

# Financial Security and the Gender Gap

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In the last half-century, women have experienced significant increases in educational attainment, labor force participation, and representation in leadership positions. Despite all this progress, we continue to observe clear gender gaps in financial security, with women generally faring worse than men. According to the World Economic Forum,<sup>1</sup> while over 95% of the gender gap in health and educational outcomes has been closed in the 144 countries being studied, less than 60% of the gender gap in economic participation and opportunity has been closed. The United States was ranked 51st in progress toward gender parity, trailing far behind many other wealthy, developed countries in terms of how close they have come to closing the overall gender gap.



In this report, we take a closer look at the progression of financial gender gaps in the United States. We focus on a number of important economic factors, including: labor force participation, income gaps, retirement plan access, and the impact of marital status on economic conditions. These factors are also used in constructing the commonly referenced Global Gender Gap Index developed by the World Economic Forum. For this analysis, we have used data from the Current Population Survey (IPUMS-CPS), and the Health and Retirement Study (HRS).<sup>2</sup>

We found several alarming trends that need to be addressed if the US is going to continue to progress toward gender parity. The rising trend of women's labor force participation began to reverse after the year 2000, and this decline has had the largest impact for the least educated women. Controlling for educational background, women are largely lagging behind men in personal earnings. Some of this gap is attributed to women sacrificing career development for family responsibilities. These observations call for policy discussions on paid parental leave, childcare subsidies, and more flexible work-place schedules for childbearing and childrearing. We also note that single women face a greater risk of living in poverty. In particular, widowhood poses a tremendous financial challenge for women. While men are protected from income loss to a higher degree than women due to their higher earnings and retirement savings, the survivor benefits from the Social Security and private pension plans do not cushion widows completely from the financial risk of losing their spouse.

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<sup>1</sup>World Economic Forum (2018). "The Global Gender Gap Report, 2018."

<sup>2</sup>All monetary values have been converted to 2018 dollars using the Consumer Price Index.

## Women’s Labor Force Participation Declined After 2000

The changing social norms and policies of the past half-century have resulted in significant increases in the number of women in the workplace, especially married women. Specifically, the labor force participation rate for married women increased from under 60% in 1980 to nearly 75% in 2000, while that of men and unmarried women either decreased or had no substantial change (Figure 1).

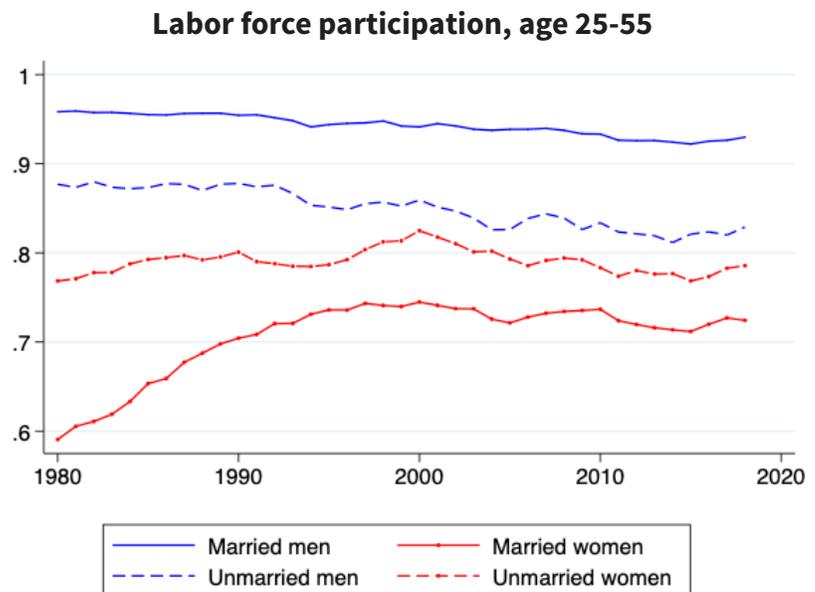


Figure 1: Changing labor force participation for prime age men and women

However, the rise in the labor force participation rate for women began to reverse after the turn of the century. For all women aged 25 to 55, labor force participation rate fell from 77.4%

in 2000 to 73.6% in 2015. This decline in labor force participation was most significant for women with lower educational attainment. The population of women with a high school education or less experienced a nine percentage point decline in participation. (Table 1). This sharp decrease indicates that it has become increasingly challenging for women without a college degree to maintain employment.

Women with less education also tend to have jobs that do not provide paid maternity leave. Though American women can legally take up to 12 weeks of unpaid leave<sup>3</sup> after childbirth under the Family and Medical Leave Act (FMLA),<sup>4</sup> many of them, especially lower-skilled, lower-paid women, cannot afford to take this leave. Thus, many new mothers have to return to work a few weeks after childbirth while paying for childcare. Women who do not make substantial earnings may find it hard to justify spending their income on childcare, and are more likely to leave the job market. The longer a woman stays detached from the labor market, the more difficult it is for her to rejoin. It is therefore crucial for policymakers to consider policy changes, such as offering paid maternity leave, childcare subsidies, and ongoing skills training, for less educated women<sup>5</sup> to help them rejoin the job market and regain financial independence.

**Table 1: Labor force participation for women, aged 25-55, by education**

	Year 2000	Year 2018	Percentage points (ppt) change
High school or less	71%	62%	-9 ppt
Some college	81%	77%	-4 ppt
College degree	83%	82%	-1 ppt
Graduate degree	88%	87%	-1 ppt

<sup>3</sup>The United States is the only OECD country without paid maternity leave. *The Washington Post*, 2018.

<sup>4</sup>The Family and Medical Leave Act entitles eligible employees of covered employers to take unpaid, job-protected leave for specific family and medical reasons, including childbirth. To qualify, the employee must have worked for the employer for at least 12 months (over 1,250 hours of service), and the employer has at least 50 employees. U.S. Department of Labor.

<sup>5</sup>Policy initiatives on child-care policies and labor laws have shown to increase women’s labor force participation in Japan, as documented in Shambaugh, Nunn, and Portman (2017).

## Women’s Income Is Rising But Still Lags Behind Men

Driven mainly by rising labor force participation, women have seen a significant increase in income since the 1980s (Figure 2). Between 1980 and 2018, the annual pre-tax income of working women increased from about \$25,000 to \$40,000 (all in 2018 dollars), a 60% net growth. In contrast, the median income of working men has been stagnant (around \$52,000) over the last three decades.

### Median income for people age 25+

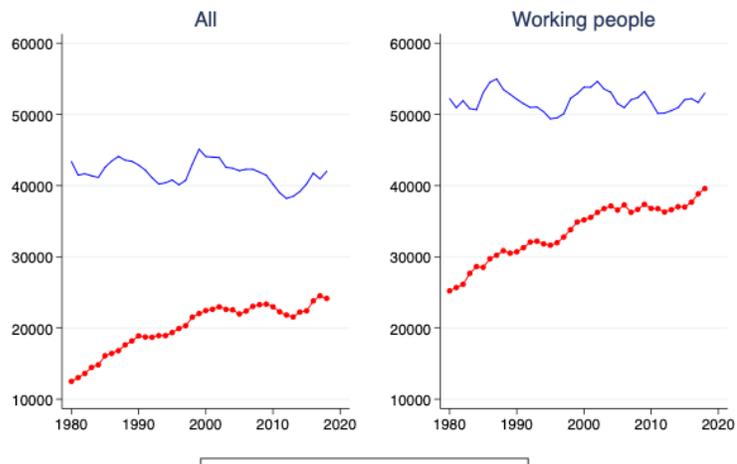


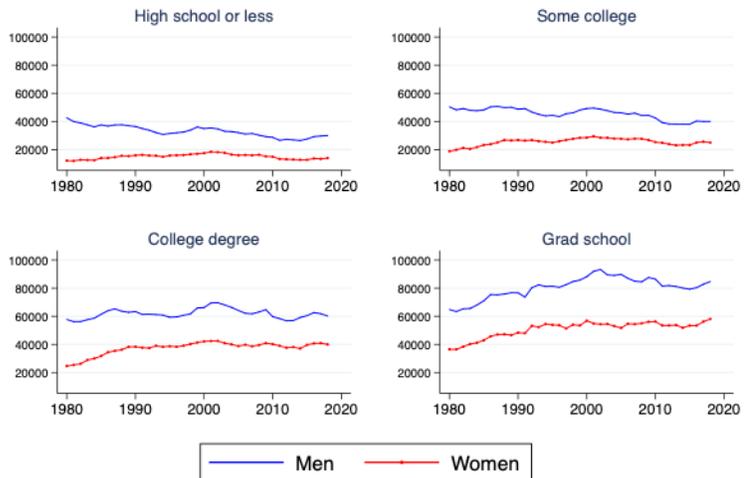
Figure 2: Women achieved a large income growth between 1980 and 2018

Despite this progress in women’s earnings power, there still remains tremendous income disparity between genders. In 2018, the median income of all working men aged 25 and over in

the US was 30% higher than that of working women (\$52,000 vs. \$40,000). Keep in mind that our comparisons here do not adjust for skill levels, job ranks, or occupations.

### Pre-tax personal income by education and gender

Even if we control for education, gender gaps in income still persist. In all of the years studied, regardless of education level, the median income of men remains above that of women (Figure 3). Notably, the gender gap does not disappear with more education. Among the least educated group, women make just 52 cents for every dollar men earn. Even among the most educated, women make only about 66 cents for every dollar men earn.



For all individuals aged 25-45

Figure 3: Gender differences in income, controlling for education

**Table 2: Gender income gap enlarges with education (2018, personal income, median value)**

Education	Men	Women	Women’s income/men’s income
High school or less	\$29,010	\$15,000	0.52
Some college	\$40,456	\$24,648	0.61
College degree	\$62,523	\$39,315	0.63
Graduate degree	\$86,883	\$57,540	0.66

Note: the calculation here includes everyone with personal income, including part-time and full-time workers. The commonly quoted 77 cents on the dollar is based only on full-time workers.

We should recognize that, even after controlling for education level, there are still considerable variations in choices of college major (e.g., computer science vs. art history), ranks of universities and study programs, and post-graduation choices of occupation. Researchers using data from Glassdoor<sup>6</sup> found that majors leading to high-paying positions in technology and engineering are dominated by men, whereas majors leading to low-paying positions in social sciences and liberal arts tend to be dominated by women. After college graduation, women continue to shy away from highly paid, highly competitive occupations for two main reasons. First, men and women exhibit different competition preferences. Researchers at Harvard University<sup>7</sup> showed that men are two times more likely than women to select competitive tasks and that this gender difference continues to persist after adjusting for performance. The second reason is that women often choose less competitive but more flexible jobs to meet their families' needs. Such career choices are rational decisions made by women while taking into account all their family responsibilities such as taking care of young children and elderly parents. However, women's short-term choices of less competitive, more flexible jobs often permanently set them on a lower-earning career path. To combat income inequality between genders, we need to think creatively about workplace initiatives that would allow both women and men more flexibility when their children are younger, and that would help women gradually increase their jobs' complexity and competitiveness later when their children are grown.

### Working Women and Men Have Same Rates of Access to Retirement Plans

Until the turn of the century, women were more likely than men to be employed in jobs that provided no retirement plans (Panel C in Figure 4), or were excluded when their employers offered such plans (Panel B in Figure 4). Therefore, prior to the year 2000, women generally had less access to retirement plans. The bright side is that we no longer observe such a gender difference in retirement plan coverage, at least among working men and women.

It's worth pointing out, however, that inclusion in retirement plans should be viewed as a bare

minimum. Further research needs to focus on whether men and women exhibit variations in their levels of retirement contributions and access to employer matching.

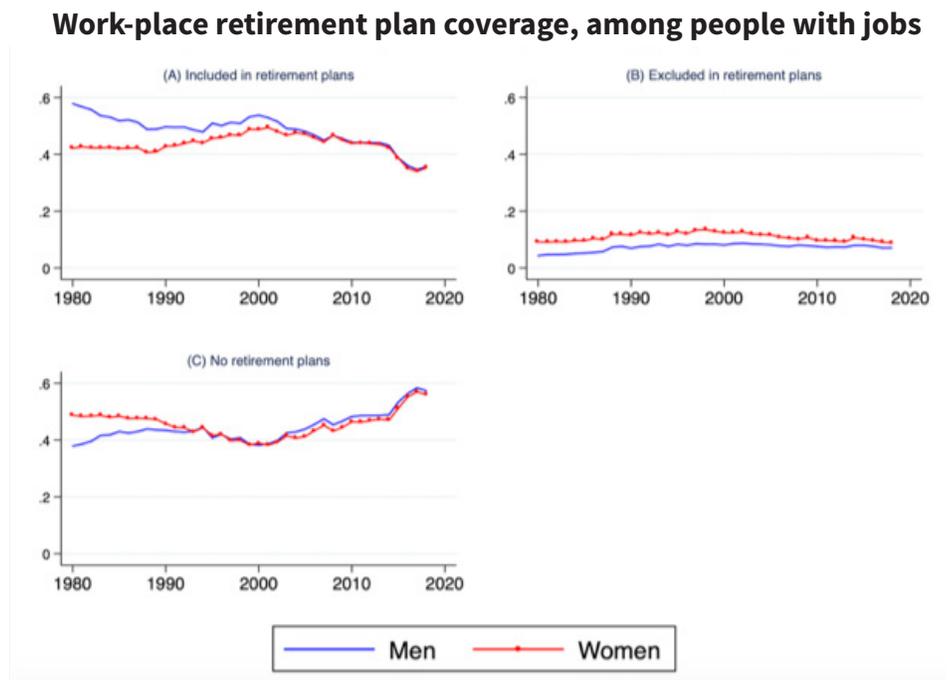


Figure 4: Retirement Plan Coverage, for working adults aged 25-54

<sup>6</sup>Chamberlain and Jayaraman, 2017. "The pipeline problem: how college majors contribute to the gender pay gap."

<sup>7</sup>Niederle and Vesterlund, 2007. "Do women shy away from competition? Do men compete too much?"

## Single Women Face the Biggest Risk of Living in Poverty

Marital status is an essential predictor of women's poverty status (Figures 5-6). Using the federal poverty thresholds, the chances of married men and women falling below the poverty line today are both minimal (about 4-8 percent). In contrast, single women, including divorced, widowed, and never married, suffer a much higher likelihood of falling into poverty than single men.

For example, a young, never married woman has a nearly one in four chance of being poor, while the odds for a young never-married man are only about one in eight (Panel A in Figure 5). Although divorce is a significant life event that impacts everyone, it certainly has more substantial financial implications for women than for men. Divorced women under age 35 have a nearly 30% chance of being poor, compared to 13% of divorced men of the same age. Figure (6) shows that being single – divorced, widowed, or never married – hurts women financially more than men, and this gender gap has largely persisted over the last four decades.

As discussed above, married women make many career decisions based on family responsibilities, resulting in a tradeoff between career development and work-life balance. Unfortunately, many of these choices lower women's short-term earnings and worsen their long-term career prospects. If their marriages dissolve, women may face extremely high financial risks and volatile income levels.

### Share of individuals under poverty line, 2000-2018

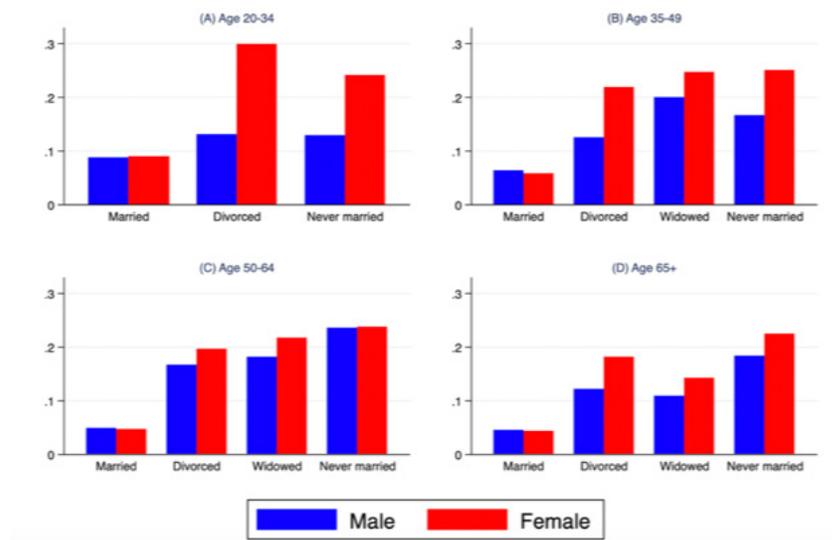


Figure 5: Unmarried women are most likely to fall below poverty line

### Share of individuals under poverty line

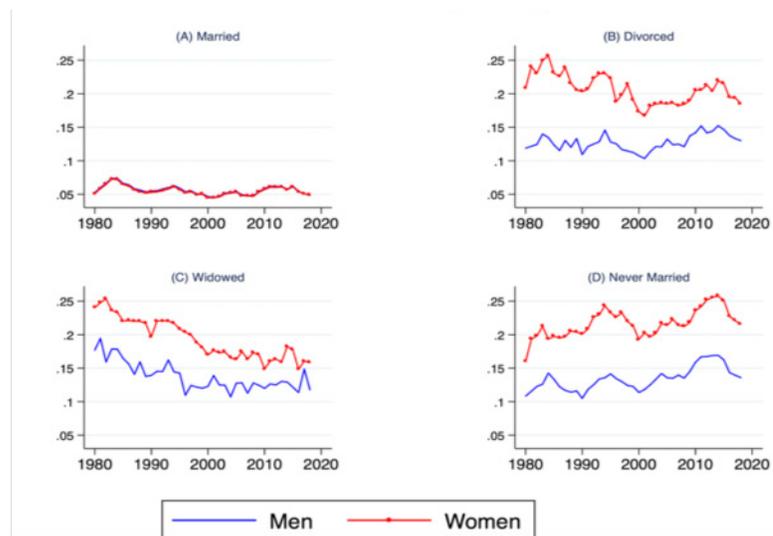


Figure 6: Poverty status by marital status and gender, 1980-2018

## Widowhood Poses Financial Challenges for Women

As of 2015, life expectancy for 60-year-olds is 91 years for women, compared to 85 years for men. Since women typically live longer, they are more likely than men to be single in later life. About one in three women over age 65 are widowed, whereas only about one in eight similar-aged men are widowed. In 2016, over 12 million women ages 65+ were either widowed or divorced, compared to only 4.6 million men of the same age.

Percentages of widowhood and divorce, 2016

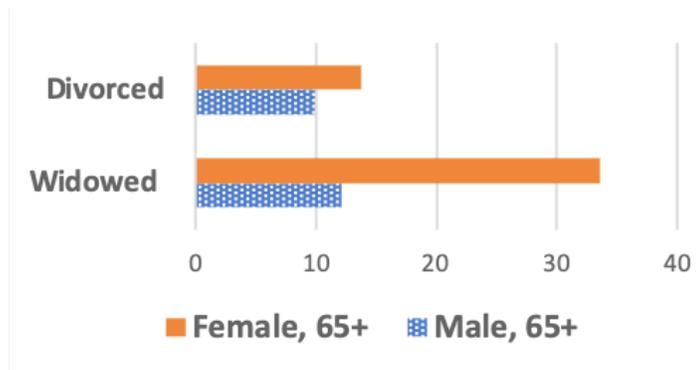
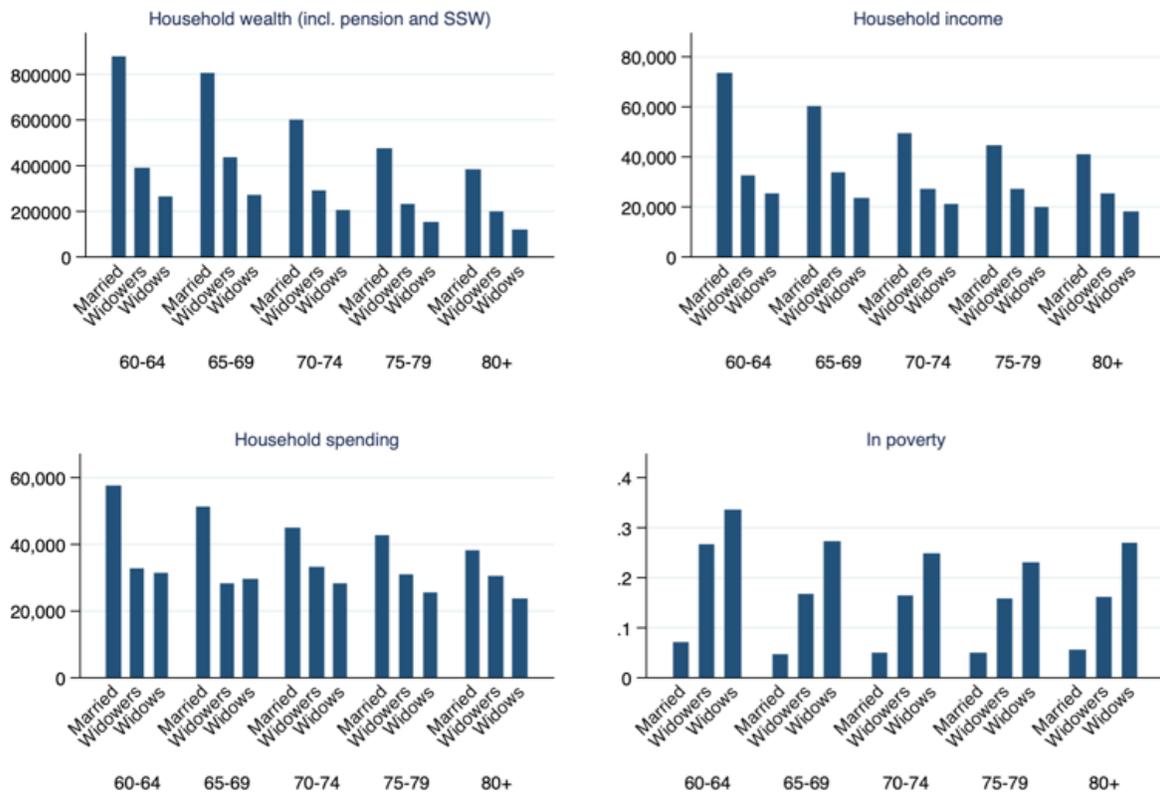


Figure 7: Women are more likely than men to be widowed



Note: 1992-2014, intact married couples, widows, and widowers

Figure 8: Financial differences between married, widowers, and widows

Widowhood poses more financial challenges for women than for men. As shown in Figure (8), for any given age group, widowed women have less wealth and income than widowed men, and are more likely to live in poverty. Widows aged 60-64 are faced with the most financial difficulties – approximately one in three of them are living under the federal poverty line.

Compared to married couples, widows are more susceptible to living in poverty for many reasons. First, widowed women – especially those widowed at a relatively young age – tend to be poorer than their married counterparts long before their husbands' death. It is widely accepted that men's health conditions are positively correlated with their lifetime earnings, thus women whose husbands are in poorer health conditions are likely to have a lower family income level. Second, expenses related to end-of-life care and funerals further contribute to the decumulation of wealth. Third, widows deplete their assets earlier than their married counterparts due to shrinking resources and levels of income from earnings, social security, and retirement plans. Moreover, married couples are more likely than the widowed to either retire later or start withdrawing from Social Security later.<sup>8</sup> Consequently, widowed individuals lag behind their married counterparts in Social Security retirement income. Fourth, women possess less financial literacy and confidence around financial topics than men.<sup>9</sup> As a result, elderly women, especially those who are newly widowed, are being left in a potentially disadvantageous position in planning and managing their finances.

What should women do to better prepare themselves for the possibility of this unfortunate event? First, women need to understand and be knowledgeable about their and their husband's financial portfolios, whether they are made up of shared accounts or held separately. Second, losing a spouse can be emotionally shattering, and so it is essential for newly widowed women to avoid making sudden financial decisions during the grief process. Third, it might be significantly more difficult for women to learn about financial planning and investments only after their spouses pass away. According to research by the Stanford Center on Longevity,<sup>10</sup> compared to men, women at every education level show less financial confidence and financial literacy about major financial decisions, such as home purchases and retirement planning. On the other hand, women are equally as knowledgeable as men about household related finances, such as grocery shopping and paying bills. This reveals that it might be a lack of practice and experience, not a lack of math skills, that puts women in a disadvantageous position. Given the high stakes, younger women should be more proactive in taking control of family finances instead of relying on their husbands for all the major decision making.

## Conclusions

Over the past several decades, the labor force participation of women, particularly married women, has increased steadily. While men's median income level has stayed roughly the same, women's pre-tax personal income has increased over 60% between 1980 and 2018 (in real terms). Despite the progress made by women in achieving financial security, gender gaps are vast and persistent. Even when educational attainment is controlled for, the median income for men remains above that for women. Among people with graduate degrees, men made almost 50% more than women in 2018. Moreover, the women's labor force participation rate reached its peak in the year 2000 and has modestly declined since then and it has become increasingly challenging for lower-skilled, lower-paid women to stay attached to the labor market.

Marital status has been found to be a key contributor to women's financial security. Unmarried women, including divorced, widowed and never-married individuals, suffer a higher likelihood of falling into poverty. About 20-30% of unmarried women aged 20 to 64 have an income level below the federal poverty threshold.

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<sup>8</sup>Zick and Smith (1991). "Patterns of economic change surrounding the death of a spouse,"

<sup>9</sup>Lusardi and Mitchell (2008). "Planning and financial literacy: how do women fare?"

<sup>10</sup>Stanford Center on Longevity (2008). "Seeing out way to financial security in the age of increased longevity." Chapter 4.

Gender gaps exist for older adults in bereavement of a spouse. Among these bereaved individuals, we observe large financial differences between widows and widowers. Compared to widowers, widows are much more likely to live in poverty and have lower levels of wealth and income. Furthermore, elderly women are almost three times more likely to be widowed than elderly men, thus contributing to the persistent problem of elderly women living in poverty.

Take-aways:

1. Paid parental leave and childcare subsidies should be discussed and implemented to help childbearing and childrearing women stay attached to the labor market.
2. Women should not be penalized for motherhood. We need to think creatively about policy options and workplace solutions that would help women balance family responsibilities and their career ambitions when their children are young, and gradually increase their job complexity, time commitment, and competitiveness when their children are grown.
3. Compared to men, women at all education levels today have less financial confidence and financial literacy for making important financial decisions. Unfortunate life events such as divorce and widowhood expose women to great financial risks. Given these high stakes, women of all ages need to be proactive and get more involved in their families' financial decision making.