



# Research Dialogues

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## Women and Retirement

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*This issue of Research Dialogues reviews and examines how women have fared in retirement in the United States, and it provides a broad assessment of women's retirement prospects for the future. These issues have particular significance for TIAA-CREF and for others who serve TIAA-CREF's participants, as the majority of current participants are women.*

*In this article, the authors examine and summarize a vast academic literature related to women and retirement, touching on issues ranging from the structure of the labor market to whether there are differences in risk preferences between men and women. After reviewing and analyzing this work, the authors provide some conclusions and several suggestions for public policy action in this area.*

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### Introduction

What are the retirement prospects for women in the United States? The short answer to this question is that there is currently a "retirement gap" between men and women that is the end result of gen-

der differences in the labor market, in pension coverage, in household responsibilities, and in investment decision making. This is of particular concern to women because their greater average longevity implies that their more limited resources must support a longer period of retirement. In fact, as can be seen in Table 1, women currently constitute nearly three-quarters of all persons age 65 and over who are living below the poverty level. The poverty rate of older women is more than double that of their male counterparts.

The purpose of this report is to summarize the state of current knowledge regarding women and retirement, and to consider the primary reasons for the observed gender differences in retiree well-being. Researchers in a number of different disciplines have considered various aspects of these gender differences. While a complete summary of this litera-

Table 1  
Poverty in the Population Age 65 and Older, by Sex and Marital Status, 1996

Sex and Marital Status	Population, Age 65+		In Poverty, Age 65+		
	Total (000)	Percent of Population	Total (000)	Percent of Total Population	Percent of Persons in Poverty
<i>All individuals</i>	31,878	100.0%	3,428	10.8%	100.0%
Men	13,404	42.0	912	2.9	26.6
Women	18,474	58.0	2,516	7.9	73.4
<i>Married</i>	17,104	53.7	735	2.3	21.4
Men	9,476	29.7	422	1.3	12.3
Women	7,628	23.9	313	1.0	9.1
<i>Living alone</i>	9,933	31.2	2,070	6.5	60.4
Men	2,314	7.3	309	1.0	9.0
Women	7,619	23.9	1,761	5.5	51.4

Source: Lamison-White, Leatha (1997).

Note: Column percentages do not sum to 100 because some unmarried individuals may live with others.

ture is beyond the scope of this report, we have attempted to identify the critical issues and common themes in order to arrive at some general conclusions. A better understanding of the problem makes it more likely that policy interventions can be designed to improve the retirement income adequacy of women.

We proceed by first describing the prevalent retirement model in the United States, emphasizing that as time has passed and society has changed, the model has begun to break down. We show that many of the factors contributing to the obsolescence of the model have some relation to gender. While the breakdown of the retirement model has implications for both men and women, several factors driving the breakdown have tended to have a greater adverse impact on the retirement security of women than on men.

In the discussion that follows, we use the terms “structural” and “behavioral” to distinguish between two types of factors that may lead to gender differences. The characteristics of jobs, of the job market, and of pensions are included as “structural” characteristics, which are generally outside of an individual’s control. “Behavioral” characteristics include more individual-specific characteristics, such as health and risk preferences. Synthesis of existing research on both the structural and behavioral aspects of gender differences leads us to make some general conclusions about women’s retirement decisions and retirement preparation. We provide policy recommendations as well as suggestions for further research in the final section of this report.

### **A Model of the Retirement System**

The structure of the retirement system in the United States has often been compared to a “three-legged stool.” According to this conceptual model, individuals are supported in retirement by three sources of income: individual savings, private pensions, and Social Security. The analogy to a stool emphasizes that if one “leg” of the retirement system is

“shorter” than the others, the system may provide an unstable source of income.

Social Security was originally designed to be a supplement, or “safety net,” for those whose savings and private pensions fell short of what was needed to fund a minimum retirement income. However, reliance on the Social Security “leg” by recent generations has increased substantially, especially among the lowest income groups and particularly among women. Individual savings rates are generally low, and the majority of Americans do not have private pension coverage. Because women significantly lag behind their male counterparts in income, savings, and pensions, they tend to be relatively more reliant on Social Security.

This over-reliance on Social Security is partly related to the larger issue of the gradual obsolescence of the assumptions and provisions of existing retirement arrangements in the face of societal change. The retirement system as a whole (and the design of Social Security in particular) was based on the assumption that household structure would remain similar to what was typical when Social Security was adopted. Such an “ideal household” contained a male head of household who held a lifetime job with an employer who provided a pension that would replace a substantial portion of preretirement income. Husbands and wives did not typically divorce, and wives did not work outside of the home. The family of today bears very little resemblance to this “ideal” household. Not surprisingly, a retirement system designed for such a household does not adequately serve the needs of today’s families—particularly those of women.

### **The Breakdown of the Retirement Model: Structural Differences by Gender**

#### **Gender Differences in the Labor Market**

Several separate factors have played a role in the gradual breakdown of the retirement model. In this section, we focus on how gender differences in the labor market adversely affect women’s prepara-

tion for retirement. For women, what is most significant is that issues involved in balancing paid work and family continue to have a major impact on their labor market outcomes.

*Earnings* Earnings differentials between men and women over a working career have clear implications for savings and retirement. Lower earnings generally imply fewer resources for saving, reduced pension contributions, and lower likelihood of pension coverage. These effects, in themselves, are “gender neutral”: both men and women in lower income brackets are likely to experience them. The problem, however, is that a disproportionate number of women take time out of the labor market, which contributes to their lower lifetime earnings.

Table 2 summarizes median incomes for households in various categories over the last four decades based on Census Bureau data. (The data are adjusted for inflation.) The data show that while the “wage gap” has narrowed recently, women still earn substantially less than men. Single-female-headed households, with and without children, have median income in all four decades that is lower than similar male-headed households.

There is a large literature addressing earnings differentials between men and women (Blau, Ferber and Winkler, 1997). Although the wage gap has been attributed to differences in individual choices such as investment in education, choice of occupation, length of employment, and degree of labor force participation, women’s earnings are also arguably the result of characteristics of the labor market. For example, occupational segregation, as well as discrimination in hiring, salary determination, or promotion have all been identified as contributors to the wage gap. While most researchers agree that all these factors contribute to earnings differentials, they differ in the relative importance ascribed to individual choice versus labor market influences.

*Labor force participation: Balancing paid work and family* Many studies have commented on the increased participation of women in the labor force in the last sever-

Table 2  
**Median Money Income for Different Types of Households**  
(in 1996 dollars)

Household Type	1969		1979		1989		1996	
	Median Income	Ratio vs. All Households	Median Income	Ratio vs. All Households	Median Income	Ratio vs. All Households	Median Income	Ratio vs. All Households
<i>All households</i>	\$33,072	1.00	\$34,666	1.00	\$36,598	1.00	\$35,172	1.00
<i>With children</i>								
Married couple	41,453	1.25	47,793	1.38	50,613	1.38	51,950	1.48
Single male parent	33,749	1.02	36,619	1.06	34,646	0.95	31,020	0.88
Single female parent	16,327	0.49	18,468	0.53	17,651	0.48	18,000	0.51
<i>No children</i>								
Married couples								
Husband under 40	37,955	1.15	45,480	1.31	50,747	1.39	50,830	1.45
Husband age 40-64	43,645	1.32	52,699	1.52	58,393	1.60	58,656	1.67
Husband age 65+	18,553	0.56	23,724	0.68	29,230	0.80	29,210	0.83
Single men								
Under 65	23,893	0.72	26,514	0.76	27,854	0.76	26,898	0.76
Age 65+	8,936	0.27	11,227	0.32	14,288	0.39	14,586	0.41
Single women								
Under 65	15,929	0.48	18,366	0.53	22,776	0.62	21,432	0.61
Age 65+	7,025	0.21	9,382	0.27	11,388	0.31	11,454	0.33

Source: U.S. Census Bureau (1999).

al decades. The gap between male and female labor force participation rates is declining, reflecting decreases in the male labor force participation rate and increases in the female rate over the last twenty years. As more women join the labor force, they will be able to accumulate wealth in their own names, qualify for Social Security benefits based on their own earnings, and participate in private pensions.

However, gender roles in society continue to perpetuate a division of labor within the family that leaves women with primary responsibility for the unpaid work of caring for the family. Although gender roles in the family are currently less rigid than in the past, change has mainly been on the part of women, who are now more likely to work outside the home. Studies of the division of labor in the household show that men's share of family responsibilities has increased to a lesser extent (Blau, Ferber, and Winkler, 1997). Women, therefore, continue to disproportionately bear the costs associated with balancing paid work and family responsibilities,

and women who choose to work outside the home are disadvantaged in a labor market that is not family friendly.

*Child care* Married women with children, whether or not they work in the paid labor force, continue to be the primary caregivers for children. Combining a full time, year-round job with the care of children—even if the children are in day-care or in school—is extremely difficult. The difficulties are even greater for the growing number of women who are single heads of households, whether never married, widowed, separated, or divorced. The difficulties single women face in balancing child care and paid work have significant implications for their retirement. Of all household categories, these women are the least likely to retire comfortably.

*Elder care* When it comes to caring for elderly parents and other relatives, it is once again women who are disproportionately involved in this work. A study commissioned in 1996 by the American Association of Retired Persons (AARP) in conjunction with the National Alliance

for Caregiving estimates that 72 percent of the 22.4 million family caregivers in the United States (representing approximately seventeen percent of adults age 18-64) are women. Two-thirds of these caregivers work part time or full time and 41 percent bear responsibility for caring for children as well as elderly adults (Seaward, 1999).

It is estimated that baby boomers will spend as many years caring for an elderly parent as raising a child. Studies find that daughters are more likely to provide care for the elderly than sons. One study, for example, finds that there is no significant difference in cash transfers to parents between sons and daughters, but that in terms of time spent providing care, daughters do significantly more than sons (McGarry, 1998). Table 3 presents a breakdown of different categories of caregivers for the elderly by gender. It is clear that, in all categories, women do a larger share of the caregiving. Women bear significant financial and personal costs related to these responsibilities, leaving them with less income to save and invest for retirement.

***Job tenure*** The impact of familial responsibilities on women's attachment to the labor force is evident in data regarding job tenure. Comparisons of job tenure for men and women show that, at every age level, women have shorter tenure at their current job. In earlier generations, it was common for women to enter the workforce later in life when childcare was no longer an issue. They would then leave the workforce or reduce hours when care of elderly parents became necessary. Currently, a woman's work history is more likely to involve several years of full time workforce participation prior to marriage and children, followed by partial withdrawal during child rearing, and then reentry. The net result—despite the increased labor force participation of women in recent years—is that women generally still have fewer years in the labor force overall and fewer years at their current job.

Although shorter job tenure may not directly impact salary for workers at similar levels of authority, it can curtail their pensions under defined benefit (DB) pension plans, which typically provide bene-

fits based on a formula tied to years of service. For women, the negative impact of shorter job tenure on retirement income is further intensified by failure to appropriately roll over or reinvest lump-sum distributions when changing jobs (as discussed in the next section of this paper).

#### **Gender Differences in Private Pensions**

Just as the "wage gap" is used to describe gender differences in wages, gender differences in pensions have come to be known as the "pension gap." Patterns of coverage, participation, and vesting, as well as segregation patterns by industry, have over the years combined to create the gender differences in pensions that are described below.

##### *Pension coverage, participation, and vesting*

In the past, women had significantly lower rates of pension coverage, participation and vesting, largely because of their low levels of workforce participation. In recent years, with more women entering the workforce, the pension gap has narrowed. Table 4 presents some trends with respect to women and pensions.

The data show that the decline in overall pension coverage that occurred in the 1980s appears to have reversed recently.<sup>2</sup> In the early 1990s, coverage rates returned to levels last seen at the beginning of the 1980s. In 1993, 57 percent of employees worked at firms that sponsored pension plans. The increase during the 1990s was driven primarily by increased coverage among working women, who are now slightly more likely than men to work at employers with pension plans.

However, consideration of household pension coverage instead of individual pension coverage tells a slightly different story. If households are counted as having pension coverage whenever at least one spouse is covered by a pension, then household coverage levels have declined slightly in the last two decades (Even and Turner, 1999). This is the result of both a decrease in coverage among married men and an increase in the percentage of single-female-headed households (who are less likely to have coverage).

Although a larger percentage of working women (relative to working men) are employed at firms that sponsor pensions, women continue to lag in participation rates. The data in Table 4 show that in 1993 only 72 percent of women with access to a pension plan chose to participate, while 81 percent of men with access to plans chose to participate. The data also show that vesting rates have risen over time among both men and women, due in large part to recent reforms of pension laws. This appears to have benefited both male and female workers.

##### *Differences by industry and occupation*

While the aggregate data show increasing pension coverage rates, less than half of all wage and salary workers currently participate in a pension plan at work, and there are significant differences in coverage across various groups in the economy. Pension coverage tends to be lower for part time workers, those with lower wages, workers in smaller firms, and for those in historically female dominated

**Table 3**  
**Percentage of Elder Care Providers Who Are Female**

<b>Relation of Caregiver to Care Receiver</b>	<b>Percent Female</b>
<i>Family</i>	
Spouse	64.5%
Child non-co-resident	70.6
Child co-resident	67.9
Child-in-law, non-co-resident	81.4
Child-in-law, co-resident	80.7
Grandchild	76.1
Other relative	73.1
<i>Nonfamily</i>	
Live-in helper, paid	94.9
Live-in helper, unpaid	69.5
Other person, paid	68.4
Other person, unpaid	63.3

Source: McGarry (1998), Table 5.9, p.144.



Table 4  
Trends in Pension Sponsorship, Participation, and Vesting Among Workers Aged 16 and Over

Year	Sponsorship Rate			Participation Rate			Sponsored Participation Rate			Vesting Rate			Participant Vesting Rate		
	All	Men	Women	All	Men	Women	All	Men	Women	All	Men	Women	All	Men	Women
1979	56%	59%	52%	46%	51%	38%	81%	87%	73%	24%	28%	18%	52%	55%	46%
1983	52	54	50	43	47	38	83	88	76	24	28	20	57	60	52
1993	57	56	58	44	45	42	76	81	72	38	39	36	86	86	86

Source: Employee Benefit Research Institute tabulations of the May 1979, May 1988 and May 1993 Current Population Survey Employee Benefit Supplements (Yakoboski and Silverman, 1994).

Note: Table includes civilian population only.

Sponsorship rate: the number of workers whose employer sponsors a pension plan for any employees, as a percentage of all workers.

Participation rate: the number of workers who participate in their employer's pension plan, as a percentage of all workers.

Sponsored participation rate: the number of all workers who participate in their employer's pension plan, as a percentage of the number of workers whose employer sponsors a pension plan for any employees.

Vesting rate: the number of workers who have vested in their employer's pension plan, as a percentage of all workers.

Participant vesting rate: the number of workers who have vested in their employer's pension plan, as a percentage of workers who participate in their employer's pension plan.

professions.<sup>3</sup> Coverage tends to be higher among unionized workers, full time workers, and those employed at large firms.<sup>4</sup> Unfortunately, the factors that make pension sponsorship more likely also tend to exacerbate gender differences in pension coverage and participation: women are much less likely to work for large employ-

demands, or spouse-related relocation, such formulas tend to have a greater adverse effect on women.

For defined contribution participants, lump-sum distributions received by workers who leave an employer should be promptly rolled over into other retirement savings plans to maximize potential

ment plan, they save a smaller percentage of total rollover dollars than men, even when housing purchases and debt reduction are included in the definition of savings (Piacentini, 1990).

*Social Security* We noted in the introduction that reliance on Social Security for retirement income is more prevalent among women and lower-income individuals (Advisory Council, 1997). Thus, any discussion of gender differences in retirement must necessarily consider the design of this public pension system and its impact on women in retirement.

To the extent that gender differences in longevity and health are not factors in the determination of Social Security benefits, women who qualify for Social Security (based on their own earnings) realize a greater effective return on their payroll tax contributions than men with comparable earnings histories. Similarly, the fact that women will eventually place greater demands on the health and disability insurance components of Social Security is not a factor in the determination of their payroll tax contributions. In this respect, it could be argued that increasing reliance on Social Security by women is actually a rational reaction to incentives that implicitly make the program financially more attractive for them than for otherwise identical men.

*As detailed in Table 5, only one-third of all lump-sum distributions (amounting to about two-thirds of dollars received) are rolled over into another savings vehicle.*

ers, to work in unionized professions, or, as mentioned, to have long job tenure.

Occupational and industrial patterns are also important determinants of pension coverage differences. Occupational segregation seems to matter less than industry segregation, although female dominated occupations, which include clerical and service workers, have the lowest coverage rates for both men and women.

*Lump-sum distributions* With fewer lifetime jobs, portability of pensions has become a significant factor in determining ultimate retirement income. In defined benefit plans, formulas that incorporate years of service inherently penalize job switching. To the extent that women may have outside influences that affect job tenure, such as child care and elder care

retirement income and to avoid tax penalties. Nevertheless, the evidence suggests that a large percentage of individuals use some or all of their pension distribution for consumption purposes. As detailed in Table 5, only one-third of all lump-sum distributions (amounting to about two-thirds of dollars received) are rolled over into another savings vehicle.<sup>5</sup> As might be expected, rollovers are more likely to be made by wealthier individuals and those with higher levels of education.

Because they are more likely to move in and out of the labor force, women are slightly more likely to receive preretirement distributions than men and to receive them at younger ages. Studies have shown that, while women are more likely to roll money over into an IRA or a retire-

**Table 5**  
**Use and Amount of Lump-Sum Distributions, by Gender**

Use	Women	Men
IRA or retirement plan	29%	19%
Savings	17	25
Buy house or pay debts	22	27
Education or living expenses while unemployed	7	4
Car or other consumption	18	14
Mixed uses	6	11
Total received (\$ bil.)	\$15.1	\$32.9

Source: Piacentini (1990).

While Social Security does provide more favorable rates of return for some women relative to similar men, other current Social Security provisions tend to penalize married working women. The Social Security system was designed in a time when the norm was for women to stay at home while their husbands worked outside the home. Therefore, it was considered logical to design a benefit structure that equitably provided for a non-working spouse. The end result is that the current Social Security system provides significant transfers that favor some workers over others.<sup>6</sup> Two areas of concern are the penalty to married couples over single individuals and the penalty to two-earner couples over one-earner couples.

At the normal retirement age, a single worker with no dependents can receive a benefit of 100 percent of the worker's PIA (primary insurance amount),<sup>7</sup> while a worker and spouse (who are both at normal retirement age) can receive 150 percent of the worker's PIA. The surviving spouse of a worker can continue to receive 100 percent of the worker's PIA for life, which will result in a tremendous increase in return on lifetime payroll taxes. However, the loss of one-third of the pension benefit upon the death of the spouse can result in a reduced standard of living, because the survivor's living expenses may not decline by as great a percentage. This

may be a significant factor in the incidence of poverty among elderly widows.

As a result of spousal and surviving spouse benefits, two-earner couples generally receive lower total benefits than one-earner couples with the same total covered earnings. This is often referred to as the "marriage penalty," since a working woman whose spousal benefit exceeds the benefit based on her own earnings will receive no more in Social Security than she would have received as a nonworking spouse. However, she must still contribute payroll taxes throughout her work history. As women's earnings rise relative to men's, this penalty will become less relevant, although it currently applies to the majority of two-earner couples.

#### **The Breakdown of the Retirement Model: Differences in Behavioral Characteristics by Gender**

In addition to the structural differences in the labor market and pension systems, which are generally beyond the control of the individual, there are differences in personal or behavioral characteristics and preferences that impact preparation for retirement. Although we refer to these as "individual," that is not to say they are not determined by societal norms and expectations; rather, it is to distinguish certain characteristics of individuals from the characteristics of jobs (or the job market as a whole) and pensions. In this sec-

tion we demonstrate that differences in these characteristics exist, and that women's characteristics tend to negatively impact their preparation and prospects for retirement.<sup>8</sup>

#### **Gender Differences in Savings and Investment Decisions**

The decisions that individuals make about how much to save and how to invest their savings have become increasingly important, given the trend toward increasing use of defined contribution pensions by employers. In this section we consider what is known about gender differences in savings, investment, and financial education, and their implications for women in retirement.

*Savings behavior* The fall in the national savings rate in the United States during the 1980s and 1990s has been well documented. At the end of the 1980s, the personal savings rate was at 4 percent. In 1999, the savings rate fell below zero, indicating that (in aggregate) individuals are now using accumulated assets to fund current consumption. Although the concept of savings has not always been clearly and consistently defined, and unrealized appreciation in private and public pension plans is not captured in traditional measures of personal savings, there is a general consensus that people are not saving enough for retirement. People's perceptions of what they need to save in order to maintain a certain standard of living in retirement are found to be seriously understated (See, for example, Bernheim and Scholz, 1993).

Although there is some evidence that married individuals are more likely to have begun to save for retirement than unmarried individuals, very little research has been done on differences in savings behavior by gender. One study of retirement savings adequacy found that single women have lower savings adequacy than single men for all income ranges except the \$40,000-\$60,000 range (Korczyk 1998).

In light of what we do know about the savings behavior of married and unmar-

ried people, the increasing proportion of women who are single heads of households are unlikely to be saving sufficiently for their future needs. Although this may be the result of individual preferences for consumption over savings, it can also be tied to the structural characteristics of the labor market discussed earlier since these households have lower income on average and lower income households generally save less than wealthy households.

*Investment and risk-taking* People's attitudes toward risk affect the returns they can expect to earn on their investments. The term "risk aversion" is used to describe people's attitudes toward risk. The more risk averse a person is, the more willing that person will be to accept a lower expected return on an investment in return for less risk.

Many studies have examined the effects of a wide variety of socioeconomic characteristics to see if they have any relation to measures of risk aversion. For example, it is relatively well established that risk aversion tends to increase with age and decrease with education.<sup>9</sup> More recently, studies have focused specifically on gender as another determinant. These studies have found that women are relatively more risk averse than men.<sup>10</sup> The implication for investment behavior is that women are more conservative investors than men.

Although there is no objective standard of risk aversion by which positive comparisons between women and men can be made, women's greater risk aversion is generally perceived to be negative: women are seen as being too conservative in their investment decisions. Although this interpretation is motivated by legitimate concerns about women's retirement income adequacy, it is nevertheless problematic. Without a better understanding of why women are more risk averse investors than men, policy interventions designed to change their investment choices (such as participant education) will have uncertain outcomes.

While most studies have focused on determining whether there are gender dif-

ferences in risk taking and investing, Bajtelsmit and Bernasek (1996) review possible explanations for why women invest differently from men. They suggest that gender differences in investing stem from two possible sources: historical patterns of discrimination against women and/or differences in the choices that women make. There is some evidence that women face discrimination in the labor market that affects their income earning opportunities (Neumark and McLennan, 1995). There is also anecdotal evidence that they may face discrimination in the area of investment advice. A *Money* magazine survey of how brokers treat their customers found that male clients were treated better than female clients, receiving more time from them and a wider

policy perspective, it is the investment choices that women make as the result of societal expectations that are of the most importance.

*Financial education* Most studies of risk taking and investing consider the effects of education on an individual's decisions. Given the lack of detailed information on the specifics of an individual's education in large datasets, a more relevant factor to consider is access to financial education. Studies have examined the effects of financial education in the workplace on an individual's participation in and contributions to voluntary savings plans.<sup>11</sup> They find that when employers offer retirement seminars, the measures of savings activity are significantly higher. They also find that the effects are greater for lower-paid employ-

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*The socially determined responsibilities that women have for child care and elder care are at least in part likely to be a factor in the choices they make. From a public policy perspective, it is the investment choices that women make as the result of societal expectations that are of the most importance.*

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range of higher return investment options.<sup>11</sup> Other evidence indicates that women are given more conservative investment advice than men. Information is often obtained through discussions that take place within informal networks to which women are not included, such as on the golf course or over drinks after work. If women do not have access to the same information as men, their decisions may be different.

In addition to discrimination, which can have feedback effects that influence the choices women make, the choices themselves can also help explain why women invest differently from men. To what extent women's choices are the result of societal expectations and norms versus some "innate" (biologically based) preference for less risky investments is not clear. The socially determined responsibilities that women have for child care and elder care are at least in part likely to be a factor in the choices they make. From a public

ees than for the higher-paid employees. Unfortunately, the studies have not considered gender differences.

There is very little research on gender differences in access to financial education or on gender differences in the impact of financial education. A study of awareness and knowledge of 401(k) plan participants found that although women reported that they were more likely than men to read educational materials that indicated they were investing too conservatively, they were less likely to change their investment decisions than men. Another study comparing women's and men's attitudes toward investing found that lack of knowledge was the second most important factor acting as a barrier to investing for women, but was not a significant barrier for men. The study found that women had significantly less financial education than men in college.<sup>12</sup>

### Gender Differences in Health Status and Life Expectancy in Retirement

An adequate level of retirement income will depend on a person's needs. Given the different financial needs of women versus men, retirement income adequacy for women and men will be different. Health status and life expectancy are areas where such differences have important implications for women in retirement.

Women live longer on average than men. Even if they had the same amount of wealth as men, they would have a lower standard of living because that wealth would have to be spread over a longer period of retirement. With even less retirement wealth accumulation by

retirement. They should currently be saving more than men in order to offset these higher costs—even if employee health benefits stay the same.

### Conclusions and Policy Implications

Retirement policy in the United States has resulted in a system of retirement income provision that works best for workers who have lifetime employment at large firms, who have spouses who do not work for pay outside the home, and who have above average lifetime earnings that allow them to accumulate savings in addition to public and private pensions. In general, this system does not provide well for women, and women have fared relatively poorly in retirement over the years. Women on

as those in prior generations (Jianakoplos and Bernasek, 1999). However, there is still evidence that women bear a larger share of household responsibilities, including child and elder care, despite their increased labor force participation.

What can be done to improve the financial well-being of women in retirement? Consideration of the causes of gender differences in retirement discussed in this report leads to some policy recommendations in each area.

As gender differences in labor force participation, job tenure, and job segregation become less significant, differences in retirement income related to these factors will also become less significant. Educational and occupational opportunities are now nearly equivalent for younger generations of men and women. And as the wage gap continues to narrow, women should be able to save more for retirement.

As more women have entered the workforce, employers have begun to recognize the negative effects of child care and elder care concerns on worker productivity and have begun to introduce "family friendly" policies in the workplace. Since within-household responsibilities have not shifted to men in equal proportion to the increased responsibility that women have taken for household earnings, it is important for employers and government to take an active role in making it possible for mothers to opt to stay in the workforce. Although costs must be taken into consideration, employer and/or government subsidies for child and elder care, as well as flexible hours, can all help to reduce the time out of the workforce for working parents. More years in the workforce implies greater accumulated pension benefits, less depletion of savings, higher Social Security earnings, and ultimately, greater retirement income.

Pension characteristics that have an adverse impact on women are also gradually changing. However, since women are more likely to work at small employers, policy interventions aimed at

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*Retirement wealth inadequacy is exacerbated by the fact that women have longer life expectancy and poorer health status in retirement.*

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women than men, on average, women's prospects for income adequacy in retirement are even worse. Furthermore, women experience more chronic illness in their older age than men (McClellan, 1998). Since health problems play a more important role for women in retirement than men, and since they have had weaker labor force attachment and spend more time caring for other family members, older women are more vulnerable in retirement than older men. They will consequently need more income to cover their higher medical expenses.

There are signs that Medicare benefits, as well as employer-based retiree health plans, are likely to be further reduced in the future. Therefore, it will be necessary for everyone to save more for retirement to cover health costs. But since women are less likely than men to have access to employer-based retiree health plans (McClellan, 1998) and have more health problems, they face higher health costs in

average have lower earnings, lower pension coverage and participation rates, and lower overall savings rates than men. In addition, they are more likely than men to face trade-offs between unpaid household work and paid employment, which reduces their lifetime earnings potential and their job tenure. Retirement wealth inadequacy is exacerbated by the fact that women have longer life expectancy and poorer health status in retirement. Their savings and investment decisions have not been sufficient to provide for their needs, as evidenced by the large percentage of elderly poor who are women.

Nevertheless, public policy-makers have some basis for optimism about the future of women in retirement. The gender wage and pension gaps have narrowed in the last few decades. Women are now more likely to be employed and to have their own pensions. They are more likely to qualify for Social Security based on their own earnings. Younger women are not investing as conservatively



encouraging these firms to provide access to a contributory pension are very important to achieving gender equity. Reforms that simplify the record-keeping aspects of these pensions for small employers are steps in the right direction. The trend toward pensions that allow employees to make their own investment choices may be detrimental if women continue to be very conservative in their investment choices. Improved financial education from plan sponsors may help rectify this situation, but, to the extent that risk aversion is an innate characteristic, as opposed to a learned behavior, education may not have the desired impact.

Failure to roll over lump-sum distributions from private pensions also makes it less likely that women will meet their retirement income goals. Although many of those who spend their distributions use them for other types of savings (such as paying off debt or buying a house), the taxes payable combined with the penalty make lump-sum distributions a very expensive source of money for these alternative uses. Possible changes that have been proposed are mandatory rollovers and larger penalties for early withdrawal. An alternative might be to expand the rollover tax deferral to include other forms of saving, so that individuals could use pension distributions to save or reduce debt without such a high cost.

Although Social Security rules have both beneficial and harmful impacts on women at present, any reform of Social Security should remove the marriage penalty. Reform proposals aimed at privatization of Social Security also have serious implications for women. Since women are still concentrated in the lower-income groups of the population, a shift to private accounts may adversely impact their Social Security earnings unless the minimum benefit is set at a sufficiently high level. Furthermore, as with private pensions, evidence that women are more risk averse than men in their choice of investments implies that,

if given a choice, women will be more likely to opt for lower-risk, and hence lower-return, investments. This will result in lower individual account accumulations and lower income in retirement for women even if we assume equivalent longevity.

Lastly, since women face greater health care costs in retirement than men, access to affordable health insurance and long-term care insurance is necessary to ensure their financial security in retirement.

### End Notes

- <sup>1</sup> See Seaward (1999).
- <sup>2</sup> One is considered to be "covered" by a pension plan if their employer provides a pension to any employees at their place of work.
- <sup>3</sup> An industry is defined as dominated by a particular gender if the male-female composition of the workforce differs significantly from the gender composition of the overall workforce (which is approximately 40% women). Using this measure, Korczyk (1992) finds that agriculture, durable goods manufacturing, wholesale trade, transportation and public utilities are male-dominated. Professional services, finance, insurance, and real estate are female-dominated.
- <sup>4</sup> See Yakoboski and Silverman (1994) for a detailed discussion of these pension trends.
- <sup>5</sup> See Poterba, *et al.* (1998).
- <sup>6</sup> For greater detail on these issues, see Forman (1996).
- <sup>7</sup> The primary insurance amount is the monthly benefit payable under Social Security to a retired worker at the normal retirement age.
- <sup>8</sup> It is difficult to analyze the impact of marital status on behavioral characteristics. Most economic research in this area is based on large data sets that collect information at the household level only. When using such data, it is generally not possible to distinguish between the decisions of women and men in a household in which both are present. Our understanding of gender differences within such households is therefore severely limited.
- <sup>9</sup> To be precise, studies have found that relative risk aversion increases with age and decreases with education. For details on the methodology of measuring risk aversion, see Friend and Blume (1975).
- <sup>10</sup> See Jianakoplos and Bernasek (1999) for a more complete discussion of these issues and a review of the related literature.
- <sup>11</sup> See Wang (1994).
- <sup>12</sup> For details on the survey and its results, see Bayer, Bernheim, and Scholz (1996).

- <sup>13</sup> See Catrambone (1998) for details about both of these studies.

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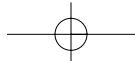
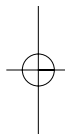
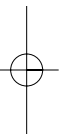
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