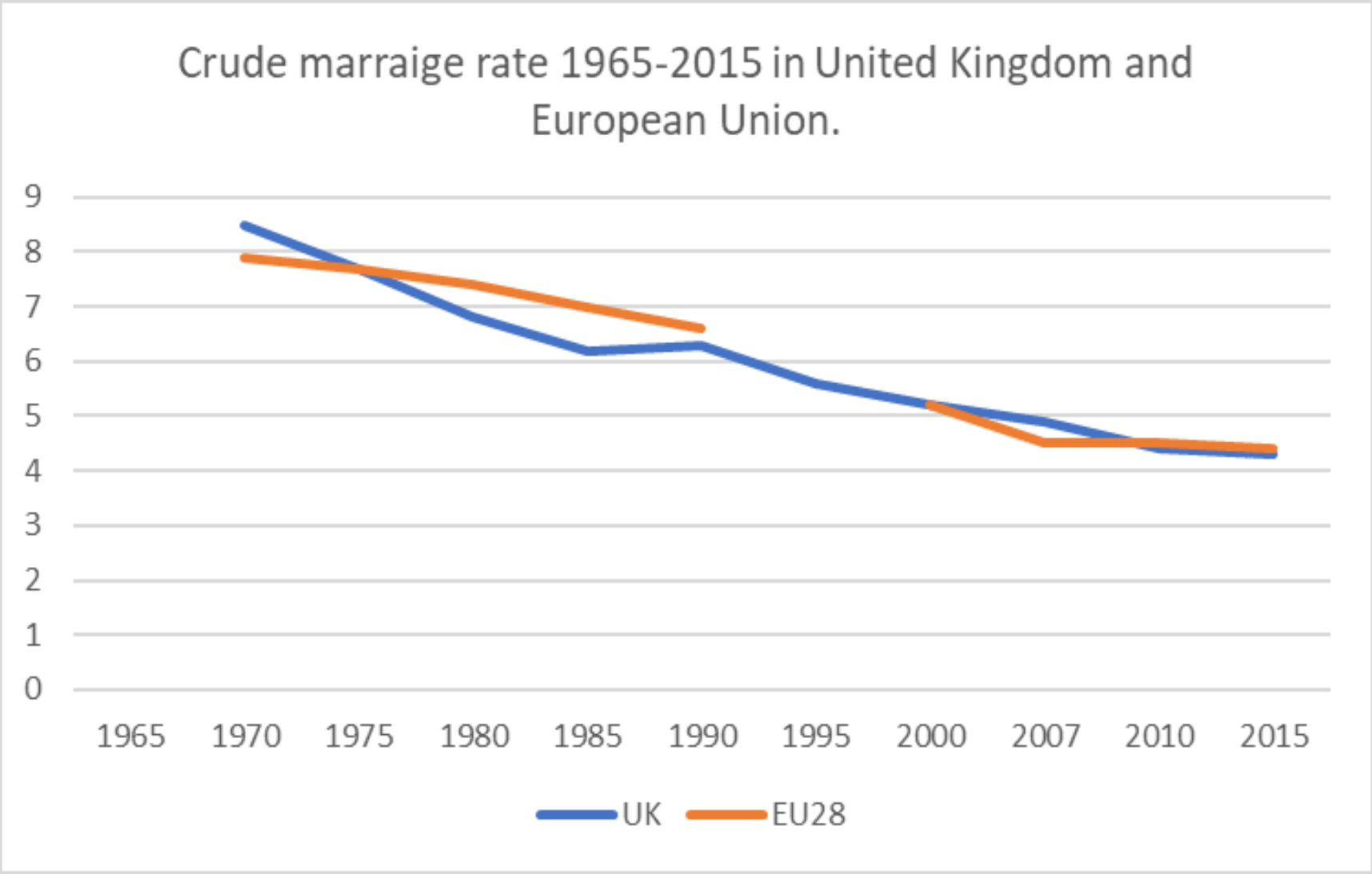


Divorce rates



Note: The crude divorce rate is the ratio of the number of divorces during the year to the average population in that year. The value is expressed per 1000 persons.

Marriage rates



Note:The crude marriage rate is the ratio of the number of marriages during the year to the average population in that year. The value is expressed per 1000 persons.

Data: ELSA

- Use range of data sources:
  - ELSA, 50+ (starting 2001/2) and also utilise life history data collected at wave 3 (2005/6)
  - BHPS, started in 1991 and representative of GB population, utilise wealth data in 1995 and 2005

Methods

- Formal test of comparison of wealth levels conditional on year of divorce (pre/post reform)

OLS regression:

$$pensionwealth_{i,wave2} = \beta_0 + \beta_1 maritalstatus_{i,wave2} + \beta_2 datedivorced_{i,wave2} + \beta_3 maritalstatus *_{i,wave2} datedivorced_{i,wave2} + \beta_4 age_{i,wave2} + \beta_5 income_{i,wave2} + X_{i,2002} + \varepsilon_i$$

- Robustness check: always single group

Formal comparison: BHPS

- Can compare differences in means of total (non-pension) wealth among divorced individuals (pre/post)

	BHPS			
	Wealth_{1995}	Wealth_{2005}	Ratio_{1995}	Ratio_{2005}
Single divorced man (1)	60541	96125	$\frac{(2)}{(1)} = 0.82$	$\frac{(2)}{(1)} = 0.93$
Single divorced woman (2)	49906	89578		
Non-single divorced man (3)	38097.1	107407	$\frac{(4)}{(3)} = 0.97$	$\frac{(4)}{(3)} = 0.78$
Non-single divorced women (4)	37115.25	83844		

- Test difference between ratio of:
  $H_o^1 : \frac{wealth_{s,female,pre2000}}{wealth_{s,male,pre2000}} = \frac{wealth_{s,female,post2000}}{wealth_{s,male,post2000}}$ and
  $H_o^2 : \frac{wealth_{s,female,post2000}}{wealth_{s,male,post2000}} = 1$
- $H_0^1 (H_0^2)$ rejected (not rejected) at conventional levels of significance

Formal comparison: ELSA

- Can compare differences in means of pension wealth among divorced individuals (pre/post)

	ELSA			
	Pension wealth$_{2004}^{divorce<=2000}$	Ratio	Pension wealth$_{2004}^{divorce>2000}$	Ratio
S divorced man (1)	159, 218	$\frac{(2)}{(1)} = 0.36$	95, 712	$\frac{(2)}{(1)} = 0.90$
S divorced woman (2)	57, 225		85, 958	
NS divorced man (3)	142, 629	$\frac{(4)}{(3)} = 0.29$	50, 483	$\frac{(4)}{(3)} = 4.13$
NS divorced women (4)	41, 802		208, 450	

- Test difference between ratio of:
  $H_o^1 : \frac{wealth_{s,female,pre2000}}{wealth_{s,male,pre2000}} = \frac{wealth_{s,female,post2000}}{wealth_{s,male,post2000}}$ and
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Pension wealth regression

Coefficient	β_3Sign/significance	Net effect$(\beta_1 + \beta_3)$
Single female post reform	$+tive^{*}$	43,879
Non-single female post reform	$+tive^{***}$	159,609
Single male post reform	base	base
Non-single male post reform	*ns*	4,589

Notes: * significant at 10% level, ** significant at 5% level, *** significant at 1% level. Based on wave 1 data.

Sensitivity analysis

- Always single group: were not affected by reform so would not expect any difference in wealth pre/post reform
- Ratio: $H_o : \frac{totalwealth_{alwayssingle,female,1995}}{totalwealth_{alwayssingle,male,1995}} = \frac{totalwealth_{alwayssingle,female,2005}}{totalwealth_{alwayssingle,male,post2005}}$
- BHPS: ratio in 1995: 0.95 and in 2005 0.95
- ELSA ratio in 2005/6: 1.05 (BHPS, 2005, 50+: 1.06)
- Consistent with what was expected, formal test also verifies no significant difference

Recoupling speeds (current work)

- Reform essentially makes things more equal
- Could affect speed at which individuals recouple
- Ignores 'love'

Recoupling speeds before and after reform

- Results based on BHPS and ELSA (4 years pre/post reform)
  - ELSA: recouple $1.77 years \rightarrow 1.5 years$; remarry $2.63 years \rightarrow 1.85 years$
  - BHPS: recouple $3.1 years \rightarrow 1.7 years$; remarry $3.44 years \rightarrow 2 years$
- General pattern clear

Discussion

- Significant policy interest in gender wealth differentials and implications for living standards/risk sharing at older ages
- Welfare Reform and Pensions Act 1999 sought to share wealth more equally upon event of divorce
  - Our results suggest this reform was successful for those affected
  - Magnitude of effect was large
- Reforming one aspect of the system does not solve the issue:
  - gender wealth gap still exists (15% based on w5 of WAS)