Women's economic empowerment and retirement savings decisions

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Introduction

Significant economic, social, and demographic changes in recent decades have radically transformed women's and men's lives.[1] One of the most striking changes is the mass entry of women into the labour market. In the mid 1970s, less than half of women age 20 to 64 living with a partner or spouse participated in the labour market. Today this percentage has risen to 75 per cent. Although men are more likely than women to participate in paid work, men's and women's participation rates are converging.

As women's economic role changes, their family life is also changing. Lower birth rates, more separations and divorces, and the growth of common-law marriages mean that today, women's financial responsibilities are different from those of past generations. More and more, young adults and particularly young women recognize the need to achieve a higher level of education and postpone their first marriage and motherhood.

Women who are between the ages of 40 and 60 today — tomorrow's retirees — are the first generation of women to have been fully active in the labour market for the majority of their adult lives. A non-negligible minority of them will have spent a large part of these active years single, separated, or divorced, and sometimes as a single parent, often with sole responsibility for their children's education and expenses.

Single older women have long outnumbered single older men. What is changing is the route to singlehood. Today, it is primarily widowhood. Women live an average of five years longer than men, and today the number of widows age 65 and older is four times higher than the number of widowers of the same age. In the future, a greater number of older women will be single through choice – through separation or deciding to remain single. Yet singlehood leaves older individuals vulnerable if they have long-term care needs, as they are less likely to be able to rely on the support of a spouse. This is particularly an issue for women, who tend to experience higher rates of disability: 41 per cent of men age 65 and older suffer from disabilities while the rate is 45 per cent for women.

The changes in women's and men's economic lives have taken place at a time of major upheaval in the way retirement is financed. In the coming years, the government and employers will become less and less responsible for retirees' financial stability and retirees themselves become more and more responsible for it. Will women be prepared for retirement?

Recently published by the Social Research and Demonstration Corporation, *Understanding Gender Differences in Retirement Saving Decisions* focuses on this issue and assesses the impact of women's economic empowerment within households on savings decisions. Using data from the 2009 Canadian

1 The following discussion of economic, social, and demographic changes is based on census data and data from the General Social Survey, the Longitudinal Administrative Databank, and analyses by Beaupré and Cloutier (2007), Bernard and Li (2006), Li (2004), Marshall (2011a, 2011b), and McDonald (2006). Life expectancy statistics are taken from http://www40.statcan.gc.ca/l01/cst01/health72a-eng.htm. Disability rate statistics are taken from http://www40.statcan.gc.ca/l01/cst01/health71a-eng.htm.

Financial Capability Survey, we assess how the distribution of responsibilities for financial management within the household, financial knowledge and practices, and participation to an employer-sponsored pension plan influences savings behaviours and can explain gender differences saving decisions.

Theoretical framework

Various analytical frameworks provide theoretical bases to explain gender differences in savings decisions.[2] According to the standard life cycle economic theory, people save to smooth their consumption over time. People select savings levels such that their levels of consumption during their active lives in the labour market will be similar to those during post-retirement years. Retirement planning therefore translates into net saving during the active period of life and the acquisition of financial assets, followed by dissaving and use of returns from accumulated assets at retirement.

Based on this analytical framework and the socioeconomic and demographic observations discussed above, women could be expected to save more than men because they are likely to live longer after retirement and thus their savings must finance a longer period of life. Conversely, since they typically have lower incomes than men, they can be expected to save less, particularly since on average, a larger share of their income goes toward caring for children, leaving less available for saving.

Moreover, the need to save for retirement for those with low incomes is less urgent if we consider government programs like the Old Age Security pension, the Guaranteed Income Supplement, and Canada's and Quebec's pension plans. These programs ensure that low-income Canadians have similar standards of living before and after retirement. Since women are more likely to be low-income earners, these programs especially reduce women's need to save.

The increase to the Guaranteed Income Supplement announced in the March 2011 federal budget and other tax breaks granted this year to seniors and retirees for pension income splitting, the age credit, and the pension income credit are all measures that increase income replacement rates among retired workers, reducing the need to save.

Another analytical framework underpinning this research is the household bargaining framework. This framework looks at the relative bargaining power of each spouse within the household or their ability to influence household decisions. The model assumes that each person's degree of influence, their say in household decision making, reflects the resources at their disposal. Previous research has identified a wide range of factors that influence a person's bargaining position: income earned, assets, other resources that have a more or less tangible value, a person's age, the number of children and their ages, attachment to the labour market, educational level, and also laws regarding asset division and spousal support. The bargaining framework predicts that any factor that increases one spouse's bargaining

[2] The following discussion is based notably on the work of Asharf (2009), Basu (2006), Bobonis (2009), Browning (1995, 2000), Browning et al. (1994), Chang (2010), Chen and Woolley (2001), Conley and Ryvicker (2005), Croson and Greezy (2009), Fonseca et al. (2010), the Task Force on Financial Literacy (2010), Lee and Pocock (2007), Lundberg and Ward-Batts (2006), Lusardi and Mitchell (2008), Phipps and Woolley (2008), Seguino and Floro (2003), and Sierminska et al. (2010).

position, such as greater earnings, will push the household's savings decision in the direction preferred by that person.

One way of applying household bargaining theory is to look at manifestations of household bargaining power. Decision making responsibility is then seen as an indication of each spouse's bargaining position and influence within the household. The spouse who is primarily in charge of financial management and planning for the family is therefore perceived as the person who has more bargaining power. Greater control would therefore be a reflection of his or her strategic position. Collective household decisions, including those related to saving, will therefore tend to reflect that person's preferences.

Lastly, the fields of behavioural economics, psychology, and finance propose an empirical approach to understanding how individuals make their decisions in "real life" by looking at the differences between men and women with regard to attitudes and behaviour. This approach provides much compelling evidence of gender differences in the degree of aversion to risks — especially financial risks. Women typically demonstrate greater risk aversion, which is reflected in their choice of different investment choices. Financial knowledge and practices also play an important role. There is compelling international evidence to support the existence of marked gender differences in financial literacy levels and the connection between financial literacy level and financial planning for retirement.

Methodological approach

The empirical literature shows no clear evidence on how gender and savings are related and there is no clear evidence on the role household bargaining plays in explaining saving behaviour and gender differences in saving behaviour. The existing evidence is often contradictory, with almost no Canadian evidence on the subject.

Our study uses data from a new Statistics Canada survey, the 2009 Canadian Financial Capability Survey (CFCS). It is the first study to use this survey, aside from reports prepared for the Canadian Task Force for Financial Literacy and Statistics Canada. The CFCS paints an exhaustive picture of Canadians' knowledge, capabilities, and behaviour with regard to financial decision making. The survey collected information about household debts (e.g., mortgages, student loans, credit card balances) and five types of assets: tangible assets, business assets, registered retirement savings plans (RRSPs), registered education savings plans (RESPs), and financial assets other than RRSPs. Information about participation in an employer-sponsored pension plan was also collected. All these types of assets are analyzed in this study since, although certain assets may not be retirement savings strictly speaking, they all contribute to financial planning for retirement.

The aim of our study was to better understand financial decisions from the perspective of gender differences. The methodological approach employed is based on the three analytical frameworks presented above and the application of rigorous statistical methods to further our understanding of the saving behaviour of Canadian men and women. Decisions about asset accumulation are thus assumed to be based on three groups of factors. The first group refers to indicators of women's economic empowerment as measured by the responsibility for investment and financial planning decisions for the family, the woman's contribution to household income, the age difference between spouses, and participation in an employer-sponsored pension plan. The second group of explanatory variables includes financial knowledge and practices, as measured by subjective and objective assessments of financial literacy levels as well as usual financial practices (e.g., use of a budget, abidance by a budget, use of credit cards, and habits with regard to carrying balances on credit cards). The last group of factors includes a set of variables known as life cycle variables, including age, income, number of children, educational level, marital status, employment status, and place of residence.

To identify the influence of the various facets of individuals' familial organization and socioeconomic context on savings decisions, a set of multivariate analyses was conducted. An initial series of regressions focuses on decisions about ownership or non-ownership of assets and debts (or incidence); a second series of regressions focuses on levels of assets and liabilities.

Findings

The empirical analyses are based on a sample of over 10,000 CFCS respondents who were between the ages of 25 and 65 when the survey was conducted from February to May 2009. Some 6,000 of the respondents were living with a partner.[3],[4] Among two-spouse households, we observed that family investment and financial planning decisions are often shared, but in cases where only one person is responsible, the task generally falls to the man.

Table 1 illustrates the distribution of respondents based on responsibility for financial issues and age. In response to the question "*Overall, who is mainly responsible for making financial investment and planning decisions on behalf of the family?*," 52.9 per cent of couples reported that the financial planning was shared by the respondent and his/her partner. In those couples where one partner specialized in financial management, most commonly that partner was the man: 30.4 per cent of married or cohabiting respondents reported male responsibility for financial management and planning, as compared to 13.5 per cent reporting female responsibility. In 3.2 per cent of the cases, responsibility is entrusted to a third party. The proportion of couples where financial matters are handled by the woman is higher among young couples, with the exception of couples between the age of 40 and 44 and those under 30. Financial savings decisions among 25 to 29 year olds are the responsibility of someone else at a markedly higher rate, reflecting the greater likelihood of young people living in an extended family situation.

3 The research sample excludes households with same-sex spouses, mainly because the objective of the study is to better understand the differences in financial decisions made by men and women, as well as for other methodological reasons explained in the study.

4 Because response rates are typically lower than 100 per cent, the research sample varies from 3,000 to 6,000 respondents living in a two-spouse household depending on the questions.

Table 1 Responsibility for managing financial matters by respondent age group (percentage, couples only)

	Shared responsibility	Man's responsibility	Woman's responsibility	Someone else
25 to 65	52.9	30.4	13.5	3.2
60 to 65	53.9	33.6	8.1	4.3
55 to 59	55.2	30.2	13.0	1.6
50 to 54	50.8	33.2	13.4	2.6
45 to 49	56.0	28.6	13.3	2.1
40 to 44	53.6	30.9	11.8	3.8
35 to 39	50.1	31.9	15.8	2.2
30 to 34	51.2	29.1	17.3	2.3
25 to 29	51.7	25.7	13.9	8.7

Source: Hui et al. (2011).

Our descriptive analyses suggest a significant statistical association between the responsibility for financial management and the probability of holding all types of assets, excluding tangible assets. Table 2 shows for instance that the percentage of couples holding financial assets (other than those in RRSPs) is much higher amongst those where the male is primarily responsible for making household decisions (67.9 per cent) than in couples where the female is primarily responsible (55.5 per cent).

Regression analyses confirm this correlation between the responsibility for financial matters and the probability of holding assets as well as the amounts of these assets. In particular, *all else being equal*, financial management by the man is associated with a higher probability of holding assets — especially RRSPs — when compared to households with shared responsibility for financial decisions. Financial management by the man is also associated with considerably higher levels of all types of assets, excluding RRSPs.

On the other hand, women's responsibility for financial management is associated with a higher probability of having debts and a markedly lower probability of having a positive net worth (i.e., more assets than liabilities), again in comparison to couples where this responsibility is shared. This finding could indicate a *reverse causality* wherein women tend to take charge of family finances when the household is in debt. In other words, the man is most often responsible for household finances in situations where assets exceed debts, but when finances take a turn for the worse, the responsibility is transferred to the woman. However, even with the inclusion of numerous indicators of financial stress, analyses tend to reaffirm this statistical link between finances managed by the woman and the probability of having fewer assets than liabilities.

Table 2 Link between responsibility for managing financial matters and the probability of holding assets and debts (percentage, couples only)

	Shared responsibility	Man's responsibility	Woman's responsibility	Test F[1]
Tangible assets	96.6	97.2	95.6	
RRSP	70.3	74.2	62.2	***
RESP	22.7	26.2	23.0	***
Financial assets	65.9	67.9	55.5	***
Business assets	13.2	15.2	12.6	**
Total assets	97.7	98.6	97.3	
Total debts	82.8	80.6	87.3	***

Note: [1] **: $p < 0.05$, ***: $p < 0.01$.

Source: Hui et al. (2011).

The study findings also reveal that the larger the women's share of household incomes, the lower the probability that the household holds financial assets other than RRSPs. Participation in an employer pension plan is associated with a higher probability of holding financial assets other than RRSPs and higher levels of financial assets other than RRSPs. The results are the same whether it is the man or the woman who takes part in an employer pension plan.

Empirical analyses confirm that financial knowledge and practices play a significant role in the decisions both men and women make regarding savings. Carrying a balance on credit cards has a negative impact on the acquisition of financial assets, particularly for women. The probability of holding assets or debts and the levels of assets and debts are positively linked to objective financial knowledge measurements and respondents' ability to correctly answer questions such as "*True or false. By using unit pricing at the grocery store, you can easily compare the cost of any brand and any package size*," "*If the inflation rate is 5 per cent and the interest rate you get on your savings is 3 per cent, will your savings have at least as much buying power in a year's time?*," or "*Which of the following can hurt your credit rating? Making late payments on loans and debts; Staying in one job too long; Living in the same location too long; Using your credit card frequently for purchases*."

Lessons for public policy

Over the next few decades, the aging of Canada's population will have important implications for the design of public policies, especially those related to the financial security of seniors and the adequacy of retirement income. The findings of our study offer insight that could be very useful for policy-makers.

First, the strong correlation between the responsibility for financial management and the acquisition of financial assets and, in particular, the fact that financial management by the man is associated with considerably higher levels of assets and financial management by the woman is associated with a higher level of household debt suggest that to be truly effective, policies must hinge on a gender-based comparative analysis of savings and investment choices.

Despite these gender-based differences, similarities also exist. Our findings suggest that a number of initiatives, particularly those aimed at improving financial literacy, could generate benefits of comparable scope regardless of whether they are intended for men or women. The fact remains that, on average, women have lower levels of financial knowledge than men do. Certain women may lose their spouse and live alone for a good portion of their life. Following a separation, divorce, or even the death of their spouse, these women could ultimately be responsible for substantial asset holdings and be ill prepared to manage it. Financial education for women should therefore be a priority in the range of measures implemented in the coming years to face the challenges of the aging population.

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