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Executive Summary

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HOW DOES MARRIAGE AFFECT THE ALLOCATION OF ASSETS IN WOMEN'S DEFINED CONTRIBUTION PLANS?

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An increasing number of working men and women are now participating in defined contribution plans. Participants in defined contribution plans can decide how to allocate their retirement savings across different assets. The degree to which a participant is risk averse has a large impact on the asset allocation in his or her defined contribution plans and thus, the income for retirement.

Policymakers investigating the implications of proposed Social Security reforms have been concerned that many workers are investing their retirement assets too conservatively, allocating a larger share of their retirement savings to less risky assets with lower expected returns. Moreover, recent studies, which investigate differences in risk aversion and investment decisions, have identified gender differences in financial decision-making (Richard Hinz et al., 1997; Nancy A. Jianakoplos and Alexandra Bernasek, 1998; Annika E. Sundén and Brian Surette, 1998; Vickie L. Bajtelsmit et al., 1999; Alexandra Bernasek and Stephanie Shwiff, 2001; Peggy D. Dwyer, 2002). These studies show that women are less likely than men to invest in risky assets. However, they have been unable to clearly identify how the interaction of gender and marital status affects the investment decisions of working men and women. The interaction is more complicated than previous research suggests.

Most studies have treated married households as a single decision-making unit. This study improves upon traditional unitary bargaining models and estimates a series of unitary and collective-type models to investigate how a husband's age and relative control over financial resources affects the allocation of assets in women's defined contribution plans. Using data from the Survey of Consumer Finances, the results show that women who are married to less educated and older men are less likely to take on risk with their portfolios. Women who earn a greater share of the household's total earnings are also less likely to invest in risky assets. The characteristics of the wife do not appear to affect the husband's investment decisions.

The findings suggest that previous research may not have adequately controlled for marital status and socio-economic determinants and that marriage may have a significant impact on the resources available to women during their retirement years. Specifically, marriage may be increasing the gap between men and women's retirement savings, especially for households where the husband is less educated and, as in most cases, older than the wife. For these households, the privatization of Social Security may further magnify the gap. In these cases, married women may be more likely to retire with significantly lower levels of retirement savings than married men. Given that married couples are more likely to divorce than earlier generations and that women have greater longevity than men, the ability of women to maintain consumption after retirement could be further restricted.

In lieu of increases in the number of defined contribution pension plans and legislative proposals recommending the privatization of Social Security, it is important that financial professionals develop a better understanding of family decision-making with respect to household finances. Marriage may have a significant impact on the resources available to women during their retirement years. Financial professionals may want to collect more information from their clients about financial decision-making processes within a household, especially how decisions are being made and who is managing the financial resources. There may also be a role for financial education to help women understand that it may be in their best interest to become more involved in the financial decisions of the household.

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