

Understanding Gender Differences in Retirement Saving Decisions: Evidence from the Canadian Financial Capability Survey (CFCS)

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SRDC RESEARCH ON CHALLENGES TO CANADA'S RETIREMENT INCOME SYSTEM

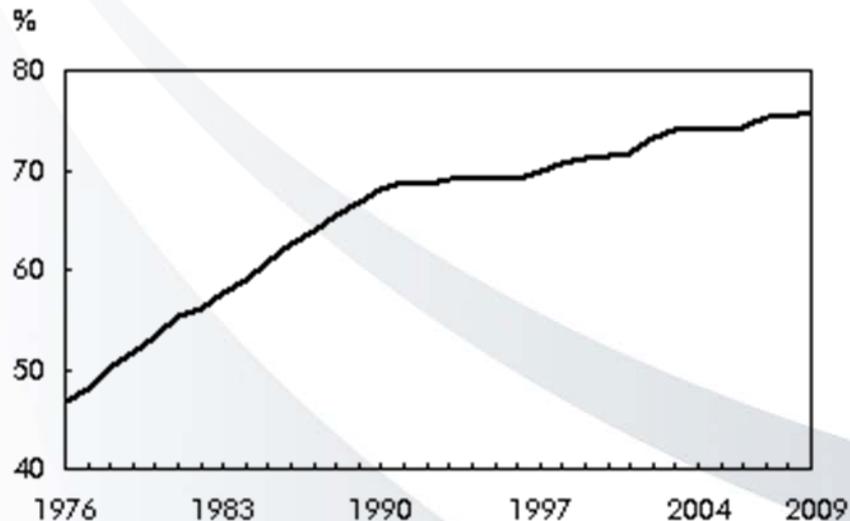
Canada is experiencing a series of trends that may impact on the ability of its Retirement Income System (RIS) to provide adequate financial support to senior citizens

- Increased life expectancy and lower fertility rate
 - Extension of the retirement year period
 - Declining coverage rates by employer-sponsored pension plans
 - Shift from DB to CAPs, including DC) plans and group RRSPs
- The responsibility for the provision of retirement income is gradually transferred from government and employers to individuals, at least for certain groups of future retirees

POLICY ISSUE

One of the most fundamental changes in recent years has been the extent to which families now rely on women's earnings to get by

Participation rates of married women age 20 to 64



Source: Statistics Canada, Labour Force Survey

POLICY ISSUE

Women have more income under their own control:

- Non-market household production is replaced by market earnings
- Women may have greater say in household decision-making

Life trajectories are changing:

- More women spending a high portion of their working years as single, sometimes as single parents

Key life transition are happening later:

- Age at which people have their first child has increased
- Increased educational attainment, especially of women

POLICY ISSUE

- The present is an inadequate guide to what the future will hold: future retirees are likely to differ substantially from those who are retired now or are about to retire
- Recent changes in women's economic roles may profoundly impact the role they play in households' financial decision-making, including retirement saving decision-making

LITERATURE ON SAVING AND GENDER

There are well-established differences between male and female:

- Labour supply decisions – hours of work, type of employment
- Consumption decisions – allocation of income towards spending on children

Very little known about what differences (if any) exist between male and female saving decisions

LITERATURE ON SAVING AND GENDER

- Women have lower earnings – less private savings is required to achieve given replacement rate upon retirement
- Women have greater longevity and higher probability of needing long term care (Brown and Finkelstein, 2009)
- Women tend to spend a higher share of their income on child-related expenses (Conley and Ryvicker, 2005; Chang, 2010)
- Women and men have different attitude towards risk (Croson and Greezy, 2009)
- Women and men differ in their knowledge of financial matters and financial practices (Lusardi and Mitchell, 2008; Fonseca et al., 2010)
- Among couples, decisions depend on the relative bargaining position of each partner – person's resources within marriage or potential resources outside marriage.
- Social norms – men are expected to support women financially

LITERATURE ON SAVING AND GENDER

- Female-headed households have less wealth than others (Conley and Ryvicker, 2005; Chang, 2010)
- Women hold different types of assets, are more conservative, more risk averse, less confident (Croson and Greezy, 2009; Sierminska, Frick and Grabka, 2010)
- Among couples, greater female bargaining power leads to:
 - Lower household savings (Gibson, Le and Scobie, 2006; Phipps and Woolley, 2008)
 - Greater household savings (Lee and Pocock, 2007; Lundberg and Ward-Batts, 2006)
- Positive macro-level relationship between women's relative income and gross domestic savings rate (Seguino and Floro, 2003)

RESEARCH QUESTIONS

1. To what extent does the bargaining position of each spouse play a role in explaining gender differences in saving decisions?
2. To what extent does participation in an employer-provided pension plan impact contributions in private retirement saving vehicles, and does it matter whether it is the men or the women who is covered by the employer plan?
3. To what extent does knowledge of financial matters and financial practices play a role in explaining gender differences in saving decisions?

DATA SOURCE

2009 Canadian Financial Capability Survey (CFCS): collects information on Canadians' wealth and income, as well as their degree of knowledge, abilities and behaviour concerning financial decision-making

Research sample is limited to those respondents who were 25 to 65 years of age between February and May 2009

- 10,000 observations in total of which about 6,000 are couples

Strengths of CFCS:

- Rich information on financial behaviour and decision-making
- Rich information on types of assets, liabilities held (RRSPs, RESPs, tangible assets, financial assets, business assets)

Limitations of CFCS:

- Most wealth information collected at **family** level
- No information on ownership of RRSPs, other assets
- Information on **respondent's** pension coverage only

DESCRIPTIVE STATISTICS

Responsibility for financial management (%)

The man of the respondent/spouse	30.4
The woman of the respondent/spouse	13.5
Shared by the respondent and spouse	52.9
Someone else	3.2

There are gender differences in average assessments of financial responsibility, with male respondent being more likely to report male control

There are differences according to the age of respondents

DESCRIPTIVE STATISTICS

Relationship between responsibility for managing the finances and having positive value of most types of assets

	Male	Female	Shared	F-test
Tangible assets	97.2	95.6	96.6	
RRSPs	74.2	62.2	70.3	***
RESPs	26.2	23	22.7	***
Financial assets	67.9	55.5	65.9	***
Business assets	15.2	12.6	13.2	**
Total assets	98.6	97.3	97.7	
Total liabilities	80.6	87.3	82.8	***

METHODOLOGY: OUTCOMES OF INTEREST

- Probability of having positive asset holdings & liabilities (Probit)
 - Changes in the probability of reporting positive asset holdings as a function of a set of observable characteristics
- Amount of assets & liabilities held (Tobit)
 - Dependent variable is the inverse hyperbolic sine of assets held (Burbidge, Magee and Robb, 1988)

$$\log(y_i + (y_i^2 + 1)^{1/2})$$

METHODOLOGY: EXPLANATORY VARIABLES

Intra-household dynamics: Control of household decision making (*“Who is mainly responsible for making financial investment and planning decisions on behalf of the family?”*), woman’s share of household income, spousal’s age-difference, participation to employer-provided pension plan

Lifecycle variables: age, income, presence of children, employment status, provincial controls

Financial literacy: financial knowledge (self-assessment and objective measures), financial practices, budgeting, and usage of credit card (own a credit and carry a balance)

MULTIVARIATE ANALYSIS

ROLE OF INTRA-HOUSEHOLD DYNAMICS

- **Male financial responsibility** associated with higher probability of holding positive total assets, and holding RRSPs
- **Male financial responsibility** associated with higher levels of all assets except RRSPs
- **Female financial responsibility** associated with higher probability of holding liabilities; significantly lower probability of positive net worth
 - Reverse causality? Women get to make the decisions if the households are in debt while men get to be in charge when the households has accumulated assets?
 - The effects remains significant even with the inclusion of numerous indicators of financial stress.
- **Women's share of household income** associated with lower probability of holding non-RRSP financial assets

MULTIVARIATE ANALYSIS

ROLE OF INTRA-HOUSEHOLD DYNAMICS

- **Having an employer-provided pension plan** is associated with higher probability of holding non-RRSP financial asset
 - It *does not* matter whether it is the men or the women who is covered by the employer plan
- **Having an employer-provided pension plan** is associated with higher levels of non-RRSP assets
 - Again, no gender differences

MULTIVARIATE ANALYSIS

ROLE OF FINANCIAL KNOWLEDGE AND PRACTICES

- **Use of a budget** associated with higher probability of holding tangible assets and higher incidence of liabilities.
 - Financial strain caused by mortgage
 - The effect on liabilities is partially mitigated for those who are able to *stay on budget*
- All types of assets, liabilities and net worth are positively related to **objective measures of financial knowledge**
 - The impacts do not significantly differ by gender
- **Holding a credit cards** associated with higher probability of holding assets
- **Carrying a balance on credit card** is associated with lower probability of holding most assets
 - This effect seems to be stronger for women than for men
- **Carrying a balance** associated with lower values of most assets except for business assets

POLICY IMPLICATIONS

- The strong impact of male responsibility for financial planning and, to some extent, female share of household income upon holdings of assets suggests that policy makers need to be aware of gender dynamics when planning policy interventions
- Should they find themselves without a spouse, some women are at risk of finding themselves with no experience of financial planning while having the responsibility for large asset holdings
 - This is particularly worrying given our findings that women have lower levels of financial knowledge than men do
- While interventions need to be gender-aware, many interventions, such as those targeted at improving financial literacy and practices, would be expected to provide comparable benefits for men and women

HANDOUT ON REGRESSION RESULTS

INCIDENCE OF ASSET HOLDINGS

Table 1: Selected Probit Estimates of the Incidences of Positive Values in Net Worth, Assets and Liabilities of Couples

	Net Worth	Total Assets	Liabilities	Financial Assets	RRSPs	RESPs	Tangible Assets	Business Assets	Pension
Control of Money (reference: Shared Control)									
<i>By the Man of the Household</i>	0.008 (0.107)	0.383 (0.209)*	-0.012 (0.069)	0.101 (0.068)	0.169 (0.077)**	0.037 (0.067)	0.077 (0.138)	0.088 (0.071)	-0.036 (0.060)
<i>By the Woman of the Household</i>	-0.333 (0.129)***	0.413 (0.234)*	0.327 (0.096)***	-0.135 (0.084)	-0.068 (0.094)	0.128 (0.097)	0.100 (0.175)	0.046 (0.093)	-0.042 (0.078)
Woman's Share of Household Income	0.122 (0.216)	-0.337 (0.337)	0.227 (0.142)	-0.300 (0.149)**	-0.261 (0.166)	-0.112 (0.151)	-0.435 (0.276)	0.306 (0.174)*	0.080 (0.131)
Sample Size	3,082	3,162	4,958	4,098	4,337	5,263	4,753	5,379	5,737

Source: Calculations based on micro data from the 2009 Canadian Financial Capability Survey.

Note: All statistics were estimated using household sampling weights. Standard errors are in parenthesis. Student t-tests were used to test the statistical significance of each right hand side variable. * - significant at 10%; ** - significant at 5%; *** - significant at 1%.

INCIDENCE OF ASSET HOLDINGS

Table 1: Selected Probit Estimates of the Incidences of Positive Values in Net Worth, Assets and Liabilities of Couples

	Net Worth	Total Assets	Liabilities	Financial Assets	RRSPs	RESPs	Tangible Assets	Business Assets	Pension
Used Household Budget	0.064 (0.136)	0.699 (0.284)**	0.343 (0.103)***	-0.040 (0.085)	0.011 (0.102)	-0.033 (0.092)	0.584 (0.196)***	-0.181 (0.098)*	-0.103 (0.084)
Always Stayed on Budget	0.208 (0.184)	-0.022 (0.389)	-0.316 (0.116)***	0.279 (0.115)**	0.098 (0.137)	0.007 (0.129)	-0.465 (0.212)**	0.193 (0.129)	0.071 (0.109)
Financial Literacy (reference: High)									
<i>Very Low</i>	-0.287 (0.194)	-0.847 (0.316)***	-0.256 (0.141)*	-0.426 (0.129)***	-0.462 (0.137)***	-0.464 (0.154)***	-0.563 (0.254)**	-0.328 (0.155)**	-0.281 (0.131)**
<i>Low</i>	-0.181 (0.178)	0.254 (0.466)	-0.247 (0.120)**	-0.026 (0.109)	-0.215 (0.122)*	-0.194 (0.130)	0.093 (0.256)	-0.007 (0.127)	0.032 (0.103)
<i>Very High</i>	0.141 (0.158)	-0.643 (0.335)*	-0.090 (0.105)	0.246 (0.098)**	0.183 (0.125)	0.088 (0.100)	-0.001 (0.204)	0.186 (0.102)*	0.233 (0.087)***
Had a Credit Card	0.248 (0.204)	0.575 (0.285)**	0.667 (0.158)***	0.233 (0.158)	0.749 (0.188)***	0.423 (0.208)**	0.707 (0.209)***	0.059 (0.181)	-0.228 (0.162)
Carried a Balance on a Credit Card		0.150 (0.239)		-0.133 (0.079)*	-0.271 (0.093)***	-0.036 (0.087)	-0.275 (0.166)*	0.001 (0.095)	-0.003 (0.076)
Sample Size	3,082	3,162	4,958	4,098	4,337	5,263	4,753	5,379	5,737

Source: Calculations based on micro data from the 2009 Canadian Financial Capability Survey.

Note: All statistics were estimated using household sampling weights. Standard errors are in parenthesis. Student t-tests were used to test the statistical significance of each right hand side variable. * - significant at 10%; ** - significant at 5%; *** - significant at 1%.

VALUE OF ASSET HOLDINGS

Table 2: Selected Tobit Estimates of the Inverse Sine Transformed Values in Net Worth, Assets and Liabilities of Couples

	Net Worth	Total Assets	Liabilities	Financial Assets	RRSPs	RESPs	Tangible Assets	Business Assets
Control of Money (reference: Shared Control)								
<i>By the Man of the Household</i>	0.108 (0.290)	0.131 (0.084)	0.010 (0.223)	0.672 (0.337)**	0.667 (0.275)**	0.413 (0.598)	0.123 (0.102)	1.333 (0.983)
<i>By the Woman of the Household</i>	-1.622 (0.582)***	0.043 (0.151)	0.888 (0.263)***	-0.900 (0.465)*	-0.417 (0.404)	1.202 (0.886)	-0.044 (0.188)	0.596 (1.326)
Woman's Share of Household Income	0.782 (0.771)	-0.197 (0.319)	0.318 (0.478)	-1.452 (0.817)*	-1.202 (0.709)*	-0.994 (1.381)	-0.158 (0.321)	3.820 (2.257)*
Sample Size	3,082	3,162	4,958	4,098	4,337	5,263	4,753	5,379

Source: Calculations based on micro data from the 2009 Canadian Financial Capability Survey.

Note: All statistics were estimated using household sampling weights. Standard errors are in parenthesis. Student t-tests were used to test the statistical significance of each right hand side variable. * - significant at 10%; ** - significant at 5%; *** - significant at 1%.

VALUE OF ASSET HOLDINGS

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	Net Worth	Total Assets	Liabilities	Financial Assets	RRSPs	RESPs	Tangible Assets	Business Assets
Used Household Budget	0.477 (0.404)	0.187 (0.110)*	0.874 (0.276)***	-0.420 (0.439)	0.186 (0.371)	-0.387 (0.798)	0.412 (0.153)***	-2.622 (1.374)*
Always Stayed on Budget	0.265 (0.519)	0.039 (0.166)	-0.453 (0.340)	1.524 (0.542)***	0.302 (0.488)	0.347 (1.163)	-0.231 (0.194)	2.702 (1.791)
Financial Literacy (reference: High)								
<i>Very Low</i>	-1.628 (0.814)**	-0.851 (0.277)***	-0.917 (0.443)**	-2.915 (0.827)***	-2.385 (0.672)***	-4.429 (1.447)***	-0.814 (0.352)**	-4.747 (2.266)**
<i>Low</i>	-0.804 (0.639)	-0.250 (0.148)*	-0.970 (0.348)***	-0.282 (0.601)	-0.854 (0.524)	-1.784 (1.188)	-0.233 (0.200)	-0.234 (1.797)
<i>Very High</i>	0.243 (0.385)	-0.098 (0.095)	-0.204 (0.280)	1.001 (0.474)**	0.451 (0.389)	0.737 (0.865)	0.041 (0.150)	2.500 (1.427)*
Had a Credit Card	2.888 (1.333)**	1.201 (0.476)**	1.574 (0.679)**	1.543 (1.038)	4.675 (1.120)***	4.051 (1.926)**	1.718 (0.490)***	1.148 (2.626)
Carried a Balance on a Credit Card	-1.839 (0.405)***	-0.187 (0.122)	2.576 (0.223)***	-0.698 (0.413)*	-1.133 (0.341)***	-0.356 (0.765)	-0.221 (0.166)	-0.198 (1.302)
Sample Size	3,082	3,162	4,958	4,098	4,337	5,263	4,753	5,379

Source: Calculations based on micro data from the 2009 Canadian Financial Capability Survey.

Note: All statistics were estimated using household sampling weights. Standard errors are in parenthesis. Student t-tests were used to test the statistical significance of each right hand side variable. * - significant at 10%; ** - significant at 5%; *** - significant at 1%.