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Increasing Retirement Savings by Working Women: Understanding Gender Disparities in Wisconsin Deferred Compensation Program Account Balances

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The purpose of this study is to better understand the sources of observed gender disparities in Wisconsin Deferred Compensation (WDC) Program account balances. The WDC is a supplemental tax-deferred voluntary retirement savings plan offered to individuals holding jobs covered by Wisconsin's public pension system. Because women and men employees are equally likely to participate in the WDC, account balance differentials must come from different contribution levels, investment strategies, continuity of coverage, or withdrawal behavior. First, this paper reports on what administrative data reveal about the factors leading to the gender differences in WDC account balances and contributions among Wisconsin State employees. Second, the paper shares conclusions drawn from four focus groups of women WDC account holders about other factors that may influence decisions regarding program participation, contributions, and investment choices.

In Wisconsin, most public sector employees have access to a voluntary supplemental tax-deferred retirement savings plan, the Wisconsin Deferred Compensation (WDC) Program. Aggregate WDC data on all account holders consistently show that women have significantly lower account accumulations than men. In 2010 the average account balance for men was $60,000, while the average balance for women was $42,000. We use WDC administrative data and focus group findings to document and analyze potential sources of gender differences in participation in and contributions to the WDC among State of Wisconsin employees, which account for almost half of all WDC eligible employees.

Administrative Data Analysis

Data on individual WDC account holders for the years 2006 to 2009 allowed us to examine whether gender differences in account balances among Wisconsin State employees can be explained by earnings and age differentials or reflect systematic differences between male and female employees in contributions, investment strategies, continuity of coverage, or account withdrawal behavior. Lower salaries of women than men play an important role in the lower account balances of women, but even accounting for salary and age differences, women on average contributed a lower share of earnings to their WDC accounts than did men.

The lower contributions as a percentage of earnings appear to be a major explanation for lower account balances of women. In general, women did not experience a slower growth in funds than men during the period studied, although any underlying gender-related variation in account growth may have been obscured by the volatility of the market during this period.

In 2010, the average WDC account balance for men was $60,000, while the average balance for women was $42,000. Even after accounting for *the effects of earnings and age, women contributed a lower share of earnings to their WDC accounts than men.*

While recent volatility in the stock market makes us reluctant to draw conclusions about women's long-run diversification behavior our analysis suggests that women were somewhat more likely to have less diversified investments over these years, and both women and men with less diversified portfolios experienced smaller losses as markets fell and smaller gains as they rose.

Account balances are also influenced by employees ceasing to contribute when still eligible to contribute. Our findings suggest that this is not a factor in account balance differences since the likelihood of interrupting contributions is no different for women and men who remain eligible to continue. Finally, the maximum allowed contribution is a potential constraint for only a very small percentage of contributors. This limit (in 2009 the lesser of $16,500 or 100 percent of salary) reduces the maximum contributions as a percent of salary as salaries rise. Indeed, very low and higher salaried employees and older employees are more likely to make maximum contributions. However, even controlling for salary and age, women are about 20 percent less likely to make the maximum allowed contributions.

Focus Groups

We conducted four focus groups of State of Wisconsin female employees who were current WDC account holders to gain insight into the reasons women participate in and contribute to the WDC. The four focus groups consisted of: 1) younger employees, 2) older employees, 3) part-time employees, and 4) individuals who did not contribute to their WDC accounts for at least one year between and including 2006 and 2009. We conducted no focus groups of male employees so are not able to make the direct comparisons as we did with administrative data.

Less than a week before the first focus group, Wisconsin's governor proposed significant changes to the collective benefits of public employees and a study of potential changes to the pension system. Although we did not explore the effect of this change in the focus groups, these circumstances were reflected in respondents' comments.

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Enrollment. Focus group participants learned about the WDC from many sources, but the most frequently mentioned source of information was co-workers. Many said they enrolled in the WDC as a means of increasing their own financial security and financial independence. Participants commented on the ease of enrollment. One focus group participant stated, "It's pretty clear to me that it was an easy way for me to save the money without actually seeing it and feeling more of a hit to my paycheck." Many women experienced a delay between initial eligibility and actual enrollment. Most blamed this delay on a lack of information, little co-worker support, not having the additional money, use of other retirement savings plans, a lack of social support, or confusion about eligibility. Others described the first year of state employment as a time when they were overwhelmed with information about benefits and therefore postponed decisions about the WDC because there is no deadline for enrollment.

Contribution Decisions. For many women, contributions were modest due to low starting salaries, other financial demands, market trends, and uncertainty about how to set the contribution amount. Indeed the administrative data confirmed that contributions as a percent of salary was lower during the first year of contributions and rose over the next couple of years of employment for both women and men.

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Contribution increases frequently resulted from pay raises. As one woman explained, "Every time I got a raise…I kept like a third of the raise and put the other two-thirds of the raise into [my WDC account]. Still getting a little cookie, but most of that increase went to my deferred comp so I got used to just not having it."

Co-workers were once again the main influence as women made decisions about how to allocate their contributions. Respondents also used WDC information sources to evaluate the relative risk of the available options. One participant stated, "I kind of went with what my co-workers went with. But I was younger than them so I went a little bit riskier…and I've kind of left it alone since then." However, some participants were less strategic; one reported, "I kind of just drew a name out of a hat and let it ride for two years because I didn't have any clue." These women, some of whom acknowledged their low levels of financial literacy, wished that they had just been told where best to invest their funds.

Given the 2008 stock market decline, it is not surprising that the most common reason for recently ceasing or reducing contributions was the bad economy; the second most frequent reason for ever having done so was changes in household financial status. For some respondents, ceasing contributions was due to circumstances that led them to seek and be approved for a financial emergency hardship withdrawal.

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Finally, some anticipated having to reduce or cease WDC contributions if legislation that raised employee required contributions to the Wisconsin Retirement System and health benefits was approved. When asked what the WDC could do when women reduce contributions, cease contributing, or make an untimely withdrawal, focus group participants generally agreed that there was little the WDC could do to change the final decision, but they would have liked to have more information about the consequences of doing so.

Other Themes

Most of the married women in focus groups 1, 2, and 4 said that their husbands played little, if any, role in their WDC investment choices. For example, one participant stated, "I'm married and we have joint finances but this is something I do entirely by myself; [my husband] doesn't look at my statement when it comes, and I don't talk to him about what my spread is—this is my business." In contrast, husbands played a larger role in WDC investment choices for women in focus group 3 (those who worked part-time). Some women depended more than others on financial planners to guide their financial choices. In general, financial advisors appeared to have encouraged WDC participation and "maxing out" WDC contributions.

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When the stock market tumbled in 2008, few participants recalled receiving any guidance from the WDC. The women wished they had received more guidance from the WDC, even though they did not expect hands-on advice concerning individual investment decisions. Although the WDC has offered for-fee financial planning and a managed account service since mid-2008, many women were unaware of these services. Perhaps because of their sense of personal ownership of their WDC accounts, the women called for more financial literacy education. One participant reported, "I wish I had more opportunities to come and educate myself somewhere. Financial literacy is something I missed out on somewhere along the way when I was, you know, paying bills. I think it would be great if they did." In some areas it was clear that more education would be beneficial.

Analysis of a survey of WDC participants and nonparticipants, only recently available, is expected to provide information on how participation and contributions may be shaped by other economic and family-related factors, and how the WDC might be able to increase account participation, contributions, and growth among both women and men.

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