Women & Wealth:

Legacy Reexamines the Wealth Gap

Wealth can provide security, income and comfort throughout retirement, opportunities to your heirs, and can be passed down from generation to generation in the form of a family legacy. However, recent research shows there is still a disconnect between women and wealth: the "female wealth gap."[i]

What is the "female wealth gap?" This gap refers to the discrepancies in net worth between men and women. More specifically, it can translate to a woman at retirement age accumulating as much as $1,055,000 less than her male counterparts.[ii]

According to recent studies, disparity in net worth is further evidenced by the following statistics:

> *Women outnumber men at all levels of postsecondary education.*[iii]
>
> *Women with a master's degree or higher bring in an average $83,000 a year while men need only a bachelor's degree to report average earnings of $87,000.*[iv]
>
> *Nearly three-quarters of Americans who earn more than $100,000 are men.*[vi]
>
> *Due to less cash flow, women have restricted investing options if they want to reach their objectives.*[v]
>
> *Eighty-one percent of women worry they will run out of money by age 80.*[vi]

While the gap is undeniable, and research shows it can be significant, this doesn't mean it cannot be overcome. Understanding the factors that contribute to the female wealth gap is the key to finding an approach to wealth that can help bridge this gap and lead to long-term financial success.

WHAT CAUSES THE FEMALE WEALTH GAP?

A difference in financial compensation, career discontinuity, work flexibility, life expectancy, and risk tolerance are all gender differences that can accumulate, causing women to have less money available for investments. These factors lead to a loss of wealth over time and the eventual inability to meet financial goals long term. The result is that often times, even if women are financially comfortable, they may not meet their financial goals.

In spousal relationships, the male is more likely to control major financial decisions, even though women often control day-to-day household financial decisions. It can also be said that women make much better investors than men[vii] but are still left out of the investment conversation. Most financial relationships with advisors are "man-to-man." And we have to ask…why is this the case? In the following analysis we explore some of the factors that may contribute to the discrepancy.

DEMONSTRATING THE FEMALE WEALTH GAP

To better illustrate how women fall behind through a series of circumstances associated with their gender, we will explore a comparison between a young man and woman, both in their early 20's, with similar circumstances and financial objectives. For our purposes, we are assuming both have similar education levels and career paths. We will call them John and Sarah, and are using data from UBS's recently released article, *How women can best protect and grow their wealth.*

Looking at these two individuals, we see that both John and Sarah want to:

> *Buy a house at age 35.*
>
> *Enjoy a decent lifestyle during retirement.*
>
> *Preserve and grow their $1,000,000 inheritance.*

Frustratingly, despite all of these similarities, Sarah will have a significantly more difficult time achieving her financial goals than John – purely because of gender differences that add up over time.

Let's take a look at how gender differences can poorly influence Sarah's wealth as it compares to John's.

ASSUMPTIONS FOR SARAH AND JOHN

Before we get started, it's important to note that our analysis is only an illustration. In order to compare Sarah's and John's wealth journey as accurately as possible, we made the following realistic assumptions:

1. *We assume they both stay single, and their incomes are their own.*

2. *The gender pay gap causes Sarah's starting salary to be slightly lower than John's.*

3. *Sarah takes a short career break and part-time work around age 33[viii] that cause Sarah's salary to gross less than John's.*

4. *Sarah's expenses will grow less than John's due to earning less and having a limited amount to spend.*

5. *Sarah and John's pension and real estate rates will be the same.*

**Readers should not rely on the assumptions and outcomes detailed above to determine any investment strategies or draw any investment conclusions.*

EFFECTS OF THE GENDER PAY GAP

From the beginning, the difference in starting wage plays one of the largest roles in the overall female wealth gap. In fact, the average full-time female employee in the U.S. earns about 21% less annually than her male counterpart[ix] – even if they do the same job and have the same experience and skills. Just like the female wealth gap, the gender pay gap is the result of a variety of factors, such as getting penalized for flexible work.

> *Due to this pay disparity, Sarah will earn about $800,000 less than John by the time she retires and, as a result, will have 38% less wealth by age 85.*[x]

EFFECTS OF CAREER DISCONTINUITY

In families, women are typically the primary caregivers of both children and elderly parents. However, in order to take on this role, short career breaks are often required. This career discontinuity can then harm their career prospects, investment savings, and wealth for many years to come.

> *When we incorporate a short career break with already lower earnings from the gender pay gap, Sarah's wealth at age 85 becomes 43% less than John's.*[xi]

EFFECTS OF FLEXIBLE EMPLOYMENT

In addition to short career breaks, women are also two times more likely than men to work part-time. In turn, this flexible employment can have long-term effects on women's pay due to fewer promotions, fewer benefits, and smaller allocations to their pension funds.

> *For Sarah, flexible employment results in a 96% decrease in her wealth.*

EFFECTS OF LONGER LIFE EXPECTANCY

A long life expectancy is a great thing. However, it does have one downside: it can negatively affect people's wealth. When it comes to life expectancy and wealth, even a few years can make a huge difference. This can be a problem for the female wealth gap since women in the U.S. typically live 6.7 years longer than men.

> *These additional years cause Sarah to struggle to maintain her lifestyle and prohibits her from achieving her goal of passing wealth to the next generation.*

EFFECTS OF A LOWER RISK TOLERANCE

Numerous studies and surveys have discovered that women tend to have a lower risk tolerance than men when it comes to investing, which results in conservative investments. However, avoiding risks when investing can result in women not receiving the returns they were hoping for.

> *The effects of conservative investing that yielded a mere 1% return (versus her desired 3%) causes Sarah to create an even larger gap between her and John. Because she chose the less risky investments, Sarah now can't support herself when she retires.*

THE SOLUTION

Clearly, a variety of factors, such as pay inequality, career discontinuity, longer life expectancies, and differing risk tolerances, can accumulate to create a wealth gap between women and men. But just because specific gender-focused challenges exist, that doesn't mean the women of the world can't begin to close the gap. Women can still achieve all of their financial goals. However, to do so, they must invest their funds in a disciplined way using a suitable strategy and an appropriate amount of risk.

Finally, the best way for women to grow their wealth, achieve their goals, and narrow the female wealth gap is by teaming up with an independent wealth advisor who understands both their unique financial circumstances, challenges and feelings about investing.

With the right portfolio and wealth advisor, both Sarah and John are able to meet their wealth objectives.

> For more information, please contact Legacy Family Office at (239) 949-1982 or via email at info@legacyfamilyoffice.com.

[i] "How women can best protect their wealth," UBS, 23 Oct. 2017 (https://www.ubs.com/global/en/wealth-management/chief-investment-office/our-research/life-goals/2017/women-and-investing-how-women-can-best-protect-and-grow-their-wealth.html)

[ii] "Age Wave calculation based on Bureau of Labor Statistics," TED: The Economics Daily, Medium usual weekly earnings of women and men who are full-time wage and salary workers, by age 2016 annual averages.

[iii] "Women Can't Win," Georgeton University (https://cew.georgetown.edu/cew-reports/genderwagegap/)

[iv] Ibid.

[v] UBS Strategic Asset Allocation (SAA) Methodology and Portfolio, Apr.2017.

[vi] National Institute on Retirement Security, 1 Mar. 2016 (https://www.nirsonline.org/2016/03/women-80-more-likely-to-be-impoverished-in-retirement/).

[vii] "Are Women Better Investors Than Men?" Investor's Business Daily, 16. Jul. 2018 (https://www.investors.com/news/women-investing-stocks-outperform-men-studies/)

[viii] "Women hit hardest by career breaks," Inside Small Business, 22 Jan. 2018 (https://insidesmallbusiness.com.au/planning-management/research-reveals-women-hit-hardest-by-career-breaks)

[ix] "America's Women and the Wage Gap," National Partnership for Women & Families, Sep. 2018 (http://www.nationalpartnership.org/research-library/workplace-fairness/fair-pay/americas-women-and-the-wage-gap.pdf).

[x] Calculation based on Sarah having a starting salary of $100k with a growth rate of 1% [25-30 years], 0% [31-35 years], 1.3% [36-64] and starting expenses of $70k with a growth rate of 0% [25-30], 1% [31-35], 1% [35-64] vs. John's $100k starting salary with a growth rate of 1% [25-30 years], 4% [31-51 years], 2% [52-64] and starting expenses of $70k with a growth rate of 0% [25-30], 2% [31-35], 3% [35-64].

[xi] Calculation based on Sarah taking a year off unpaid at age 40 and creating no net savings from this period to invest over time.

[xii] Calculation based on Sarah working part-time from age 45 until retirement at age 64.

[xiii] "Why is life expectancy longer for women that it is for men?" Scientific American (https://www.scientificamerican.com/article/why-is-life-expectancy-lo/).