The Implications of Gender Differences in Retirement Plan Investment Patterns

Vickie Bajtelsmit, Colorado State University

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Some (Relatively) Well-Known Facts

Women have lower income and wealth than men, and the gender-wealth gap has widened over time.

Women have lower social security benefits than men.

Women live longer than men and often end life single.

Women are more likely than men to end life in poverty.

The Big Question: WHY?
Origins of My Interest in Women and Investing

- Mid-1990s: My employer switched from a public pension to 401(a) for faculty.
- Alex Bernasek, a female colleague from the economics department, received the following advice from an investment company representative: “You’re a woman, so you’ll probably want to invest in bonds.” (Note: She was about 30 years old at the time)
Objectives of this Paper

Original Objective: Literature review on gender differences in retirement investing

Revised Objectives:

- What factors cause women to be less prepared for retirement?
- Do women (still) invest differently than men?
- What are the implications for retirement plans and policy makers?

In case you were wondering, there is now a LOT of research on these topics, coming from diverse disciplines (economics, sociology, psychology, genetics, finance, decision sciences, and more).
What Causes Gender Differences in Wealth?

Is it because they invest differently?

- Biology
  - Genetics
  - Hormones
  - Longevity

- Psychology
  - Risk preferences
  - Personality
  - Self-efficacy

- Socialization
  - Gender roles
  - Caregiving
  - Marriage/divorce
  - Education
  - Financial literacy

- Discrimination
  - Labor market
  - Advice

- Employment
  - Income
  - Pensions
  - Retirement plans

Gender Differences in Investing and Wealth
How to Measure Risk-taking Hypothetical vs. Actual

Large national surveys (e.g. HRS, SCF, UAS) measure risk aversion by:

- Self-assessment of risk tolerance (e.g. scale of 1-10)
- Identify general investment allocation (e.g. “mostly stocks”)
- Make hypothetical risky decisions (e.g. income gamble)

Some studies use a dummy variable for stock market participation, but actual risky asset share is preferable.

- National surveys are at the household level.
- Detailed asset allocation information not available for all accounts.
- How should real estate be treated?

Retirement plans have detailed asset data, but limited information about participants’ other assets or household risk-sharing.
Most Risk Preference Studies: Women are More Risk Averse

- Examples: Charness and Gneezy (JEBO, 2012), Halko, Kaustia, & Alanko (JEBO, 2012), Fisher and Yao (J Econ Psych, 2017), Cupak, Fessler, Schneebaum (Fin Res Ltrs 2021), Mandal & Brady (J Cons Affairs, 2020) and many others

- However, a meta-study of risk aversion studies by Nelson (2015) concluded that widespread acceptance of gender differences in risk-taking is more likely the result of confirmation bias than reality. Overemphasis of small differences.

- Several studies have found that gender differences in financial literacy and financial self-efficacy explain much of the differences in investing and wealth. (e.g. Bucher-Koenen, Lusardi, & vanRooij, 2021)
Plan Data Shows Some Gender Differences

- Fidelity research: Women earn a slightly higher rate return, trade less frequently.
- TIAA research: Median contribution rate 13% M 12% W, 27% less dollars than men, much lower wealth
- Vanguard research: Participation rates and elective deferral rates equal to or higher than for men of similar income levels; Similar equity allocations; women trade less
- Note: Only people w/ ret. plans.
- Public Retirement Research Lab (2023) Target date funds bridge the gap
Other Possible Causes of Retirement Wealth Differences
The Gender Pay Gap

Mostly about personal choices and family considerations

Motherhood penalty: Fewer years in the workforce and/or part-time employment for caregiving.

Occupational segregation

Lower career trajectories

Lower retirement contributions, accumulations, and social security benefits
Differences in biology and psychology

Influence gender roles, family, education, and occupational choices

Greater longevity
Genetic and hormonal links to risk aversion
Lower financial self-efficacy
Risk preferences
Personality traits
Socialization and Societal Changes

Influence women’s circumstances and ability to save

- Lower marriage rates
- Higher divorce rates
- Student loan debt
- Gender roles
- Household Economics (wife earns less)
- Low financial literacy
The LGBTQ+ Experience is Similar

- Survey of Household Economic Decisionmaking (SHED) sample size ~11,000.
  Compared with other households, LGBTQ people:
  - More likely to be single and childless
  - More likely to self-identify as “poor” or “very poor”
  - Less likely to own a home
  - Owed more in student loans
  - Have lower financial literacy
  - Less likely to have an employer retirement plan
  - Saved less overall and for retirement
  - More likely to report they were “not at all” comfortable with taking financial risks.
Conclude: The gender-retirement gap is the outcome of many diverse circumstances and experiences. Blaming it on asset choices misses important other contributors.
Solutions must focus on labor market and education.

- Continued pressure on the gender-pay gap.
- Broader retirement plan access (including prorated benefits for part-time work)
- Reduce income and career penalties for time out of the workforce.
- Family-friendly work policies so that more caregivers can stay in the workforce.
  - Examples: paid family leave, flexible schedules, options for remote work, quality child-care and elder care alternatives
- Access to tools for budgeting, retirement planning, and investing
- Credit for years of unpaid caregiving in Social Security benefit calculation.
- Lifelong financial literacy education
Thank you