Understanding Gender Disparities in Tax-Deferred Retirement Account Balances: Saving through the Wisconsin Deferred Compensation Program

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Abstract

The purpose of this study is to increase understanding of the sources of observed gender disparities in retirement savings. We use administrative data for the Wisconsin Deferred Compensation (WDC) program and data from a survey of WDC participants to analyze predictors of observed gender disparity in WDC account balances. WDC is a tax-deferred voluntary retirement 457 plan offered to individuals holding jobs covered by Wisconsin’s public pension system. Thus, observed gender differences in account balances is not due to women’s less likely coverage by a traditional pension program.

Using WDC administrative data, we find that female and male employees are equally likely to participate in WDC, but women contribute a smaller percentage of salary than do men with the same salary and of the same age. Our survey of WDC participants confirms this finding. Even when controlling for other family and employment factors, women contribute a smaller share of salary. Lower contribution ratios are an important reason for lower WDC account balances of women. However, when taking account of contribution rates, age, salary, and years of WDC covered service, gender remains predictive of lower average WDC accounts for women. There is some, though limited evidence of gender differences in investment strategies.

Conclusions

The lower retirement savings of women is not a story solely of women’s working in jobs less likely to be covered by pensions and of their lower pay. The individuals studied here are all covered by the Wisconsin Retirement System (WRS) which pays them the higher of a formula benefit or an annuity based on the accumulated employer and employee contributions, thus acting like a DC plan for separating employees. Employees covered by WRS are eligible to contribute to WDC, a plan which has advantages over other tax-deferred options, especially for more mobile workers. Retirement savings options are equivalent for all in our study.

While women and men participate at the same rate, women contribute less to WDC even when controlling for salary, age, years and hours of work, and marital status. We explored whether spouses’ work and retirement contributions played a role, and found they did not. We also find that women may select less diverse investments. The less diversified accounts of women suggests the importance of knowledge about financial risks to retirement security.

More research is needed on why when faced with the same opportunities, women still save less than do men. Our finding that education level matters and the less diversified accounts of women suggests the importance of knowledge about financial risks to retirement security.