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## **Happiness as a Complex Financial Phenomenon: The Financial and Psychological Adjustment to Widowhood in the U.S.**

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# **HAPPINESS AS A COMPLEX FINANCIAL PHENOMENON: THE FINANCIAL AND PSYCHOLOGICAL ADJUSTMENT TO WIDOWHOOD IN THE U.S.<sup>i</sup>**

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## **1.1 INTRODUCTION**

The loss of a spouse is a traumatic event. Not only must widows and widowers deal with the loss of spousal companionship, they may also face significant short-term and long-term changes to their financial security. Individuals are known to be differently affected and cope more or less successfully with a spousal loss. While the typical assumption is that financial shocks and long-term financial insecurity are detrimental to psychological well-being, there is little research on the relationship between changes in financial resources and the psychological well-being of widows and on how the adequacy of financial resources assist in the psychological adjustment to widowhood.

In the United States, a major source of economic security against the loss of a spouse's earnings is Old Age and Survivors Insurance (OASI), but this pays benefits only to widows and widowers 60+ (50+ if disabled) and younger widows and widowers with children under 16.<sup>ii</sup> Pensions as well may pay survivor benefits, though previous work by Holden and Brand (2003) has shown that this is a more uncertain source of income. While the survivor benefits provided through life insurance on the deceased's life, OASI, and employer-provided pensions are designed to mitigate financial stress for surviving spouses, how these and other sources of financial security ease the psychological stress of a spousal loss is not known.

This paper uses data for a sample of relatively young widows and widowers to examine the relationship between psychological well-being and financial well-being of the surviving spouse. Although previous research indicates that financial attributes explain only a small part of the difference across individuals in overall satisfaction, the availability and stability of financial resources may play a larger role in how widows and widowers readjust psychologically after the trauma of a spouse's death.

## **1.2 BACKGROUND**

It is well known and documented that the probability of being a widow increases as women and men age; in 2000 just over one-third of men in the U.S. age 85 or older and almost three-quarters of women were widowed (Bureau of the Census, 2002). However, widowhood is not an event that occurs at older ages only; in 2002 half of widowed men and women were under the age of 74 and about one-quarter were under the age of 64. Widowed women grow older and the distribution of current widows by age is a combination of age at widowhood and duration of widowhood. Shoen and Weinick (1993) estimate the average age in 1988 at which men and women experience a spouse's death at about age 69 for women and 72 for men. Interestingly, the increasing age of mean widowhood has been accompanied by declining remarriage rates for both widowed men and women; in 1988 only 17 percent of men and 6 percent of women could expect to remarry, down from 27 percent and 10 percent in 1970.

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<sup>ii</sup> Both widows and widowers are eligible for benefits without gender distinction in eligibility or benefit calculations.

There is an extensive literature on the economic status of widows and widowers. National and cross-national studies have consistently shown that non-married older women (who are primarily widows) are worse off in terms of income and wealth than are married couples of like age (Bradshaw and Chen, 1996; Shaver, 1996; Siegenthaler, 1996; Smeeding, 2001). However, these cross-sectional snapshot views of widows' incomes reflect both the changes in income and wealth that occur upon widowhood as well as the longer term consequences of being a widow. Holden and Zick (1998) examined changes in income as married women were widowed and show that while some share of the lower income of widows is due to pre-widowhood differences in income between couples who remain intact and those in which the husband dies, a substantial decline in (household size adjusted) income occurs upon widowhood. Chart 1, showing monthly income over a 36 month period, indicates a sharp decline upon widowhood in average income, a difference that persists over the subsequent months of widowhood.<sup>iii</sup> Holden and Brand (2002) using annual data over several decades of show that the income gap between intact couples and widows diminishes overtime, perhaps as husbands of couples retire and insurance and property settlements to widows are fully accomplished.

#### [CHART 1 ABOUT HERE]

This decline is likely a consequence of inadequate insurance coverage, indicating poor financial planning for widowhood. Thompson and Carasso (2002, p. 123) argue that the nearly double poverty rate (using the U.S. poverty threshold) of single compared to married elderly individuals suggests that "...widows, receive inadequate (Social Security) benefits." Holden and Brand (2002) show that private pensions in the U.S. play a role in explaining the greater income change upon widowhood than in the U.K. or Germany, primarily because of the option pensioners have of declining continued payments to their survivor. Bernheim et al., (2003) suggest that private insurance choices are also a culprit, arguing that two-thirds of the higher poverty rates of widows (and one-third of that for widowers) is due to failure to purchase sufficient life insurance against the husbands' deaths. Zick and Holden (2000) find the same patterns for wealth as for income, with couples about to be widowed having lower wealth prior to widowhood than do couples who remain intact while experiencing an additional decline upon widowhood. Hurd (1990) finds that 40-50 percent of the decline in wealth is associated with widowhood is due to changes in Social Security. Haveman et al. (2007) find that among married women who were widowed during a ten-year survey period, widowhood alone accounted for a significant decline in annuitized wealth with pensions and Social Security modifying this decline for eligible widows. McGarry and Shoeni (2003) attribute some of the decline in wealth and income at widowhood to the out of pocket medical expenditures associated with end of life health care expenses for the dying spouse.

Another body of literature has examined the effect of marital status on psychological wellbeing.<sup>iv</sup> This literature is generally consistent in finding that marriage matters a great deal to happiness, that women report higher levels of happiness than men (Gerdtham & Johannesson, 2001) and widows lower levels than married women (Vennhoven, 1989; Glenn 1975; Glenn and Weaver 1979). While controlling for cohort, marital status, and other individual characteristics yields a U shaped happiness-age profile with happiness generally increasing with age beyond 45-50 (Blanchflower and Oswald, 2007), women report diminishing levels of happiness over time. Easterlin (2003a) also finds that the greater happiness for women than men reverses with age as women are widowed and men retire, retirement presumed to increase reported happiness. Widowhood is correlated with a large negative shift in happiness for both women and men (Blanchflower and Oswald, 2000, 2005).

The consistent finding that marital status matters to happiness counters the adaptation hypothesis, that is, that individuals have a "setpoint" from which they may deviate due to changes in life circumstances but to which they adapt over time. Easterlin (2003b) argues against this hypothesis in the case of marital dissolution; married individuals report happiness levels significantly higher than nonmarried individuals, regardless of duration of marriage and reported happiness of widows does not recover to the level of married individuals. He argues that in such instances adaptation is not complete since marital aspirations and goals are not fully altered

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<sup>iii</sup> The data are arranged by widowhood month, which may occur at different times over the survey. To take account of other changes that would have led to income changes even if married, widows are compared with couples who remain married but are randomly assigned a "widowhood month" in a pattern that duplicates the actual timing distribution for widows.

<sup>iv</sup> This is part of a growing literature that attempts to understand why increased economic prosperity of countries and individuals is not accompanied by comparable increases in satisfaction. Frey and Stutzer (2002) is a good review of the general literature on the relationship between economic resources and happiness.

to conform to current circumstances and more realistic expectations. Widows maintain a sense of relative disadvantage because aspirations for family and companionship do not change.<sup>v</sup>

The few studies that look at specifically widows' psychological wellbeing over duration of widowhood confirm the psychological shock of widowhood. Wilcox et al (2003) using data from the Women's Health Initiative compare married and widowed women, with the latter distinguished by time since widowhood. They find that more recently widowed women report more mental health problems than do married women and longer term widows but that longer term widows actually had better mental health than did comparably aged married women. This may reflect the effects on mental health of spousal care both for recent widows and comparable married women. An indication of the immediate mental health consequences of widowhood is the elevated risk of suicide reported by Luoma and Pearson (2002) among young widows and widowers.<sup>vi</sup>

There is little literature that relates the psychological well-being for widows and widowers to their economic resources. While Carr et al. (2000) argue that the emotional consequences of widowhood are affected by the quality of the marriage and dependence—financial and emotional--on the deceased partner, they do not examine how financial dependence contributes to emotional dependence. Earlier studies of widowhood noted the additional stress on bereaved widows who were financially dependent on deceased husbands (Morgan, 1981; Lopata, 1973). This pre-widowhood dependence may have been what Lee and DeMaris (2007) were attempting to capture by including pre-widowhood resources in their study of post-widowhood depression. That they found no effect may be because it is post-widowhood resources (or those resources relative to pre-widowhood resources) that are the appropriate explanatory variable. International comparisons suggest the importance of securing pre-widowhood resources into widowhood. An ILO report (ILO, 2004) concludes that citizens of countries that provide greater economic security report greater levels of happiness, and cross-cultural comparisons indicate that financial satisfaction is a greater contributor to life satisfaction in poorer countries than in wealthier nations (Oishi et. al, 1999). Findings by Bender and Jivan (2005) have implications for widowhood effects on satisfaction. In examining "satisfaction with retirement" among fully retired persons in the Health and Retirement Survey, they find that those who retired voluntary (versus involuntarily) are more likely to be in the higher satisfaction category, as are those with a defined benefit plan (versus defined contribution plan only), those who are older and those in poor health. Being married had a small but significant contribution to satisfaction. Both effects suggest that "expected" changes are more likely to be weathered, that financial security contributes to a sense of well-being, and that companionship matters even when economic resources are controlled for.

### **1.3 THEORETICAL APPROACH**

A person experiences two potential traumas upon the death of a spouse—the loss of companionship and the loss of resources the spouse brought to the household. The former loss has by definition occurred with a widow(er) event, while the latter can be mitigated through private insurance choices and public insurance program provisions. For a spouse who has lost an income-receiving partner and has insufficient insurance against that loss, concern about resources may compound the psychological trauma of the loss. It may exacerbate the sense of loss or, even as a separate concern, may increase the separate issues about which the widow must worry. In order to understand the widowhood experience it is necessary to distinguish the contribution to psychological well being of widowhood-related financial worries versus the contribution of widowhood itself.

We are interested in the role financial resources play in improving the psychological well-being of widows as they adjust to a spouse's death. We first explore the predictors of financial satisfaction and the effect of being widowed and then examine the role of financial satisfaction and the independent effect of other variables on psychological well-being of married and widowed women.

### **1.4 DATA**

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<sup>v</sup> This contrasts with pecuniary goals that change as they are achieved. Thus higher income may be aspired to, but when achieved is viewed as insufficient to maintain initial happiness levels. Likewise while lower income may be avoided, when that is experienced individuals adjust their aspirations and report unchanged happiness.

<sup>vi</sup> This study focused on age rather than duration though young widows and widowers were more likely to have recently experienced the death of a spouse. At older ages suicide rates among widows and widowers approached those of married individuals while suicide rates among divorced persons were higher.

Our data are from the Wisconsin Longitudinal Study (WLS), a longitudinal panel study that has tracked a cohort of over 10,000 men and women from their senior year in high school (in 1957) through age 64-65 (2003-04).<sup>vii</sup> Survey data on individual and family characteristics (including of spouses) were collected from the original respondents (termed “grads”) in 1957, 1964, 1975, 1993, and 2004. The most recent survey provides particularly rich financial information on insurance, pensions, income, and assets, as well as measures of psychological wellbeing and satisfaction.

The sample is of high school graduates (in 1957) and so results from WLS analyses cannot be generalized to lower educated individuals or to younger or older cohorts. About two-thirds of the U.S. cohort to which the WLS sample belongs are non-Hispanic white women and men who had completed high school (U.S. Bureau of the Census 2003). While this is not a nationally representative sample, the richness of the data allows us to investigate questions of social significance and to generalize to a large proportion even if not all of the population. It is particularly useful in providing an unusually large sample size with which to address questions relevant to a near-retirement age population.

#### 1.4.1 Sample:

In 2004, the most recent wave of the survey, there were 552 widows and widowers among the 1957 graduates who were interviewed in that year (Table 1). There were 5,584 married graduates. An advantage of using the cohort-specific data is that a major issue plaguing widow-married comparisons is largely avoided; the difference in age between widows and married individuals. In a general population sample widowed individuals are much older than married women and widowers younger than widows and adjustments must be made in comparing characteristics to account for that difference. In the WLS all respondents were 62-67 when interviewed. Thus differences in other characteristics between married and widowed individuals are not due to the differences due to birth-cohort related events and but to the different life paths of men and women graduates and couples who experienced early widow(er)hood and those who are not.

[TABLE 1 ABOUT HERE]

#### 1.4.2 Measures of Psychological Well-being.

Our primary interest is in the relationship between psychological well-being and a spouse’s death and the mediating influence of economic resources. To measure psychological well-being we use the Center for Epidemiologic Studies Depression Scale (CES-D), a scale designed to measure depressive symptoms in the general population (Radloff, 1977). It is a 20 item, self reported scale that asks the frequency of depressive symptoms that may have been experienced during the past week. Several studies have examined the reliability and validity of the CES-D, including in its application to older populations (Beekman, et al. 1997) and for only selected depressive symptoms (Kahout et al, 1993). The WLS modifies the original four-category scale (never = 0, to 4= 5-7 days per week) to ask the number of days per week, a modification we argue is useful to studying adjustments to widowhood. As in the standard scale, responses are summed, with the positive affect reverse coded. Higher scores (the net balance of negative and positive affects) indicate more days of negative affects.

The CES-D scale has been used both as a summary score (see Carr, 1997) and as separate factors (e.g., Williams, et al. 2006). We use summary scores and also examine the subgroup scores in order to capture the positive and negative aspects of emotional adjustment to widowhood. The first category consists of somatic symptoms which, in this case, are consistent with individual bereavement, the second are those labelled as interpersonal affects—that is depressive symptoms that relate to one’s interaction with others. The third consists of positive affects.

### **1.5 CHARACTERISTICS OF THE SAMPLE**

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<sup>vii</sup> A public use file of data from the Wisconsin Longitudinal Study is available from the Data and Program Library Service, University of Wisconsin-Madison, 1180 Observatory Drive, Madison, Wisconsin 53706 and at <http://dpls.dacc.wisc.edu/WLS/wlsarch.htm>.

### 1.5.1 Socio-economic characteristics:

Table 1 presents characteristics of the sample, distinguished by gender and current marital status. All WLS respondents, members of the same graduating class, are within a narrow age range (63-66) with mean age slightly higher for men.<sup>viii</sup> Differences in other characteristics are consistent with patterns of marriage and education and the then role of males as primary wage earners. As expected WLS women were married to older men and the WLS men to younger women with widowed women having married older men than had the still married women. The still married men were more likely than their female and widowed male classmates to have gone to college. The widowed men, though they had not married earlier than still married men, were no more likely to have gone beyond high school than were their female classmates.

Both mean income and mean wealth of widows and widowers, even when adjusted for household size, are less than those of their married peers.<sup>ix</sup> The percent of this largely Wisconsin resident group with income below the official U.S. poverty threshold (and below twice that threshold) is lower than the 2004 percent for all Wisconsin elderly, but is higher for WLS women than men and for widows and widowers compared to married women and men<sup>x</sup>

### 1.5.2 Widowhood duration:

We are particularly interested in this paper in the psychological adaptation of widows to their widowhood and so we distinguish widows by duration of widowhood. These are relatively young widows and widowers, all widowed in their mid to early 60s or younger. Almost one-third of widows lost their husbands in the two years before the 2004 interview and over one-third had been widowed for eight years or more. Because men marry younger women, they are older when widowed and hence a higher proportion than widowed women lost their spouses more recently. Higher remarriage rates for men also reduce the percentage who are longer term widowers. This sample on average is in or has had quite long marriages, with women having married younger and thus, if still married, in longer marriages.<sup>xi</sup>

### 1.5.3 Psychological well-being:

Table 2 presents mean scores for the total and for the three CES-D scales for each widow-gender group. Negative affects are significantly greater for widowed women and men compared to married women and men; for positive affects the mean is lesser by about one and half days for widowed versus married individuals. The largest differences were for days feeling depressed, crying, feeling lonely and sad and days in which they less often enjoyed life and felt hopeful for the future. Somewhat surprisingly, widowed women were no more likely on average to have difficulty sleeping and widowhood was not strongly associated with their sense of self worth. It appears these factors capture the major ways in which widowhood is likely to impact psychological well-being.

[TABLE 2 ABOUT HERE]

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<sup>viii</sup> This likely reflects differences in timing of school entry since parents have some discretion when children's birthdays are around the earliest start date.

<sup>ix</sup> We adjust for household size using an OECD equivalence scale. The household size adjustment is A<sup>5</sup> (Hagenaars, de Vos and Zaidi (1994). The WLS asks about income of the household during the previous year from all sources; we use a WLS-provided summary measure that incorporates all imputations from "bracketed" answers. WLS adopted the same bracket questions as did the Health and Retirement Survey for respondents who did not provide a single numeric answer and, as did the HRS, found this substantially reduced missing values. Wealth is reported financial and property wealth including defined contribution type retirement accounts. We use the WLS summary variable which also incorporates bracketed imputations. The wealth measure does not include the wealth value of social security or defined benefit plans.

<sup>x</sup> In 2004 9% of the population 65+ in Wisconsin was poor and 27% were near poor (between the poverty and twice the poverty threshold). The lower poverty rate is due in part to this sample being currently married or having had on average long-term marriages, to its being primarily a younger, white sample, all of who have at least a college education. Data from Wisconsin's Family Health Survey data available at <http://dhfs.wisconsin.gov/stats/familyhealthsurvey.htm>

<sup>xi</sup> We do not consider never married individuals in this study. About 4 percent of both male and female graduates never married and about 5 percent married their current spouse after age 50. About 19 percent of the ever-married had married more than once (Hauser and Roan, 2006).

## **1.6 RESULTS**

We first explore the predictors of satisfaction with financial resources among married and widowed women and men, hypothesizing that greater income and assets and human capital attributes that would enable this relatively young group to weather financial shocks through paid work lead to greater financial satisfaction. For this reason we include education and health as measures of human capital. We next explore the role of widowhood, distinguishing by widowhood duration, to these individuals' psychological well-being. We categorize widowhood length into three groups: recent widows (widowed <3 years prior to the survey), for long-term widows (> 7 years) and those widowed 3-7 years. Because health insurance coverage is an important component of financial wellbeing in the U.S., and health insurance coverage may cease when a spouse dies, we include variables for type of health insurance coverage both as a predictor of financial satisfaction and independently of psychological well-being. The health insurance variable measures coverage beyond Medicare, for which all persons those over age 65 would be eligible.<sup>xii</sup>

Table 3 shows the predictors of financial satisfaction. The WLS asks:

How satisfied are you with your present financial situation - completely, very, somewhat, not very, or not at all satisfied?

**[TABLE 3 ABOUT HERE]**

We recode the five-point response scale to an indicator that is equal to 1 if the respondent is completely, very, or somewhat satisfied and zero if they are not very or not at all satisfied. The table shows the log-odds with an odds ratio of greater than 1.0 indicating that increased satisfaction comes from that variable..

For both women and men, as expected, greater income and wealth and their own better health increase satisfaction with their financial situation. Interestingly, human capital (education) does not have a significant effect and current employment actually reduces satisfaction. Only for women does health insurance coverage have an effect, but it is a strong one. Compared to individuals with Medicare only, women with insurance provided through their employer (either as a worker, retiree, or survivor) or some other means report greater levels of financial satisfaction. Those who must purchase their own insurance in the private market and women without insurance are no differently satisfied than are the Medicare-only covered.

Widowhood has an effect (relative to being married) only for those who have been widowed 3-7 years; though longer term widows are more satisfied with their financial status and very recent widows less so compared to married women, but the effects are not significant at the 10% level.<sup>xiii</sup> For men, widowerhood does not play a role in financial satisfaction. Note that these effects are beyond those due to the level of (household size adjusted) income and wealth, indicating that widows express dissatisfaction with resources for reasons that are not related to resources alone.

Tables 4 and 5 explore predictors of, respectively, overall psychological well-being among women and men and of subscales for women. A higher CES-D score represents more days of psychological distress. Financial satisfaction has a strong effect on this CES-D score for both women and men, though the effect is greater for women than for men.

**[TABLE 4 ABOUT HERE]**

Beyond the indirect effect of health insurance coverage through one's sense of financial security, it also has an effect on respondents' CES-D score. The effect seems to be that, given one's level of financial satisfaction, having coverage beyond that provided through the public system (Medicare or Medicaid) modifies psychological distress. Curiously those with no medical care coverage have significantly lower CES-D scores.

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<sup>xii</sup> Medicare covers individuals age 65 but provides incomplete coverage for medical care. Maxwell et al. (2000) estimate that low income elderly without additional coverage pay about 22 percent of their income out in health care dollars.

<sup>xiii</sup> This would be coverage by Medicaid, a means tested but comprehensive health plan or by veteran health plans which also offer coverage more comprehensive than Medicare.

Absence of Medicare coverage may be partly an age effect (under age 65 and anticipating coverage) and absence of any other coverage may indicate the selectivity into this category of those less concerned about their likely need for and cost of health care.

Interestingly, widowhood for women has a much larger and more long-term effect on psychological well being than for men, with both short-term and very long-term widows recording higher net depression scores.

**[TABLE 5 ABOUT HERE]**

Table 5 disaggregates the CES-D scale for women in order to assess whether it is increased negative attributes or reductions in positive affects that lead to higher CES-D scores. Education has its positive effect, seen in Table 4, exclusively through its effect on positive affects rather than by reducing the days of negative feelings. Being in good health has a more uniform effect; it reduces negative affect days and increases positive ones. Being employed reduces somatic affects but only by a small amount, indicating that work relations are not as psychologically supportive of women as is family support which has large improving effects on CES-D scores across the board.

The effect of financial satisfaction is also to improve psychological health across the scales. It reduces the days of depression and increases the days one feels positively about oneself and about life. The additional effect of health insurance on depression is relatively small, but again no insurance has the curious positive effect, both reducing depressive days and increasing positive affects. It may be that this measure is picking up a personality trait that leads to some individuals not being as depressed about events—widowhood and absence of insurance—as others might be who do then seek coverage.

Our primary interest is in the independent effect of widowhood, which we presume captures the influence of the loss of companionship and security that was provided by the deceased spouse. Early widowhood matters here, with some but not complete recovery indicated. Longer term widows have no more negative somatic/depressed affect days and no fewer positive affect days. It is more logical that very long term widows are more likely to feel lonely, the major component of the interpersonal affect scale (Table 2).

**1.7 CONCLUSIONS**

The purpose of this paper was to understand the separate role of financial resources and widowhood on psychological well-being of widows and widowers. We use data for a sample of women and men who were aged 63-65 when interviewed in 2004 to examine the impact of relatively early widowhood—for some in their 50's—on subjective financial and psychological well-being. The advantage of this sample is that their homogeneity—all are high school graduates, mainly white, entering the labor market under approximate similar conditions—allows us to isolate the effect of widowhood and its duration more precisely.

For all men and women, both married and widowed, financial satisfaction is shaped by wealth and health, but widowhood has a fairly selective effect. It has no effect on men's satisfaction with their financial status and only one group of widows (those widowed 3-7 years) are on average less satisfied with their financial status. This may be the result of selection into relatively early age widowhood among the less financially secure or that the unexpectedly early widowhood requires a longer financial adjustment. More recent widowed (and somewhat older at widowhood) women may be better prepared financially for widowhood and so their assessment of their financial position is less affected by being a widow.

Intriguing is the effect of having no insurance coverage on satisfaction, both financial and psychological. This aspect of presumed financial insecurity or its loss does not appear to be a factor in day to day feelings of happiness or depression. It may be that the uninsured are a highly select group that is less likely to stress about lack of insurance as well as other aspects of life. It may also be that they have access to and prefer forms of care (e.g., alternative medicine, yoga) that are not covered by standard insurance policies that they therefore forego while still receiving care that increases one's sense of well-being. They may also, because of no insurance coverage, have fewer and more favorable interactions with the health care system in ways that actually reduce their anxiety and concerns.

Controlling for financial satisfaction, widows and widowers are more depressed than are married men and women.<sup>xiv</sup> Both shorter and longer-term widows are more depressed than are married women. This alone would suggest that there is little adaptation to widowhood. However, distinguishing types of depressive affects reveals a more complex story. More recently widowed women have more days of negative affect and fewer positive days. Over time these measures of psychological wellbeing approach those for their married peers, except for interpersonal/depressed affect days—when they felt lonely and sad. It appears that while sleep may improve over time, loneliness is a more permanent characteristic of widowhood.

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<sup>xiv</sup> In addition widows are more depressed than are widowers. Results are available from the first author. They are not presented because the small number of widowers make their separate analysis less reliable.

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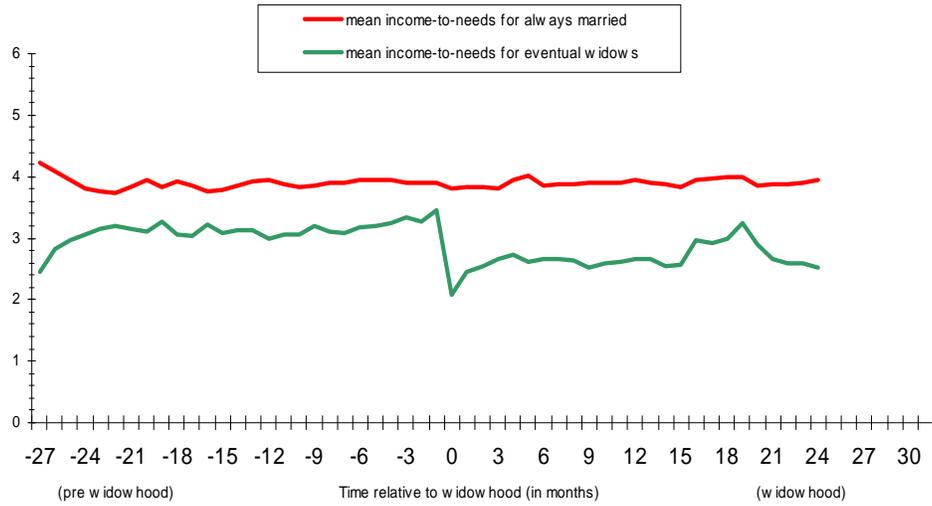
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## Chart 2: Monthly income: using U.S. poverty threshold



Data from SIPP 1990-1992 (Holden and Zick, 1998)