

Closing a Gender Gap: Financial Literacy is not Enough

For women, confidence and involvement are key.

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In this new era of longer lives, maintaining financial security throughout adulthood is more important than ever to help ensure arriving at old age happy and healthy. However, not everyone is achieving financial security to the same degree. Women, in particular, are at a disadvantage.

Women, on average, are expected to **live 5 years longer** than men, but accumulate **over \$100,000 less** wealth.

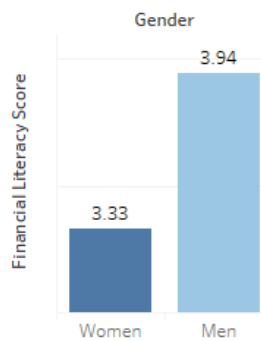


Figure 1. Women tend to score lower than men on tests of financial literacy

While women have made tremendous strides over the last century in several areas that contribute to long term financial health, particularly in attainment of higher education and participation in the workforce, they are still lagging in one key area: financial literacy, which is widely considered to be an important skill for accumulating wealth. Our findings show that women tend to perform more poorly on tests of financial literacy than men, in a couple of ways. They tend to get more questions wrong (Figure 1), and they are more likely to choose that they “don’t know” an answer.

Due to the advances women have made over the last century, we might expect there to be generational differences in financial literacy, where younger, unmarried, college-educated women might perform more similarly to men. Surprisingly, the gender gap in financial literacy persists regardless of age, education level, and marital status. Researchers have designed interventions aimed at increasing financial knowledge in the hopes of closing this gap, but these have not produced notable improvements in long term financial security.

These findings, that the gender gap in financial literacy persists regardless of demographics or intervention, indicate that there may be something else at play. We decided to explore two other potential contributors: confidence and involvement in financial decision making, which in the past were viewed only as consequences of gaining financial literacy. We wanted to know if, perhaps, having (or not having) financial confidence and involvement in making financial decisions helps explain why women perform worse on financial literacy tests. This insight is crucial to understanding how to close the gender gap and ensure that women, as well as men, can achieve and maintain financial security throughout the lifespan.

“Routine” vs. “Major” Decision Matters

We asked a nationally representative sample of Americans age 20-94 questions to assess their financial literacy, how confident and involved they are in financial decision making, which financial milestones they had achieved (e.g., buying a home), and demographics (e.g., age, gender, and marital status). For the questions about confidence and involvement in financial decision making, we asked about several different types of financial decisions, and broke them down into two main categories: “Routine” and “Major” decisions (Figure 2). Routine decisions have to do with short-term household management, and major decisions involve more long-term planning and familiarity with the ideas that are tested in financial literacy assessments.

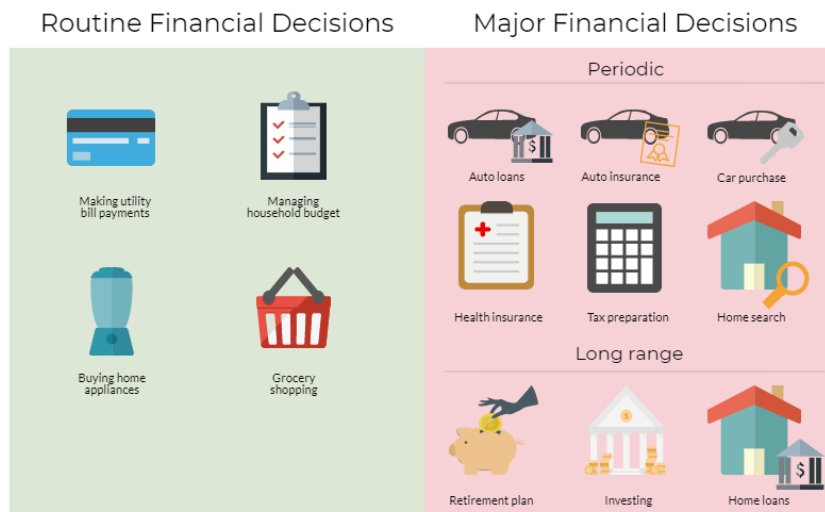


Figure 2. Financial decisions were broken into two categories: routine and major. Women tend to be more confident and involved in routine decisions.

We found that, indeed, women are less confident than men in making many financial decisions – but, it depended on the type of decision. Women and men felt similarly confident when making routine household-related decisions, but women felt far less confident than men about making major financial decisions (Figure 3).

Additionally, women’s lower confidence was related to their lower scores on the financial literacy test, indicating that their lower scores are not just due to less knowledge, but are related to how knowledgeable they believe themselves to be. These findings have implications for real-world financial decisions that may ultimately affect women’s wealth. In a follow-up study using the same panel, we found that both lower financial literacy and confidence in making major financial decisions were related to a lower likelihood that a person had started a long-term career, and lower likelihood that they had started saving for retirement.

Women were also less likely to be involved in making financial decisions, but the differences also depended on the financial decision category, and additionally on their marital status. While single people were more likely to be involved in both types of decisions, married women, in particular, were more likely to be involved in routine decisions,

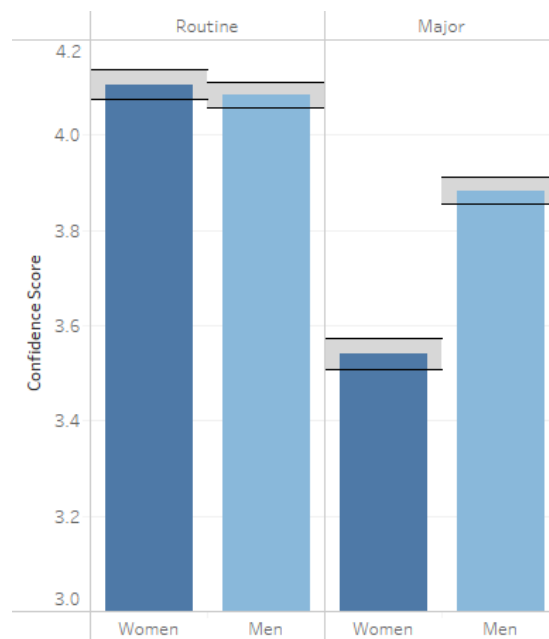


Figure 3. Women and men feel similarly confident about making routine financial decisions, but women feel far less confident than men about making major financial decisions.

and married men were more likely to be involved in major decisions. In our follow-up study we saw that involvement in major financial decisions also had potentially long-term implications. Greater involvement in major decisions was related to a greater likelihood of having bought a home.

Financial literacy is just one piece of the puzzle

Women today are living longer than men yet accumulating far less wealth. There are many contributors to this issue, notably, the wage gap that continues to persist in many industries. Financial literacy is another important component, but as we discovered through this study, does not act alone. Due to the nature of our study, we do not yet know if these factors are, in fact, causes of changes in financial literacy, or if there might be even other factors at play; further study is needed into this relationship. However, confidence and involvement in making major financial decisions have been established as important contributors to the gender gap in financial literacy.