The Gender Gap in Pension Wealth: Is Women's Progress in the Labor Market Equalizing Retirement Benefits?

Richard W. Johnson

PENSION BENEFITS FROM PAST EMPLOYERS are an important source of retirement income. In 1994, private pension income averaged $4,330 per year among elderly pension recipients, accounting for 24 percent of their household income, according to data from the Bureau of the Census. Pensions have also been growing in importance over time. For example, in 1996, 30 percent of elderly households received income from private pensions, compared with only 20 percent in 1976. Current retirees receive most of their pension income from traditional defined benefit (DB) plans, in which benefits are determined by formulas that generally depend on final salary and years of service with the employer. Defined contribution (DC) plans, which can either replace or supplement DB plans, are growing rapidly and will account for a substantial portion of pension income in the near future. In DC plans, employers and employees typically contribute to individual tax-deferred savings accounts, from which pension benefits are paid upon retirement.

An important concern for pension policy is the unequal distribution of benefits. Almost one-half of full-time wage and salary workers lack pension coverage on their current jobs. Workers with coverage tend to be economically advantaged in many ways. Covered workers generally are well educated, work for large firms, and earn high wages. A recent study by the National Bureau of Economic Research concluded that accumulated pension wealth—defined as the present value of the future stream of pension benefits—was more unequally distributed than overall household wealth among persons ages 51 to 61 in 1992. This finding is especially notable because most financial assets are concentrated among a relatively few wealthy households. In part because of the unequal distribution of pension benefits, income inequality within cohorts increases as they enter old age, despite the redistributive features that have been built into the Social Security system.

Differences in pension wealth are especially pronounced between men and women. Elderly women are less likely to receive pension income than elderly men, and women with pension income receive lower benefits on average than men. As reported in figure 1, 34 percent of men ages 65 or older received pension income in 1996, compared with only 18 percent of women. Although the percentage of elderly women receiving pension benefits doubled from 1976 to 1996 and increased even during the past 10 years, when the percentage of elderly men with pension income stagnated, aged women remain only about half as likely as aged men to receive pension income. In addition, women with pensions generally receive much less pension income than men. In 1996, for example, pension income for women averaged $3,679, compared with $6,442 for men, as reported in figure 2. The gender gap in pension income has actually worsened over the past 20 years. In real terms, median pension income did not increase from 1976 to 1996 among female recipients, whereas it increased about 13 percent for men.

Despite the low levels of pension income received by women who are currently retired, an examination of pension wealth for current workers presents a more optimistic picture of the economic well-being of female retirees in the near future. Because retirement income depends on benefits that accrue throughout one’s work-
ing life, information on current workers can provide important insights into the level and distribution of expected retirement income for future cohorts of elderly persons. Rapid changes in the labor market experiences of women over the past 25 years suggest that patterns of pension wealth may be quite different for women approaching retirement than for women who are already retired.

**PENSION COVERAGE ON THE CURRENT JOB**

Differentials in rates of pension coverage between men and women have contributed to the large gender gap in pension income after retirement. However, the gender gap in pension coverage has been narrowing steadily since the early 1970s. (See figure 3.) In 1972, only 38 percent of women employed full time in the private sector as wage and salary workers had pension coverage on the current job, compared with 54 percent of men. Over the next two decades, pension coverage increased steadily for women but declined somewhat for men. As a result, pension coverage rates on the current job are now almost identical for men and women who work full time. In 1993, 51 percent of men and 48 percent of women who worked full time in private-sector wage and salary jobs participated in pension plans.

Data from the Health and Retirement Study (HRS) provide insight into some of the underlying causes of gender differences in pension coverage. The HRS, a national representative survey of men and women ages 51 to 61 in 1992, provides an especially rich source of information on pension coverage and pension wealth for a large sample of persons nearing retirement. It is especially important to examine coverage near retirement, because pension wealth in DB plans generally increases sharply
in the years immediately prior to the plan’s retirement age. Consequently, in terms of future pension income, pension coverage at midlife is more important than coverage earlier in the life course.

Among full-time wage and salary workers ages 51 to 61, 68 percent of women and 75 percent of men participated in pension plans on the current job in 1992. (See table 1.) Considering men and women together, 30 percent of workers were covered by a single DB plan on the current job, 22 percent were covered by a single DC plan, and 20 percent had combination coverage, defined as more than one plan from the current job (generally a combination of DB and DC plans). The entire gender gap in pension coverage arose from differences in combination coverage. Only 16 percent of women had combination coverage on the current job, compared with 24 percent of men.

Wages are an important determinant of pension coverage. The probability of pension coverage on the current job increases with the wage the worker earns. For example, pension coverage among full-time workers earning $6 or less per hour was only 26 percent, compared with 90 percent for full-time workers earning more than $15 per hour. (See table 2.) At every wage level, women were at least as likely as men to participate in pension plans. To a large extent, the gender gap in pension coverage (which is fairly small to begin with) results from the preponderance of women in low-paying jobs, not differential treatment of women and men with similar job characteristics. For example, only 17 percent of women in the sample working full time were earning more than $15 per hour, compared with 47 percent of men. Additional evidence from the HRS suggests that about two-thirds of the gender gap in pension coverage is attributable to gender differences in wages earned on the current job.

## Pension Wealth

Participation in pension plans would not necessarily protect the economic well-being of women in retirement if they received only small benefits. Thus, it is important to compare the expected stream of future pension benefits for men and women with pension coverage. By examining accumulated pension wealth for current workers instead of pension income for retirees, it is possible to relate expected future benefits to the characteristics of the job on which they were earned, in order to better understand the determinants of pension income. Also, in light of the rapid changes in the labor force behavior of women over the past few decades, pension income received by elderly women today is not necessarily a reliable indicator of the level and distribution of benefits that future cohorts of elderly women are likely to receive.

Estimates of pension wealth are difficult to generate. Although surveys sometimes ask respondents about the level

### Table 1

Pension Coverage on the Current Job among Full-Time Wage and Salary Workers, Ages 51–61, 1992

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Men (%)</th>
<th>Women (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any type of plan</td>
<td>75.2</td>
<td>68.4</td>
<td>72.2</td>
</tr>
<tr>
<td>DB plan only</td>
<td>30.0</td>
<td>30.6</td>
<td>30.2</td>
</tr>
<tr>
<td>DC plan only</td>
<td>21.4</td>
<td>22.2</td>
<td>21.8</td>
</tr>
<tr>
<td>Combination coverage</td>
<td>23.8</td>
<td>15.6</td>
<td>20.2</td>
</tr>
</tbody>
</table>

of pension income they expect to receive upon retirement, most workers are not well informed about their future retirement benefits. A better approach is to collect information from pension providers, who can supply the details of the complex formulas that determine the level of benefits in DB plans and level of contributions made to DC plans. In the HRS, summary plan descriptions (which included information about retirement ages, vesting requirements, employee and employer contributions to the plan, cost of living adjustments, Social Security offsets, and the formulas on which benefits are based) from pension plan administrators were matched with information about respondents, including wages and years of service, to generate estimates of pension wealth.

Gender differences in pension wealth on the current job among covered full-time wage and salary workers at midlife are much larger than the observed differences in pension coverage. Median pension wealth on the current job for covered men ages 51 to 61 in 1992 was $120,193, compared with only $68,118 for covered women, representing a 76 percent advantage for men. (See figure 4.) Pension wealth was substantially higher for men than women among all demographic and educational groups. For both men and women, pension wealth increased with education, years of job tenure, firm size, and hourly wage. Among men, whites had accumulated 43 percent more pension wealth by midlife than nonwhites. Although substantial, the racial gap in pension wealth was significantly smaller than the gender gap. Among women, nonwhites had higher pension wealth at midlife than whites, reflecting the stronger attachment to the labor force among nonwhite women than white women in this cohort.

Gender differences in pension wealth may arise because men and women have different personal and job characteristics or because a given set of characteristics leads to different levels of pension wealth for women than for men. Models that relate pension wealth to worker characteristics (education, race, marital status) and job characteristics (years of job tenure, industry, occupation, union membership, firm size, and hourly wage) can be estimated to decompose the gender gap into the

<table>
<thead>
<tr>
<th>Hourly Wage</th>
<th>Distribution of Wages (%)</th>
<th>Pension Coverage (%)</th>
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<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>$6 and under</td>
<td>6.8</td>
<td>14.9</td>
</tr>
<tr>
<td>$6.01–$10</td>
<td>19.2</td>
<td>38.5</td>
</tr>
<tr>
<td>$10.01–$15</td>
<td>27.5</td>
<td>29.2</td>
</tr>
<tr>
<td>More than $15</td>
<td>46.5</td>
<td>17.4</td>
</tr>
</tbody>
</table>

portion due to gender differences in characteristics and the portion due to differences in returns to those characteristics. The portion of the gender gap in pension wealth that is due to differences in characteristics is said to be the “explained” portion, because that part of the gender gap might be eliminated if men and women had identical observable characteristics. The portion that is due to differences in returns is more problematic, because it suggests that men and women with identical observable characteristics are treated differently, perhaps because of labor market discrimination or gender differences in tastes for deferred compensation.

The explained portion of the total gap in pension wealth can be computed in two different ways. It can be estimated as the sum of gender differences in characteristics, weighted by the male returns to those characteristics. Alternatively, gender differences in characteristics can be weighted by the female returns. The two approaches can give different results depending on how the distribution of returns varies by gender. Since neither approach is necessarily better than the other, the true portion of the gender gap that can be explained by differences in observable characteristics between men and women is generally thought to lie somewhere between the estimates derived from the two different approaches.

The results of the decompositions are presented in figure 5. The graph displays the percentage of the total gender gap in pension wealth that results from gender differences in a given characteristic, holding other characteristics constant. To indicate the full range of estimates, the explained portion of the gender gap is reported when differences in characteristics are weighted by female returns and when they are weighted by male returns. As the figure shows, somewhere between 36 percent and 39 percent of the gender gap would be eliminated if work experience with the current employer were equalized for men and women, all else constant. If men and women earned identical wages, the gender gap would be reduced by at least 18 percent and as much as 61 percent, depending on how the gender gap is decomposed. Equalizing other characteristics would have very small effects on gender differences in pension wealth. (For certain variables, such as marital status, eliminating the gender difference would slightly increase the gender gap in pension wealth, because the actual distribution favors pension wealth for women.) If all characteristics in the model were identical for men and women, the decomposition based on female returns predicts that two-thirds of the gender gap in pension wealth would disappear, while the decomposition based on male returns predicts that the entire gender gap would disappear. Thus, the results of the model suggest that differential labor market returns due to human capital and other variables between men and women are not the primary cause of gender differences in pension wealth. Rather, it is predominantly differences in personal and job characteristics between men and women that lead to relatively low pension wealth for women. In particular, the low wages earned by women working full time at midlife and their relatively short job tenures appear to be primarily responsible for their poor retirement prospects.

**PROSPECTS FOR PENSION WEALTH OF FUTURE COHORTS OF WOMEN**

The overall economic status of the elderly has improved markedly over the past few decades. Between 1976 and 1996,
real median income for elderly households increased 23 percent, according to census data, while real median income for all households increased only 6 percent. Poverty rates are now lower among the elderly than among the general population. Even so, elderly women continue to receive much less income than elderly men. In 1996, for example, median income for elderly women was only 58 percent that of elderly men. Much of the income gap can be attributed to gender differences in pension benefits. Increasing the level of pension benefits women receive and reducing the gender gap in pension wealth is an important public policy issue that could provide valuable economic security to vulnerable elderly women.

The fair and equitable treatment of women in the labor market is another important policy goal. Although most studies of gender inequality in the workplace focus on male-female differences in wages, pension wealth often represents a substantial portion of total compensation. Large gender differences in pension wealth could offset at least part of the large gains in wages that women have achieved in recent years.

For women who are currently retired or approaching retirement age, pension wealth is quite low. Among the elderly, women are only about half as likely as men to receive income from private pensions, and women with pension income receive benefits that are only 57 percent as large as men’s, on average. Among full-time workers at midlife, accumulated pension wealth is also only 57 percent as large for women as for men, although the probability of pension coverage among full-time workers is only slightly lower for women than for men. Moreover, differences in monthly pension income between men and women who are about to retire are probably larger than these estimates indicate. Because life expectancy is greater for women than for men, a given level of pension wealth translates into lower monthly benefits for women.7 In addition, among middle-aged persons not working full time, men are more likely than women to be receiving pension income, so by focusing on full-time workers we are understating the difference that exists in the entire population of middle-aged Americans.8

Nonetheless, the research described here suggests that pension income will improve substantially for women who begin to retire over the next few decades. Evidence from the HRS indicates that most of the gender gap in pension wealth among full-time wage and salary workers at midlife arises from differences in job characteristics between men and women. Labor market discrimination against women, gender differences in tastes for pension income, and other unobservable factors affecting pension income appear to account for only a small part of the gender difference in pension wealth.

The dramatic reduction over the past 30 years in gender differences in employment characteristics suggests that the gap in pension wealth between men and women will narrow over the coming years. Women’s labor force participation, years of work experience, and earnings have all been increasing, both in absolute terms and relative to men, since members of the Baby Boom cohort began reaching adulthood in 1970. From 1970 to 1995, labor force participation rates increased 26 percent for women ages 35 to 44 while declining 6 percent for men at the same ages. During the same period, real weekly wages among full-time workers ages 35 to 44 increased 20 percent for women and fell 13 percent for men.9 Although young women are still less likely to work than men and continue to earn less than men when they do work, the likely result of these trends will be greater pension wealth for women, leading to more equitable labor outcomes for working women and improved economic security for retired women.

Pensions are just one source of retirement income. Economic security in later life also depends on Social Security benefits, savings, and earnings. The available evidence suggests that many of these other sources of retirement income are increasing for women as well. For example, through midlife, members of the leading edge of the Baby Boom cohort, who will begin to reach age 65 after 2010, had received more income and had accumulated more assets than their parents had at the same stage of the life course, suggesting that retirement prospects have improved over time for both men and women.10 In addition, comparisons of the size and composition of assets held by married couples approaching retirement in 1992 with those held by couples in 1969 indicate that wives who become widowed today would be substantially better off than widows in the past. The improvement in the economic security of wives appears to come primarily from increases in private pension wealth, conventional assets, and women’s earnings.11

For women, the problem of limited pension wealth has largely been a problem of low earnings. The recent narrowing of the gender gap in wages, coupled with increases in job experience for women, is the strongest indication that pension wealth for women will increase in coming decades. However, the continued existence of the gender gap in wages, which has persisted for decades, might lead some observers to argue that gender differences in pension wealth will never completely disappear. Recent research indicates that about 10 percent of the gender gap in wages remains unexplained after controlling for differences in observable characteristics between men and continued on page 8
About the Author
Richard W. Johnson is an economist in the Urban Institute’s Income and Benefits Policy Center. His current research focuses on retirement behavior and how it is influenced by the availability of health insurance, the care of elderly parents, and the labor supply of spouses.

The Retirement Project
The Retirement Project is a multiyear research effort that will address how current and proposed retirement policies, demographic trends, and private-sector practices affect the well-being of older individuals, the economy, and government budgets. The project is made possible by a generous grant from the Andrew W. Mellon Foundation.

ENDNOTES


6 These pension wealth estimates assume that all workers remain with their current employers until age 65, at which time they begin to collect benefits. For workers in DB plans, estimated wealth was based on the assumption that benefits were received as single-life annuities. The value of the annuity was estimated using separate life tables for men and women. The annual inflation rate was assumed to equal 4.0 percent, the real interest rate was assumed to equal 2.3 percent, and wages were assumed to grow at a real annual rate of 1.0 percent. These assumptions correspond to the intermediate projections of the rates of interest, inflation, and wage growth used by the Social Security Administration in 1996 to assess the financial condition of the Old-Age, Survivors, and Disability Insurance trust fund.

7 For workers with DB plans, pension wealth was estimated by taking the present discounted value of the stream of monthly benefits, under the assumption that all beneficiaries opted for single-life annuities, which pay benefits until the death of the beneficiary. The present value of this stream of benefits was adjusted for survival probabilities, using gender-specific life tables. Since women are expected to live longer than men, a given monthly benefit will translate into higher pension wealth for women than for men. Conversely, a given level of DB pension wealth implies lower monthly benefits for women than for men. For workers in DC plans, pension wealth was computed as the present value of the estimated account balance at age 65. Except for workers who receive their DC benefits in the form of annuities from their employers, which by law must be computed using sex-neutral life tables, a given account balance also translates into lower monthly benefits for women than for men because women tend to live longer.

8 In the HRS, 19 percent of male respondents ages 51 to 61 who were not working full time received pension income, compared with only 7 percent of women not working full time.


13 Grad, Susan. 1998. op. cit.


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women and may result from discrimination against women in the labor market. Although the models reported here indicate that discriminatory behavior does not directly affect women’s pension wealth in a substantial way, it may play an important indirect role by reducing the wages women earn.

In the past, women’s pension wealth has been limited by a number of factors. In virtually all pension plans, benefits are based on past earnings and time spent on the job. In traditional DB plans, pension income is generally computed as a specified fraction of some measure of final earnings times years of job tenure. In DC plans, in which future benefits are determined by the amount of funds that have accumulated in the worker’s individual account, account balances typically increase over time, and plan contributions from both employers and employees generally increase with wages. In both types of plans, then, men’s traditional advantages in wages and years of job experience led to higher pension wealth for men than for women.

As women’s employment histories and earnings increasingly resemble men’s, the factors that have contributed to women’s low pension wealth are becoming less prevalent, suggesting that women’s pension income is likely to rise substantially over the next quarter-century. However, the improvement in pension income will not solve all of the economic problems confronting elderly women. In particular, eliminating the gender gap in pension wealth is unlikely to reduce the high rates of poverty among elderly widows. In 1996, for example, 19 percent of unmarried elderly women were impoverished, compared with only 11 percent of all elderly persons. Most poor elderly widows have limited education and little labor market experience, even relative to other women in their cohort, and were usually married to men who lacked pension benefits. Efforts to protect these women should focus on their low skills and lifetime of low income, not their gender.

In upcoming decades, the gender gap in pension wealth may not be a critical concern for women nearing retirement. Instead, the principal challenge for such women may be the increasing popularity of DC plans, which are supplanting DB plans as the most common type of retirement benefit. Increasing numbers of both men and women are subject to the risks inherent in DC plans, in which future benefits are not guaranteed and instead depend on the market returns earned by plan contributions. A special concern is that, as they become responsible for investing their own pension funds, many workers, especially women, are pursuing overly conservative investment strategies that will lead to relatively low retirement benefits.