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Why Women Have Less Wealth and What Can Be Done About It

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FOR MARIAH, CLAIRE, AND SARAH

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Acknowledgments

The initial idea for this book came to me one afternoon during my commute home from Cambridge, Massachusetts. At that time, I was fairly new to Massachusetts and was still actively getting to know the local radio stations. In search of which stations to add to the preset selections in my car, I came across an AM radio station dedicated to financial issues. On this particular afternoon, two day traders were talking about the market (which at that time was still experiencing "irrational exuberance") and I was struck by two things. First, I realized that I knew close to nothing about the stock market and investing. Second, I was struck by the gendered language the day traders used to talk about the market. Being a sociologist, I couldn't help but think that access to financial information and knowledge was surely related to both social class and gender. These initial thoughts eventually led me to the topic of women's wealth. For the initial inspiration that led to this book, I thank these two day traders, wherever they may be.

Just like it takes a village to raise a child, it takes a community to bring a book to fruition. I have benefited from the support and feedback from many people whose contributions both made this book possible and greatly improved the end result. Numerous colleagues gave helpful advice, feedback, and encouragement at various stages of the book and the publication process. I am particularly grateful to Andy Andrews, Denise Bielby, Prudence Carter, Jessica Gordon Nembhard, David Grusky, Lowell Hargens, Ann Hironaka, Jason Kaufman, Stan Lieberson, Meizhu Lui, Sue Monahan, Kathy Newman, Barbara Reskin, Tom Shapiro, Mark Suchman, and Bill Wilson. I also wish to thank Audrey Alforque-Thomas, Stephanie Howling, and Renee Richardson for their assistance in conducting some of the interviews. Terese Leung and Stephanie Howling also provided invaluable research assistance at various stages of the project. Mary Quigley's administrative support and Cheri Minton's technical expertise contributed to the research and writing of the book. My editor, James Cook, always challenged me to revise and refine my arguments and I appreciate his hard work and guidance through the publication process. I thank the many others working behind the scenes at Oxford University Press for their contributions as well. Anonymous reviewers raised important counterarguments and provided constructive criticisms that made the book much stronger. Susan Allan made the words flow more smoothly and removed unnecessary jargon. I am also grateful for the generous financial support from the Russell Sage Foundation and from Harvard University.

I offer my heartfelt thanks to my family. My husband, Paul, provided unwavering encouragement. He never failed to garner enthusiasm for the book, even when I was less than enthusiastic myself. My daughters, Mariah, Claire, and Sarah, may not even realize that this book is a gift to them (and the other girls in their generation for whom I hope this topic will be obsolete). At times, my daughters probably wondered why I spent so much time and energy working on this book, but they were still willing to give me the hugs that sustained me. They kept me grounded and helped me remember what is most important in life. My mother, Marjorie, sister, Michiko, and sister-in-law, Helen, also provided valuable emotional support, even if they did not know it.

I owe the deepest respect and gratitude to the men and women who agreed to be interviewed. Their experiences and voices are an invaluable part of the book and I can't imagine the book without them.

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ONE

The Women's Wealth Gap

What Is It and Why Do We Care?

It is fitting that with the very first bill that I sign—the Lilly Ledbetter Fair Pay Restoration Act—that it is upholding one of this nation's founding principles: that we are all created equal.... while this bill bears her name, Lilly knows this story isn't just about her. It's the story of women across this country still earning just 78 cents for every dollar men earn—women of color even less—which means that today, in the year 2009, countless women are still losing thousands of dollars in salary, income, and retirement savings over the course of a lifetime....

So signing this bill today is to send a clear message: That making our economy work means making sure it works for everybody. That there are no second class citizens in our workplaces, and that it's not just unfair and illegal—it's bad for business—to pay somebody less because of their gender, or their age, or their race, or their ethnicity, religion, or disability.

—President Barack Obama

On January 29, 2009, President Obama signed the Lilly Ledbetter Fair Pay Act into law. The legislation derives its name from a supervisor at a tire factory in Alabama who, after almost 20 years of employment, received an anonymous note containing the salaries of three other male supervisors. At that time, the sole woman among sixteen supervisors, Ledbetter was the lowest paid person in her position, earning $3,727 per month. Salaries for the fifteen men in her plant who held the same position ranged from $4,286 to $5,236 per month, despite some having less seniority and experience.[1] Ledbetter's salary inequity resulted from smaller raises (allegedly due to discriminatory evaluations), which formed the basis for subsequent raises that resulted in a substantial pay gap over time. After learning of the pay inequities, she filed a wage discrimination lawsuit, and a jury decided in her favor.

The Court of Appeals for the Eleventh Circuit reversed the verdict, ruling that her claim was filed past the deadline of 180 days from when the discriminatory pay decision occurred and that each subsequent pay check did not "reset" the 180-day deadline. The Supreme Court upheld this decision in a 5–4 ruling.[2] The Lilly Ledbetter Fair Pay Act nullifies this ruling,[3] and although Ledbetter will not receive any money as a result of the legislation, the act is intended to help other women fight wage discrimination based on sex.[4]

The Lilly Ledbetter Fair Pay Act illustrates the problem of pay discrimination and the need to eliminate the wage gap between men and women. The gender wage ratio—that is, the ratio of women's to men's median annual earnings—is now at 77.8%, an all-time high, and women under age 25 working full-time now earn 95% of what their male peers earn, almost closing the gap, at least in the early stages of their working careers.[5] More than 25% of women in two-earner families make more than their husbands, and in major cities such as New York, Boston, Chicago, Dallas, and Minneapolis, women ages 21–30 are now out-earning the men their age.[6] In addition to having made impressive gains with respect to income, women are also now more likely than men to complete college.[7] It would seem that financial gender equality may and should be in reach.[8]

While all these economic gains are impressive, they mask a major and often overlooked fault line of women's financial security—the women's wealth gap. Women may make 78% of what men make, but they own only 36% as much wealth. In discussing the financial standing of women in America, a focus on income is misleading because wealth is a much more meaningful measure of economic well-being. In fact, in this book I argue that a women's wealth gap would persist even if the gender income gap were eliminated. There are two basic reasons for this persistence: (1) men have greater access to the *wealth escalator*, which translates income into wealth at a faster rate, and (2) women are more likely to shoulder the financial burden of single parenthood and therefore have less disposable income with which to generate wealth even if they have the same incomes as men. While income is no doubt important to women's economic security, I argue here that we need to shift our attention to gender differences in wealth to understand fully how women might attain financial equality.

What Is Wealth?

Wealth and income are sometimes related, but they are not the same. *Income* refers to the amount of money received by an individual or household during a specific period of time, such as a month or a year. Most people's income is made up primarily of earnings from a job. Other common forms of income are interest on savings or checking accounts, gifts from family or friends, Social Security, government assistance, pension benefits, rent received from property owned, and child support. In other words, it doesn't matter what the source is: any money that enters a person's wallet (or purse) is considered income.

A person's *wealth*, or *net worth*, refers to the total value of her financial and nonfinancial assets minus her debts (table 1.1).[9] *Financial assets* include money held in checking or savings accounts, bonds, the market value of stocks or mutual funds, and money that can be withdrawn from retirement accounts and from some life insurance policies. *Nonfinancial assets* include real estate, the market value of any businesses that can be sold, and other valuable assets such as jewelry or artwork. Debts, in contrast, subtract from wealth and come in a variety of forms, such as mortgages, credit card debt, and student loans. Although most people do not typically think of wealth as being negative, when the value of a person's debts is greater than the total value of her assets, "negative wealth" is the result.

TABLE 1.1. Types of assets and debts used to calculate wealth

Assets

Financial assets

- All types of transaction accounts (money market accounts, checking accounts, savings accounts, call accounts)
- Certificates of deposit (CDs)
- Directly held pooled investment funds, excluding money market funds (stock mutual funds, tax-free bond mutual funds, government-bond mutual funds, other bond mutual funds, combination and other mutual funds)
- Savings bonds
- Directly held stocks
- Directly held bonds (excluding bond funds or savings bonds)
- Cash value of whole life insurance

(*continued*)

TABLE 1.1. (continued)

- Other managed assets (annuities, trusts)
- Quasi-liquid retirement accounts[a] (individual retirement accounts/Keoghs, account-type pensions [401(k), 403(b), etc.], future pensions, currently received account-type pensions)

Nonfinancial assets:

- Primary residence
- Residential property other than primary residence
- Net equity in nonresidential real estate
- Businesses
- Other miscellaneous financial or nonfinancial assets

Debts

- Debt secured by primary residence (mortgages, home equity loans, home equity lines of credit)
- Debt secured by other residential property
- Other lines of credit
- Credit card balances
- Installment loans (education loans, vehicle loans, other installment loans)
- Other debt (loans against pensions or life insurance, margin loans, loans from individuals, etc.)

[a]Includes the portion that can be borrowed against and is therefore available for use.

Wealth is a superior indicator of financial status because it embodies the total economic resources available to its holder and has several distinct benefits that income does not. For example, wealth gives people a financial cushion to help them make ends meet if their incomes are cut because of illness, divorce, job loss, or emergencies. Savings accounts are probably the best known type of financial buffer, but other assets can sometimes serve this role. Stock can be sold, a home can be used as collateral for a loan, and it is sometimes possible to borrow against a retirement account.

A second important benefit of wealth is that it can be handed down from generation to generation, making it one of the most powerful and entrenched aspects of privilege and inequality. So while an employee cannot transfer the job that provides his salary to his daughter when he dies, the owner of a family business (a form of wealth) can leave that asset to his child when he dies. The ability to transfer wealth is a primary reason that wealthy families remain wealthy from generation to generation.

Third, wealth can generate income that may make its holder less dependent on having to work for a living. For some, wealth may provide the ability to do something that they enjoy but that doesn't pay well. And people with extensive wealth may be able to avoid working entirely.

Fourth, wealth provides opportunities for shaping social and political agendas. Contributions to political candidates, to issue-oriented organizations, and to foundations are some of the ways that wealth shapes the nation's priorities and economic, political, and social trajectories.[10] Through philanthropy, the wealthy may facilitate social change or support the status quo in ways that others cannot. The women's wealth gap is relevant here because men and women have different preferences for giving. Women are more likely to donate to social service organizations that help others in need and to environmental groups,[11] whereas men are more likely to give money to private foundations.[12] The women's wealth gap therefore has implications beyond individual well-being, influencing the broader social, political, and economic priorities and activities of society.

What Wealth Reveals That Income Does Not

Having a high income does not necessarily mean that a person has a great deal of wealth. High-income celebrities such as Burt Reynolds, Kim Basinger, and MC Hammer have declared bankruptcy. Celebrities are not the only high-income people who face bankruptcy. A study of bankruptcy in five states reveals that the percentage of bankruptcy filers with incomes of $100,000 or more ranged from a low of 2.6% in Tennessee to a high of 7.1% in California.[13] While the reasons for bankruptcy vary, such cases illustrate that high incomes and wealth do not necessarily go hand in hand.

The opposite is also true. Many wealthy individuals lack high incomes. As an example, consider the situation of some retired people: they may own outright a house that is worth a great deal of money and thus have no mortgage to pay. They may also have substantial assets in stocks or other securities that are worth a lot of money but that don't provide much income. On paper, these individuals may even be worth millions of dollars, but their *incomes* are actually below average.

Wealth is much less equally distributed than income. In 2004, the top 1% of the U.S. population earned 17% of the total income but owned 34% of the total wealth (see figures 1.1 and 1.2).[14] In contrast, the bottom 40% of the population earned 10% of the total income but owned only 0.2% of the total wealth. In that same year, the wealthiest

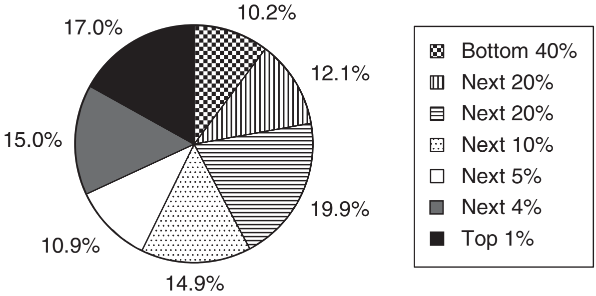

FIGURE 1.1. Percentage of Total Income Received by Percentile Group, 2004. *Source*: Wolff, Edward N. 2007. "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze." Levy Economics Institute Working Paper No. 502. www.levy.org/pubs/wp_502.pdf.

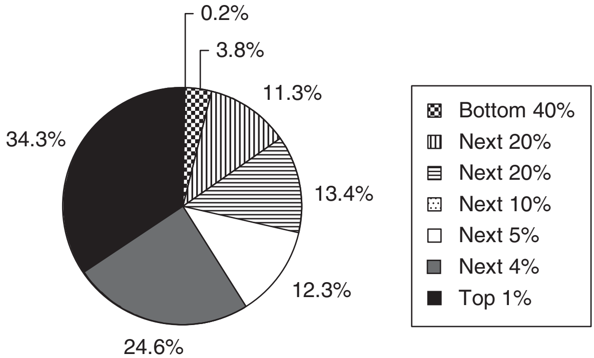

FIGURE 1.2. Percentage of Total Wealth Owned by Percentile Group, 2004. *Source*: Wolff, Edward N. 2007. "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze." Levy Economics Institute Working Paper No. 502. www.levy.org/pubs/wp_502.pdf.

20% of households held 85% of the total wealth. The magnitude of income inequality pales in comparison to that of wealth inequality.

Compared to other industrialized countries, the United States exhibits particularly extreme wealth inequality.[15] The tremendous disparity in wealth is the greatest economic fault line in American society and one that is becoming even deeper: between 1983 and 2004, the top 1% experienced a 78% increase in their average wealth whereas the bottom 40% of the wealth distribution saw their wealth decline by 59%.[16] Another way to examine wealth inequality is to compare the wealthiest Americans to the typical American (as represented by the median). In 1962, the wealthiest 1% of Americans held 125 times the median wealth, and by 2004, the wealthiest 1% of Americans held 190 times as much wealth as the typical American.[17]

If we examine how wealth is distributed across society, we can observe inequities that are hidden by the distribution of income. For example, never-married women working full-time earn 95% as much as never-married men working full-time, but women in that group own only 16% as much wealth: never-married men working full-time have a median wealth of $20,000 whereas their female counterparts have a median wealth of $3,150. This comparison is even more striking given the fact that the wealth gap is much larger for never-married women than for other groups of women, even those who experience a much larger earnings gap. In today's tough economy, when layoffs are frequent and unemployment is at record levels, never-married women have a much smaller safety net than other workers. They have very limited resources should they lose their job or face unexpected medical bills or other emergencies.

Clearly, wealth is a much better indicator of economic status and economic well-being than income. It provides a better picture of who is economically vulnerable, who is financially secure, and variations in between.

Why Study Gender Differences in Wealth?

Some may wonder if gender differences in wealth are important. After all, don't most men and women marry, rendering any gender wealth differences relatively unimportant? Actually, about half of all households are headed by single (never-married, widowed, or divorced) persons,[18] which makes the wealth gap between men and women a reality for a large percentage of people. Also, prominent social circumstances prevent women from closing the wealth gap through marriage. First, protection that is offered by marriage will disappear for large groups of women, since about half of all marriages end in divorce.[19] Second, men and women are marrying at later ages,[20] leaving women with more years in which they are self-supporting. In fact, women now spend more of their adult years single than married.[21] In addition, the women's wealth gap is central to understanding the racial wealth gap—particularly for black households—because black women are less likely to marry and to remain married.[22] In short, many men and women spend large portions of their lives unmarried, so the women's wealth gap is quite significant for many. And given the current trends of rising rates of divorce, increasing numbers of children born to unwed parents, and rising ages at first marriage, I argue that the wealth gap is of growing significance. Furthermore, because black women are less likely to marry and are more likely to be single mothers than white women, the racial wealth gap cannot close unless the gender wealth gap closes.

Despite the important role that wealth plays for understanding inequality along racial and class lines,[23] there is no comprehensive study of gender inequality in the amounts and forms of wealth that exist in the United States.[24] One possible explanation for this lacuna is that gender is an individual characteristic; data on wealth, on the other hand, are usually collected at the level of the household or family.[25] And when data are collected by household, the economic or class standing of the members of the household is determined by the head of the household, usually assumed to be the male.[26]

Because existing data on wealth were collected for households and not individuals within the household, studying gender differences in wealth for married and cohabitating persons is particularly challenging. Some may argue that there is no gender inequality in wealth in marriage because husbands and wives are equal owners of marital wealth. Yet a large body of research reveals that household wealth is rarely owned or controlled by all household members equally. Men often make the major financial decisions and control how money is spent or invested. While married couples may pool resources, social scientists have demonstrated that there are unwritten rules regarding the management and control of these joint resources, as well as the freedom to spend them.[27]

Marriage and Wealth

Sociologists studying power dynamics within families have shown that if one partner is economically dependent on the other, the more dependent partner will have less power in the marriage.[28] Since women often earn less than men, they are more likely to be the economically dependent spouse. Women's economic dependency has been identified as a primary mechanism contributing to gender inequality more broadly.[29] For example, economic dependency makes it more difficult for women to leave dysfunctional marriages and abusive relationships.

Even in less extreme situations, a woman's economic dependency often renders her needs or desires secondary since she is not the one bringing in the money. It also sets the stage for further economic dependency. For example, if a couple with a new baby would like one parent to stay home, even the most egalitarian couples will likely decide that, all else being equal, the one who earns less and has lower potential future earnings should exit the labor force.[30] Women's economic dependency thus reinforces the traditional division of labor, in which men work in the labor market for money and women take care of the family. Although women's work at home is important and valuable, it is not financially rewarded. If a woman re-enters the labor market at a later time, her years at home rarely add to her reservoir of job-related skills, and no one in the United States earns pension or Social Security benefits for unpaid caregiving (although people in some other countries do).[31]

Examining many high-profile divorces, such as the very public 1997 divorce of Lorna and Gary Wendt, shatters the assumption that married men and women have equal ownership of household wealth. A highly placed executive with millions of dollars in property, stock options, and more, Mr. Wendt offered his soon-to-be ex-wife a settlement of about $8 million, but she sought $50 million, which equaled half of their estimated $100 million in assets at the time. Although Mrs. Wendt was awarded $20 million in the divorce settlement (more than her husband's original offer), it was a much smaller fraction of the marital assets than the half she had asked for.[32] In commenting on the settlement, economist Myra Strober (then-president of the International Association of Feminist Economics) stated: "When estates grow beyond a certain size, judges move away from equal distribution and over to the old doctrine of 'he who earns it owns it.'"[33]

While divorce settlements vary tremendously, women usually suffer more economic hardship following the end of a marriage.[34] Since approximately half of all marriages end in divorce, any gender inequities with respect to the ownership of household wealth become an unwelcome reality for many women.

Furthermore, although the majority of people do marry at some point in their lives, the average person spends a large proportion of her adult life as a single person. Gender differences in wealth are important for understanding the quality of life for most people. The typical woman may believe that she is sheltered from economic hardship because she is married and shares the family wealth equally, but this is true only for a small proportion of her adult years.

Even if married women do not get divorced, they are likely to outlive their husbands. Contrary to stereotypes about wealthy widows, widowhood is not a financial windfall for most women. The death of a husband is often accompanied by large out-of- pocket medical expenses incurred prior to death, which have often drained savings and sometimes even pushed the household into debt.[35] In fact, the economic consequences of widowhood for women are similar to the economic consequences of divorce.[36] Almost one in five widows lives in poverty, and elderly widows are three times as likely to live in poverty as elderly married couples.[37] The average age of widowhood for women is 60, and in the United States women's average life expectancy is 80 years,[38] leaving about a 25-year gap during which gender wealth differences are likely to have a powerful effect for married women whose partners are absent through death rather than divorce.

Gender Differences in Retirement Wealth

The one area in which gender inequalities in wealth have been studied is retirement wealth. Next to home ownership, retirement assets comprise the largest component of wealth for the middle class,[39] providing a good starting point for investigating the women's wealth gap.

Across all age groups, women have less retirement wealth than men. In 1998, among employed persons ages 18–62, for example, the average amount accumulated in pension plans was $57,239 for men and $25,020 for women.[40] To put it a different way, women had only 40% as much wealth in their pension plans as did men.

A gender gap exists in other forms of retirement assets as well. On average, women have 47% as much as men in their Individual Retirement Accounts (IRAs), with men's average balance equal to $56,429 and women's equal to $26,307.[41] Bear in mind that these figures are for people with jobs. Women are likely to move in and out of the labor force—to give birth and to care for children, to attend to sick elderly parents or other family members—and hence generally have fewer paychecks over their lifetime. This periodic absence from paid labor results in markedly less money in employment-related retirement accounts. The gender gap would be even larger if nonemployed persons were included in these figures.

Gender differences in labor market participation are an important cause of the retirement wealth gap. When examining a cohort of men