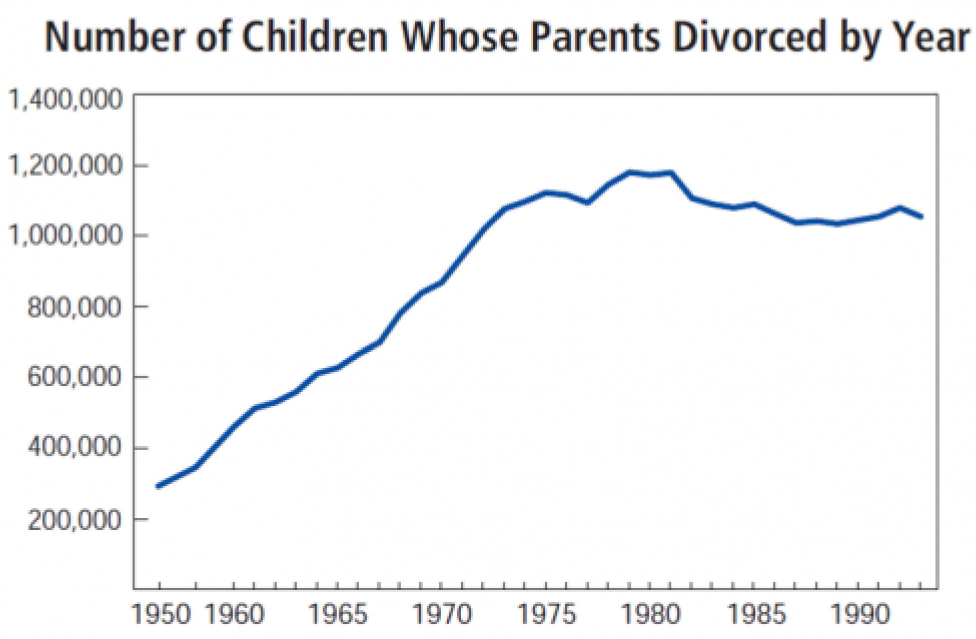
Effects of Divorce on Financial Stability

1. Link Between Divorce and Economic Stability

Almost half of American families experience poverty following a divorce,[1] and 75 percent of all women who apply for welfare benefits do so because of a disrupted marriage or a disrupted relationship in which they live with a male outside of marriage.[2]

Although a household's income substantially diminishes following a divorce, little public attention is paid to the relationship between the breakdown of marriage and poverty. Consider, by comparison, the reaction to a comparable decrease in the national economy. When America's economic productivity fell by 2.1 percent from 1981 to 1982, it was called a recession. And when the economy contracted by 30.5 percent from $203 million to $141 million (in constant 1958 dollars) from 1929 to 1933,[3] it was called the Great Depression. Yet each and every year for the past 27 years, over one million children have experienced divorce in their families with an associated reduction in family income that ranged from 28 percent to 42 percent.

Divorce has many harmful effects on the income of families and future generations. Its immediate effects can be seen in data reported in 1994 by Mary Corcoran, a professor of political science at the University of Michigan: "During the years children lived with two parents, their family incomes averaged $43,600, and when these same children lived with one parent, their family incomes averaged $25,300."[4] In other words, the household income of a child's family dropped on average about 42 percent following divorce.[5] By 1997, 8.15 million children were living with a divorced single parent. As the Chart below illustrates, there has been an increase of 354 percent since 1950.[6]



Source: Derived from *Monthly Vital Statistics Report*, National Center for Health Statistics

Divorce is the main factor in determining the length of "poverty spells,"[7] particularly for women whose pre-divorce family income was in the bottom half of the income distribution.[8] Divorce, then, poses the greatest threat to women in low-income families. Moreover, almost 50 percent of households with children move into poverty following divorce.[9] Divorce has become too prevalent and affects an ever-increasing number of children.

In the 1950s, the rate of divorce was lower among high-income groups; by 1960, there was a convergence of rates among all socioeconomic groups.[10] By 1975, for the first time, more marriages ended in divorce than in death.[11] Since 1960, there has been a significant shift in the ratio of children deprived of married parents by death compared with those so deprived by divorce. Compared with the number of children who lost a parent through death, 75 percent, 150 percent, and 580 percent as many, respectively, lost a parent through divorce in 1960, in 1986,[12] and in 1995.

2. Income

Marital unhappiness increases non-employed wives' probability of entering the workforce,[13] and the probability of divorce, controlling for marital happiness, was highest when wives' income was 40-50 percent of the *total* family income.[14] A Canadian study found that divorce rates increase as married women's income approaches that of their husbands, and accelerate further when women's income surpasses that of their husbands.[15] For each additional $1,000 increase in wives' income, the chances of divorce increase 3 percent.[16]

The economy of the family changes for the worse after a divorce, particularly for mothers. Men's incomes are much higher than women's following a divorce.[17] Between 1992 and 1994, the median family income of divorced women who did not remarry or begin cohabiting was less than half that of their continuously-married counterparts.[18] A 2001 study found that women who divorce suffer significant declines in family income, even if they do subsequently remarry or cohabit. This study found that single divorced women's median family income dropped 45 percent, while the median income of remarried or cohabiting women was 14 percent lower than before their divorce.[19]

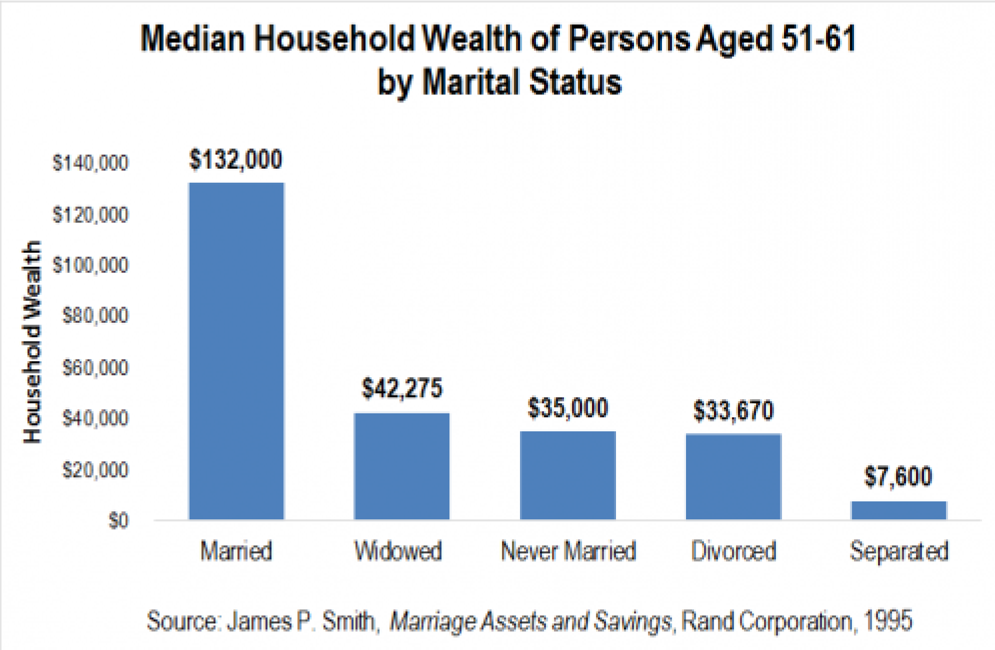
Following a divorce, the financial situation of the custodial parent is drastically affected by the children's presence. The parent with custody of the children experiences a 52 percent drop in his or her household income.[20] For divorced mothers with children during the years 1987 to 1994, that drop in household income translated into $20,000 less, according to analysis of the National Survey of Families and Households.[21]

3. Net Worth

Separation and divorce decrease household net worth significantly. Four years prior to divorce, a married couple's net worth decreases from the median amount of $8,918, and reaches approximately $3,452 the year before the divorce. This is frequently due to couples having separated prior to actually obtaining their divorce. Their net worth begins to increase the year of the divorce, to a median of $4,175, but remains below $10,000 as long as a decade after the divorce.[22]

4. Asset Formation

Little research has been done on the effect of divorce on the assets accumulated over time by a household, but a RAND Corporation study indicates that the effect may be dramatic: Family structure is strongly tied to wealth by the time one reaches the sixth decade of life. The assets of married couples in their fifties (who are approaching retirement) are four times greater than those of their divorced peers (See Chart below). Even when the two divorced households' assets on average are combined, the RAND study shows that their asset base is half that of married couples.[23] After a divorce, the largest asset—the family home— frequently is sold and the proceeds used to finance the divorce and start new homes. In addition, the evidence indicates that the income of divorced households with children drops significantly, thereby lessening the likelihood of asset formation.



5. Family GDP

In contrast to the benefits that accrue to husbands and wives who specialize their labor and stay together, divorce represents a significant blow to the family GDP. When a couple divorces, the strong joint economy of the mother and father splits into two separate and weaker economies. The split economies are weaker in part because of the expenses of setting up and running a second household as well as the costs of processing the divorce and mediating its effects. The mother's household income takes the biggest hit, dropping between 28 percent and 42 percent, a drop that mirrors the decline of U.S. economy during the Great Depression.[24] For a working-class family that divorces, the mother is likely to experience a poverty-level income during her first year of divorce though she will regain her footing somewhat after three years. The economic impact of divorce on the lower classes and minorities is even greater, as a review of the literature by the New York-based Institute for American Values shows that the economic benefit of marriage is "comparably larger" for African-Americans than it is for white Americans.[25]

6. Poverty

Between 1967 and 1984, National Longitudinal Surveys data showed that approximately 44 percent of women fell into poverty after a divorce.[26] Divorcing or separating mothers are 2.83 times more likely to be in poverty than those who remain married.[27] Following a divorce, women are more likely to be impoverished than men. Women whose family income was below the national median and mothers who were not in the workforce before the divorce are very likely to experience poverty following their divorce.[28)]

Economically, women suffer more from divorce than men. Though child support helps a woman avoid poverty after divorce, it does not help as much as most think. Over 35 percent of custodial mothers receiving child support were impoverished 16-18 months following the divorce while only 10.5 percent of all non-custodial fathers (those paying child support and those not) were impoverished.[29)]

Divorce can also increase a household's dependence on government benefits. Seventeen to 25 percent of wives who divorce after two to eight years of marriage receive AFDC benefits (Aid to Families with Dependent Children, now called TANF, or Temporary Assistance for Needy Families). Twenty to 40 percent of mothers with minor children receive welfare benefits.[30)] Mothers who were employed at the time of a divorce were much less likely to become welfare recipients than mothers who were not working.[31)] Divorced mothers who receive welfare do so for three to four years, on average, during which time they begin to work their way out of poverty.[32)] However, it seems that welfare benefits may decrease the incentives for remarriage,[33)] a path out of poverty for men and women alike.[34)]

Divorced women enjoy different degrees of economic well-being internationally and in the United States because the distribution of public benefits varies around the world. A European study found that "[t]he income women possess on account of their economic activity seems to be relatively little affected by the break-up."[35)] Though women are more likely to enter into poverty due to divorce than men, irrespective of the country in which the divorce takes place,[36)] in Social Democratic countries, because women's welfare benefits usually increase sharply (and, in some cases, double) following divorce, women's average net income increases by 32 percent.[37)]

7. Impact on Women

Many women experience a substantial decline in their financial circumstances after divorce, which in turn affects their children. Analysis of the 1987-1988 and 1992-1994 waves of the National Survey of Families and Households found that household income for a mother and children fell by $13,000 after divorce. Additionally, their standard of living was 20 percent lower and their odds of owning a home were 12 percentage points lower.[38)]

The detrimental effects of divorce on women's income vary based on the relative earnings capacity of the husband and wife. Women who experience the largest income losses (38.5 percent for a mother with one child) are "the 'low education' mother[s] who [were] married to a 'high education' man."[39)] Conversely, highly educated mothers who were married to a less educated man experience the smallest effect of divorce on their equivalent household income (11.2 percent).[40)]

8. Impact on Children

Divorce has powerfully negative effects on children. A Canadian study shows that 61 percent of children's households become "per capita" low-income households if the two parents separate, compared to 13.1 percent of children's households when the two parents stay married.[41)]

The children of divorced mothers are less likely to earn incomes in the top third of the income distribution as adults, regardless of their parents' income.[42] Seventy-four percent of children of divorced mothers whose earnings are in the bottom third of the income distribution themselves earn incomes in the bottom third of the income distribution. Only 4 percent earn an income in the top third of the income distribution as adults.[43]

Divorce is correlated with downward mobility. The sons of divorced families seem to be less likely to earn incomes that surpass their fathers'.[44] Sons from divorced families whose fathers' incomes fall in the lower third of the income distribution are more likely to themselves earn in the lower third of the income distribution, compared to the sons of intact families whose fathers' earnings are similar. Sons whose divorced fathers' earnings are in the middle third of the income distribution have an increased likelihood of earning either in the middle or the bottom third of the income distribution, compared to the sons of intact families. Sons of divorced families whose fathers' incomes are in the top third of the income distribution are at greater risk of downward mobility than are those from an intact family background.[45] A related study found that a non-intact family background increases a boy's odds of ending up in the lowest socioeconomic level by over 50 percent.[46]

9. Long-term Risks

Divorce is linked to a number of serious problems beyond the immediate economic problem of lost income. For instance, the children of divorced parents are more likely to get pregnant and give birth outside of marriage, especially if the divorce occurred during their mid-teenage years,[47] and twice as likely to cohabit than are children of married parents.[48] Moreover, divorce appears to result in a reduction of the educational accomplishments of the affected children, weakens their psychological and physical health, and predisposes them to rapid initiation of sexual relationships and higher levels of marital instability.[49] It also raises the probability that they will never marry,[50] especially for boys.[51]

For a mother with children, divorce increases her financial responsibility and, typically, her hours of labor outside the home. Divorce and additional work hours also disrupt her network of support for parenting her children.[52] These additional stresses take their toll: Single mothers experience increased levels of physical and mental illness, addictions, and even suicide following divorce.[53] All of these outcomes have an effect on family income.

Parents' accumulated wealth differs widely across family structures and affects the amount of financial support available for their children's college education. Compared with married parents (59 percent), divorced parents (36 percent) are less likely to pay for all or most of their children's college expenses. Divorced parents (29 percent) are actually more likely than married parents (17 percent) to provide no assistance at all.[54] Among women whose parents divorced, "statistically significant differences exist in educational attainment, level of household income, [and] receiving welfare…compared with women raised in intact marriages."[55]

Moreover, the consequences of divorce flow from generation to generation, since the children of divorce are more likely to experience the same problems and pass them on to their own children.[56] Significantly, these effects are markedly different from the effect that the death of a married parent has on children; in fact, such children are less likely than the average to divorce when they grow up.[57]

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This entry draws heavily from Marriage and Economic Well Being: The Economy Rises or Falls with Marriage and How Broken Families Rob Children of Their Chances for Future Prosperity.