

## Transforming Retirement

# Working life inequality spills into retirement

19 January 2023

### Key takeaways

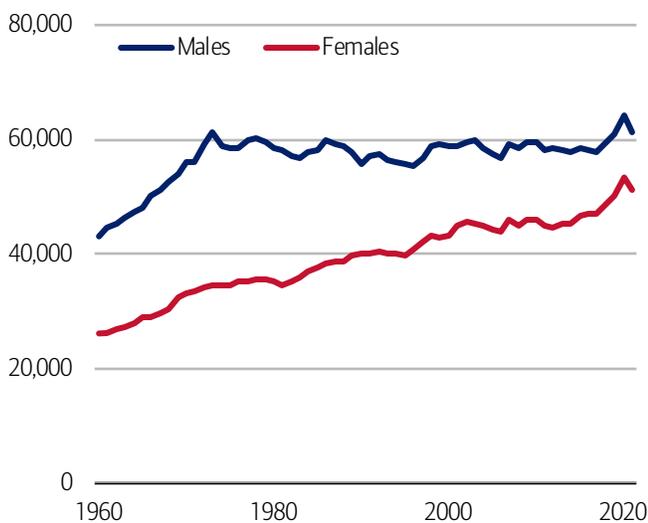
- Over the course of their working careers, women and men have different labor market experiences. Women in general tend to earn less than men, while they also tend to spend less time as an active member of the labor market throughout their lives.
- These labor market inequalities mean women have less time and ability to save for retirement. A recent Bank of America [Chief Investment Office \(CIO\) report](#)<sup>1</sup> also indicates that women participate less in 401(k) plans than men and allocate less of their balances to equities.
- The result is that labor market inequalities may be compounded into retirement. The study finds that women’s 401(k) balances are around two-thirds that of men. This highlights the need for a continued focus on reducing inequality and promoting informed retirement decisions.

### Men and women have very different labor market experiences

The labor market experience of men and women differs significantly. At the most stark, there exists a well-documented ‘earnings gap’ between men and women (Exhibit 1 and Exhibit 2) where female earnings are lower than male earnings. This has existed for many decades and, while some considerable progress has been made in closing the gap, in 2021 the U.S. Census Bureau still showed that female full-time median earnings were around 84% of male earnings. The earnings gap also appears to increase with age: U.S. Bureau of Labor Statistics data shows women ages 25-34 were earning 89% of what men in that age group were earning but by ages 45-54, women were earning only 75% of what men were earning.

#### Exhibit 1: Real median full-time earnings (year-round workers)

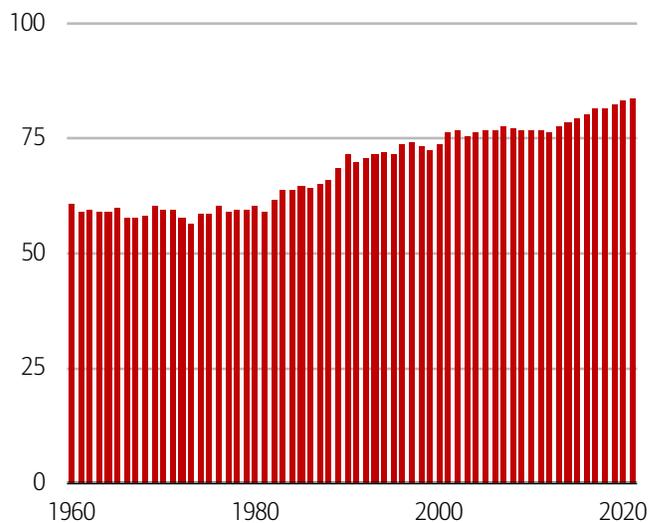
Female real median earnings have been persistently lower than male earnings for many years



Source: U.S. Census Bureau

#### Exhibit 2: Female real median full-time earnings as a % of male (year-round workers)

The earnings gap between men and women has been closing but still stands at over 15%



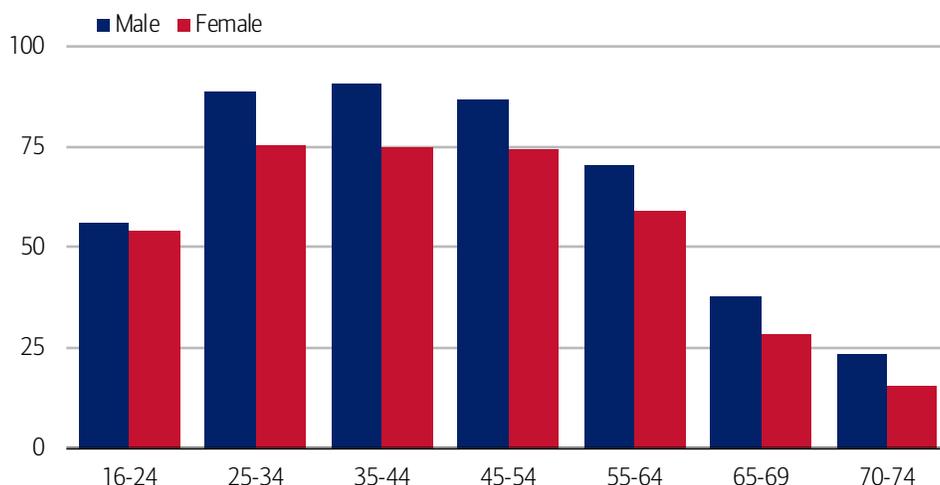
Source: U.S. Census Bureau

<sup>1</sup> [‘Gender Lens in Defined Contribution \(DC\) Plans’](#), Bank of America CIO, 2023

While a difference in earnings persists, female participation in the labor market also tends to be below that of male participation. Exhibit 3 shows that across age groups, but especially after age 24, female participation in the labor market trails that of males. This combination of lower labor market activity and lower pay means that women will have less ability to save and accumulate assets across their lifetimes, which could have important implications for their retirement.

**Exhibit 3: Male and female labor market participation rates by age band (%)**

Female participation rates are lower across all age bands



Source: Bureau of Labor Statistics

Alongside these labor market outcomes there also appears to be differences in how women engage with, contribute to, and invest in their retirement plans. An important new study recently published by Bank of America’s Chief Investment Office (CIO), [Gender Lens in Defined Contribution Plans](#), explores these questions. Here we look at some of their findings.

**Women appear to participate less in 401(k) plans...**

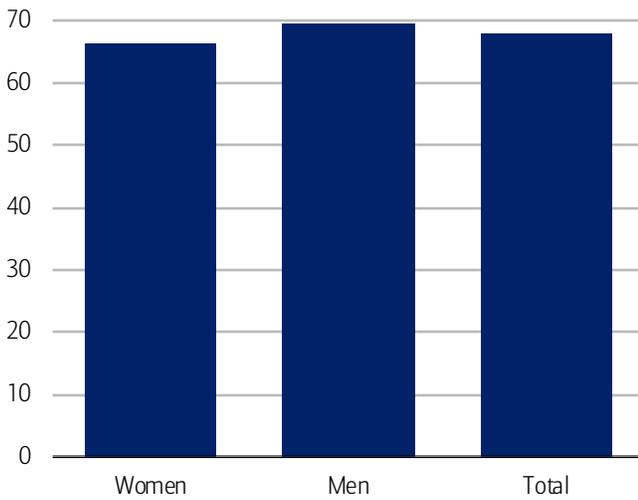
The CIO study utilizes anonymized and aggregated data on 4.6 million participants in 401(k) plans administered by Bank of America Retirement Services. While the total number of participants is 4.6 million, 1.5 million accounts have a zero balance. Of those with non-zero balances and therefore ‘participating’ in plans, 1.47 million are women versus 1.65 million men.

Exhibit 4 shows that the *rate* of participation in plans amongst women is 3.2 percentage points lower than that of men (i.e. a higher proportion of women have zero balances). These participation rates are consistent with pre-pandemic studies and appear in line with industry studies: according to an analysis completed by the Federal Reserve, 33% of US households do not participate in any retirement savings plan.

Participation rates of women are lower than those of men across generations, with the exception of the silent generation as shown in Exhibit 5. Unsurprisingly, Generation Z (age 18-22) has the lowest participation rates. So, across most of their lives it appears women may be contributing less to retirement plans.

**Exhibit 4: Bank of America Retirement Services administered 401(k) accounts participation rates (%) by gender**

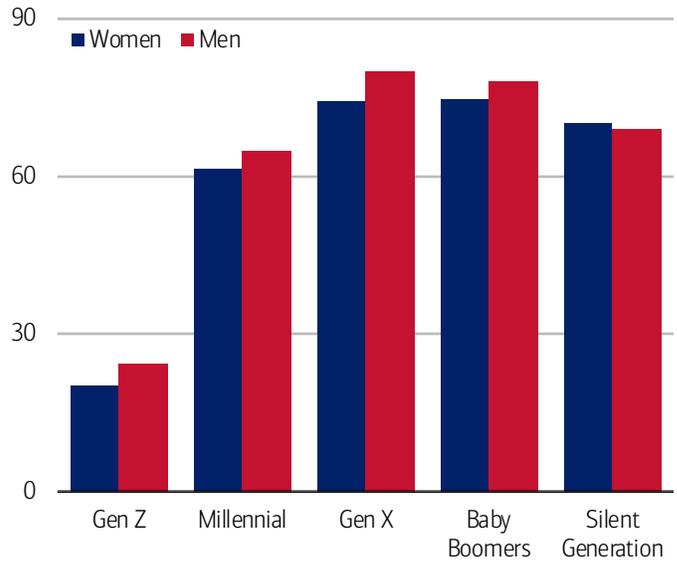
The participation rate in plans is 3pp lower for women than men



Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

**Exhibit 5: Bank of America Retirement Services administered 401(k) accounts participation rates (%) by gender and generation**

Participation rates for women are generally lower across each generation



Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

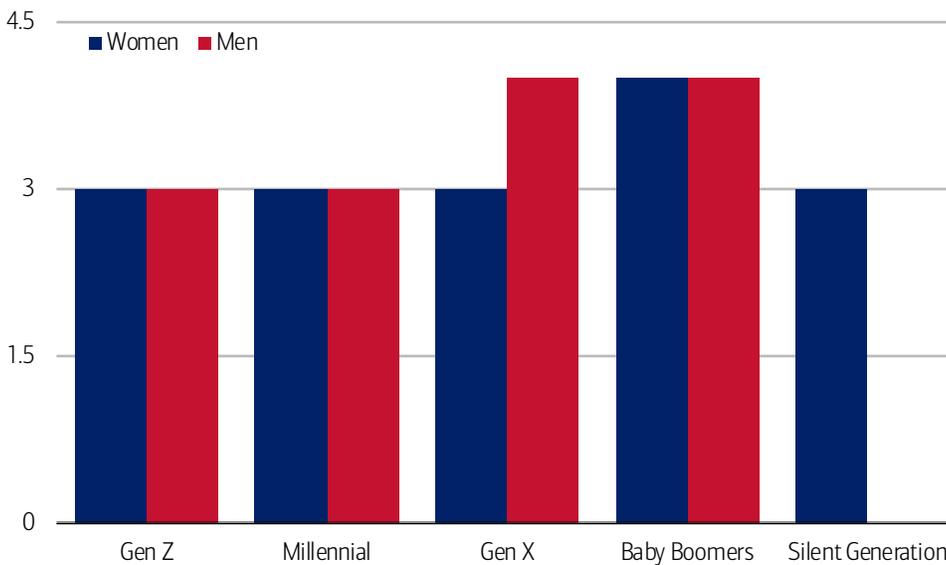
**...with similar contribution rates**

The CIO study also notes that the distribution of contribution rates for women and men are the same at the 25th percentile, median and 75th percentiles. The median contributions rates are modest for both women and men at 3%, and the average contribution rate is 4% for both women and men.

On an age generation basis, male and female median contribution rates are similar for each generation, with the exception of Generation X (age 39-54) where men contribute at higher rates than women. This could imply that men tend to raise their contribution rates over middle-age, while women do not feel able to.

**Exhibit 6: 401(k) contribution rates by gender and generation**

Generation X men's (39-54) median contribution rates are higher than those for Gen X women

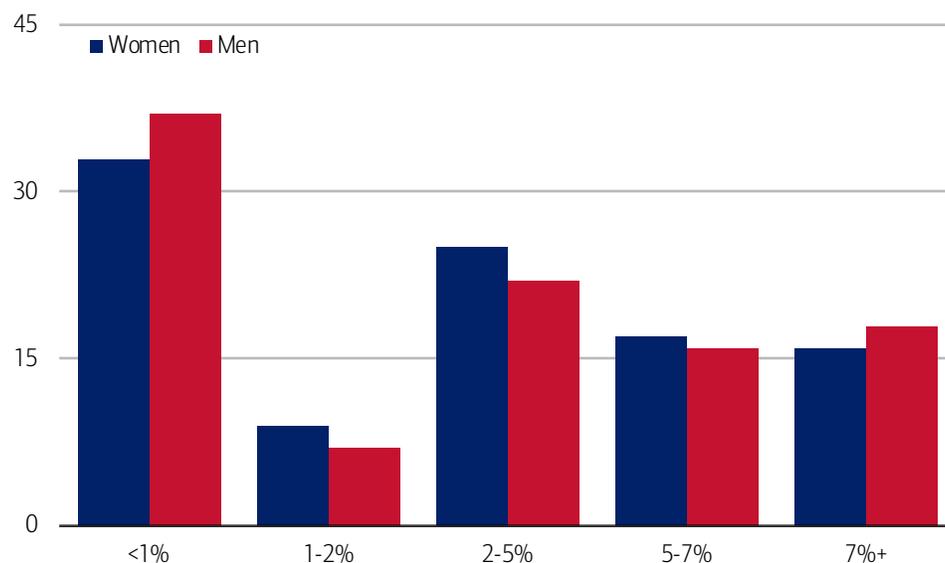


Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

Exhibit 7 also shows some differences in the distribution of men and women by contribution rates. In particular, the percentages of women are lower in the <1% and 7%+ contribution rate groups, so somewhat more men proportionately contribute 'very little' or 'a lot' compared to women.

**Exhibit 7: Distribution of 401(k) contribution rates by gender**

The percentage of workers with contribution rates between 1 to 7% is greater for women than men



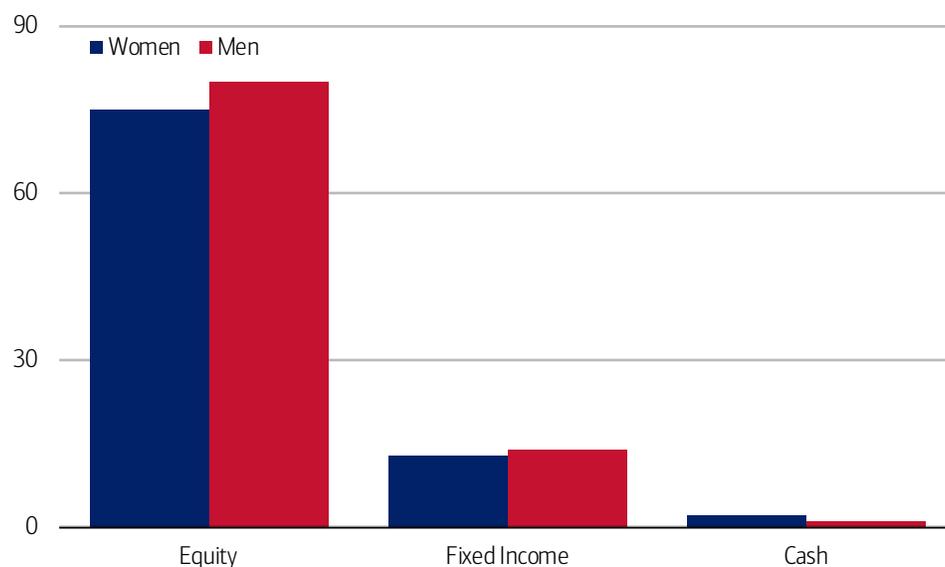
Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

**Women have a more risk-averse investment allocation**

The study also finds that women tend to allocate less to equity investments than men. Exhibit 8 shows that the average equity allocation is 75% for women versus 80% for men. This is consistent with research that shows that women tend to take on less investment risk than men<sup>2</sup>. Previous research by Bank of America<sup>3</sup> also showed that nearly a third of women surveyed shared that their biggest financial regret was not saving and investing sooner.

**Exhibit 8: 401(k) asset allocation by gender**

Men tend to allocate more to equity than women



Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

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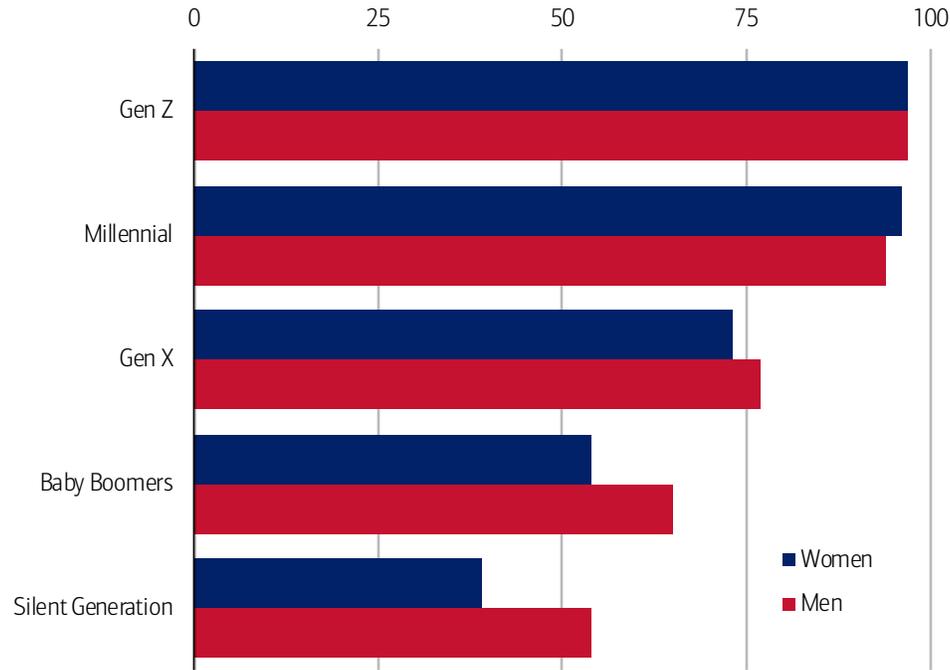
<sup>2</sup> Arano, K.C. Parker and R. Terry, "Gender-Based Risk Aversion and Retirement Asset Allocation," *Economic Inquiry* 48, no.1 (January 2010), pp 147-155.

<sup>3</sup> Bank of America, "Women, money, confidence: A lifelong relationship," June 2022.

Interestingly, equity allocations of women are higher than those of men in younger generations (Millennials). In contrast, the equity allocations of women are lower than those of men in older generations.

**Exhibit 9: 401(k) equity allocation by gender and generation (%)**

Differences in equity allocations become increasingly large for older generations



Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

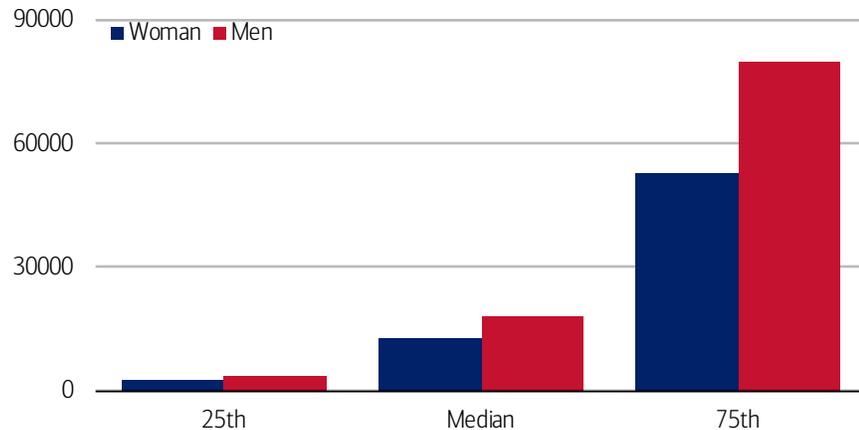
**Retirement plan outcomes compound labor market inequalities**

The inequality in the labor market experience of men and women, through lower female earnings and lower lifetime labor market participation, will tend to mean that women have fewer opportunities to save for retirement.

Exhibit 10 shows that within the 401(k) plans administered by Bank of America, the impact for women on their plan balances can be very significant. For women, the median 401(k) plan balances are \$12,661 versus \$18,264 for men, while the average 401(k) plan balances are \$64,942 for women versus \$99,249 for men. Total 401(k) balances for women continue to be approximately two-thirds those for men at the 25th percentile, median and 75th percentile.

**Exhibit 10: 401(k) balances by gender (\$)**

Balances are significantly lower for women than for men

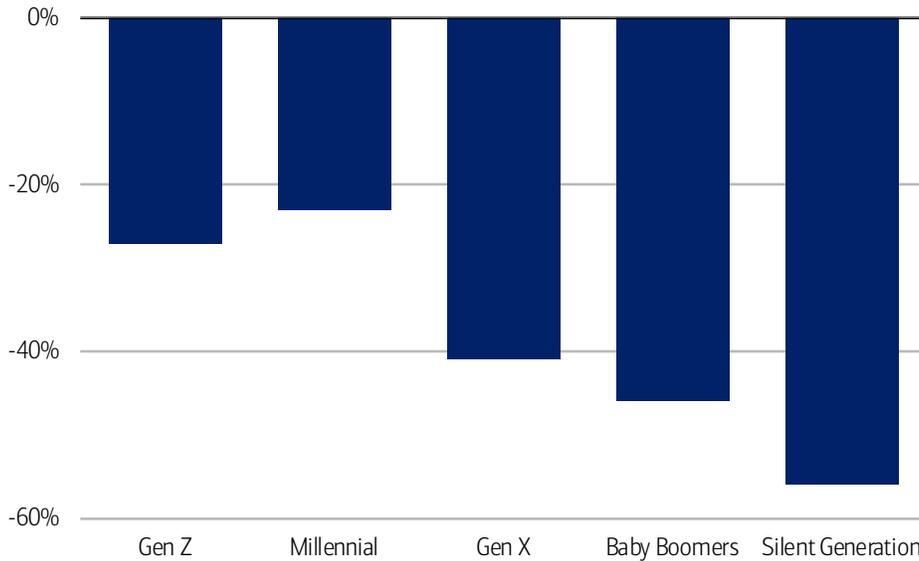


Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

Generationally, the largest differences in 401(k) balances are unsurprisingly at the older end of the age distribution. Inequalities in wages and investment decisions appear to accumulate to very large differentials.

**Exhibit 11: Percentage differences between female and male 401(k) balances by generation**

The differences between balances becomes much larger for older generations



Source: Bank of America CIO Study, 2022: Gender Lens in Defined Contribution (DC) Plans

### Continued focus on reducing inequality is required

What can be done to ensure women do not have a significantly different retirement experience than men?

First and foremost, a continued focus on reducing labor market inequalities could likely be a big part of the solution. Further narrowing of the gender pay gap and supporting women across their working lives so they do not have to leave the labor market for extended periods of time could also play an important role. Additionally, a continued focus on actionable financial education for both genders would help people understand the implications of their retirement contribution decisions, as well as what different asset allocations may imply over a long working life.

Of course, progress in many of these matters would benefit women who still have time to save and accumulate retirement assets. Those already in retirement or close to it will not likely be able to benefit from progress on reducing inequalities, but other means of public policy support may be appropriate.

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