The Retirement Savings Landscape for Women

Remarks by

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Thank you for the opportunity to speak to you today and share my thoughts on how we can strengthen America's retirement savings system. By way of background, I am the Aetna Professor of Public Policy and Corporate Management at the Harvard University John F. Kennedy School of Government. I have spent the past 15 years studying employer sponsored savings plans and the types of policy interventions and plan design features that can improve savings outcomes. There is much concern in both academic and policy circles about whether our current private defined contribution retirement savings system can adequately meet the retirement income needs of individuals.

My early research on automatic enrollment documented how small changes in plan design can have a large impact on savings outcomes. This research provided the impetus for the measures incorporated in the Pension Protection Act of 2006 that encourage employers to adopt automatic enrollment as part of their employer sponsored savings plans. There are many other measures that can further strengthen the private defined contribution savings system in the U.S. for both men and women.

In examining the retirement security of women in the U.S., there is both good news and bad news. Saving for retirement and then management one's asset in retirement is one of the largest, if not the largest, financial task that any household will undertake. Yet recent evidence on the financial capabilities of the U.S. population who that we are a nation are woefully unprepared for this task, and that women fare worse than men.

Women have significantly lower scores than men on a simple 5-question test designed to test knowledge of basic financial concepts such as inflation, compound interest, and the value of diversification. This is true for both married and single women. Interestingly, women are not much more likely to give incorrect answers than men; instead, they are much more likely to answer "I don't know."

Women are also substantially more likely than men to report that it would be difficult for them to come up with $2000 to meet an unexpected expense within the next 30 days (44% for women vs. 34% for men). Women are also more likely than men to report difficulty paying bills than men (47% for women vs. 57% for men).

But as women approach retirement, some of this gap narrows. There is some evidence to suggest that married women become more financially literate as they age in response to the likelihood that they will outlive their husbands and need to take over sole management of the household finances.

Planning for retirement is not an activity engaged in by the majority of either women or men; on the retirement planning front, there are no substantive differences by gender, with 43% of both men and women having planned for retirement, although a slightly higher fraction of men than women actually report having some retirement savings (63% for men vs. 58% for women).

The fraction of the population working for an employer that sponsors a retirement plan is relatively similar for men and women, about half, according to a 2012 report by the Employee Benefit Research Institute. The fraction participating in an employer sponsored savings plan is also similar for men and women. This latter finding is corroborated by a recent Vanguard report, "How America Saves: 2013," which shows that differences in savings plan participation rates by gender are not sizeable when comparing all men and all women eligible to participate in their employer's savings plan. In some years, women have a slightly higher participation rate than men, and in others, men have a slightly higher participation rate than women. This apparent parity, however, fails to account for the fact that women earn less than men, and that savings plan participation tends to increase with income. Conditional on income, women have substantially higher savings plan participation rates than men at all income levels except for those earning more than $100,000 annually, where the participation rates of men and women are roughly equal. Similarly, women and men have roughly equal contribution rates overall, but conditional on income, women's contribution rates exceed those of men at all income levels. Women, however, are less likely to make the maximum possible contribution, or to make catch-up contributions to their plan if they are eligible.

Women and men are equally likely to have taken a loan out against their savings plan balances, with about 20% having an outstanding loan. Although the average loan balance is lower in dollar terms for women than for men, loan value as a fraction of total assets is similar for women and men. This largely reflects the fact that women have lower balances against which to borrow. Because women have lower pay than men on average, and also shorter job tenure, women tend to have account balances that are roughly one-third lower than their male counterparts.

In employer sponsored savings plans, the asset allocation of women and men is fairly similar. Women, however, report having less tolerance for risk, and there are some notable differences in the investing behavior of women and men *outside* the domain of employer sponsored savings plans. In outside investment accounts, women are less likely than men to put their money in high risk investments. But they are more patient and are less likely to trade in and out of stocks to time the market or in response to an investment doing worse than expected. Taking on less risk can reduce expected portfolio returns, but trading less implies lower trading costs and a lower likelihood of mistiming the market.

My biggest concern for women is what happens in retirement. Women have longer life expectancies than men, and married women tend to be several years younger than their husbands, so that the average married woman reaching retirement can expect to spend several years as a widow, and the average single women reaching retirement will spend all of her retirement years that way. In the shift away from defined benefit and toward defined contribution retirement plans, the financial security of women in retirement will depend very much on how the wealth accumulated for retirement is managed. With a traditional defined benefit pension, the default payout for a married couple is a joint and survivor annuity. Anything else requires the affirmative consent of the spouse. But defined contribution assets are largely not annuitized in retirement, leaving women vulnerable if the assets are not managed to last for their longer life expectancies. The implications of the shift from a defined benefit to a defined contribution retirement system on the wellbeing of older women has not received sufficient attention in either academic or policy circles.

Conclusion

In conclusion, most of the problems with the retirement savings system in the US are not unique to women. The problems of access to employer sponsored savings plans are real for both men and women. On some measures, women do better then men: conditional on having access to a plan, they are more likely to participate and they contribute more. But on other measures, women do worse: they have lower account balances, largely driven by lower levels of tenure and lower pay than their male counterparts (which represent more fundamental problems with the labor market). The biggest concern is the longevity risk that women will face in retirement. They have longer life expectancies than men, yet have saved less for themselves.