RETIREMENT INCOME INSTITUTE
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Who Should Read This Insight:
Retirement investors, financial professionals, annuity manufacturers, policymakers, researchers

Institute Research Agenda Topic:
Understanding differences in consumer behavior and decision making.

Definitions of **bolded key terms** are at the end of this article.

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Authors, Titles and Publication Dates of the Articles Addressed in the Insight
Tabea Bucher-Koenen, Annamaria Lusardi, Rob Alessie, and Maarten van Rooji. 2017. "How Financially Literate Are Women? An Overview and New Insights." Journal of Consumer Affairs 51(2): 255–83. Accessed at https://onlinelibrary.wiley.com/doi/epdf/10.1111/joca.12121 (available for purchase). An older version of this article can be accessed free of charge: https://www.nber.org/papers/w20793. Tabea Bucher-Koenen is Senior Researcher at the Munich Center for the Economics of Aging at the Max-Planck Institute for Social Law and Social Policy. Annamaria Lusardi is the Denit Trust Chair of Economics and Accountancy at The George Washington University in Washington, DC. Rob J. M. Alessie is Professor of Micro-econometrics at the University of Groningen, Netherlands. Maarten C. J. van Rooji is Senior Economist at the Economics and Research Division, De Nederlandsche Bank, Amsterdam, Netherlands.

Insight:
THE GENDER GAP IN FINANCIAL MATTERS

IDEAS IN THE INSIGHT YOU CAN PUT INTO ACTION

This article presents evidence that women have markedly less knowledge about financial matters than men do, regardless of age, marital status, and culture. Since women tend to live longer than men, their lower understanding of financial matters could have significant consequences. Women are likely to spend more time living alone after the death of a spouse or as single heads of households, so financial literacy is vital to help them prepare for retirement. The authors of this article examined the gender differences in financial literacy across three countries—Germany, the Netherlands, and the United States. In particular they searched for reasons for these differences in financial literacy beyond socioeconomic background, culture, and financial institutions. In addition, they dug into the deeper reasons why women are apparently less knowledgeable than men about financial matters.

PRINCIPAL INSIGHTS

In their article, Bucher-Koenen, Lusardi, Alessie, and Rooji ask, "How Financially Literate Are Women?," and offer the answer "Not very." Their article examines the differences between men and women when it comes to **financial literacy**. They looked at how competent men and women were in answering both basic and more-complex financial questions, and draw conclusions from those answers on gender differences in financial literacy. Importantly, the authors looked at the frequency with which the participants answered "Do not know" to questions. They found steep gender differences when men and women answered both basic and then more-complex questions; they also found that women were more likely to admit when they do not know an answer.

The study findings in this article are notable when it comes to understanding the gender gap since a basic lack of financial literacy can impede decisions about retirement planning, especially among older women who will likely live longer alone than will older men, either after the death of a spouse or as a single head of household. A defining aspect of this study is that the authors looked at the gender gap across three countries—Germany, the Netherlands, and the United States—to uncover deeper causes of gender differences.

The article is structured in four parts. First, the authors examine the observable differences between men's and women's answers to three basic questions in well-known national surveys in each of the different countries: For Germany the authors used data from SAVE (Sparen undAltersVersorgE), a paper-and-pencil written survey

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completed by about 2,200 German households. For the Netherlands approximately 2,000 households completed an online survey managed by the De Nederlandsche Bank Household Panel. For the United States the authors used the National Financial Capability Study in which 1,500 adult Americans were surveyed by telephone. Second, the authors looked at the survey participants' differences in age, household decision-making roles, and geography. The third part of the study looks at the self-assessment questions as well as at the relationship between someone who seeks financial advice and that person's financial literacy. Fourth and finally, the authors look at financial literacy and behavior, and propose some ideas for future research based on their findings. Using the type of uniform data provided by national surveys allowed the authors to measure financial literacy across countries by comparing the same demographics. A downside of this method, pointed out in the article, are the limitations to measuring basic financial knowledge instead of measuring actual financial behavior.

The survey respondents in the three countries answered three basic financial questions, known in the financial literature as the Big 3; these three questions are used widely in financial and economic analysis. The questions are simple but indicate a participant's essential ability to grasp rudimentary financial concepts, including simple interest rates, inflation, and financial risk. Each respondent was also given the choice to refuse to answer the question by selecting "Do not know" as their response.

Of note in this article is the gap between how men and women responded to basic financial questions. For example, just 55 percent of US men gave correct answers to the questions on inflation and interest rates, while only 38 percent of women answered these two questions correctly. Looking at all of the Big 3 questions, just 38 percent of US men and 22 percent of US women answered all three questions correctly. Significantly, US women more often than US men responded "Do not know" to a question, with half of US women giving that answer to at least one of the three questions. In the question that asks about buying either stock or a stock mutual fund, 41 percent of US women answered "Do not know" instead of choosing either "True" or "False."

The results of financial literacy surveys by the Dutch and German participants were similar to the results in the United States. While there are more correct answers overall—73 percent correct answers for the first two questions on inflation and interest rates in the Netherlands and 70 percent in Germany—only 45 percent of Dutch men and women and just half of Germans were able to answer all three questions correctly. The gender gap in both countries nearly mirrored that of the United States, with women in those countries significantly less likely than men to give correct answers, and also more likely to respond "Do not know." In Germany, for example, about 30 percent of men but 43 percent of women chose "Do not know" as their answer to at least one of the three questions. Here, the authors make an interesting observation about the differences in the way the three country surveys were conducted: by telephone in the United States, online in the Netherlands, and in a paper-and-pencil format in Germany. They conclude that, even though there is no evidence in this study to indicate an impact, the way that financial response data are gathered could be an opportunity for further study.

When the authors expanded their inquiry beyond the Big 3 questions, they found similar gaps in financial literacy between men and women. Looking at the survey responses across the three countries for up to 16 additional questions, the gendered response differences in Germany, the Netherlands, and the United States were strikingly similar. Among other topics, these additional questions covered compound interest, mortgage pricing, the relationship between interest rates and bond pricing, and how the stock market works in all three countries. For nearly every question in this expanded set of questions the patterns across all three countries were similar to the small set: women more often than men answered "Do not know" to at least one question.

Interestingly, if we look at well-educated women who have graduated from elite colleges in the United States, the authors found notable gaps in gender when it comes to financial literacy. The same is true for women who are high school and college students: these respondents are less likely to correctly answer both basic and more-complex financial questions than are men who are at the same level.

The authors indicated that the gender gap in financial literacy is indeed real and significant across age, education, culture, socioeconomic standing, and even whether women are the sole or independent decision makers with regard to financial matters. The authors point to a range of serious consequences if these conditions persist. In their view, financial literacy is linked directly to economic well-being, wealth accumulation, and retirement planning. They point to studies in the United States where older adult women have a high likelihood of falling into poverty as they age, and where the gender gap can negatively impact women in terms of overall financial health and planning.

In their conclusions, the authors contend that more research is needed to uncover the deeper sources of gender differences in financial literacy. They point to positive indicators such as education and other interventions that might change this dynamic. For example, focus groups and interviews with women show that they tend to be open to participating in financial programs to improve their financial literacy. The authors point out that targeting women/girls separately from boys/men throughout life could help close the gender gap. Paying particular attention to the language and techniques used and program details where metaphors, games, stories, and framing are crafted specifically to women and girls could be significant in improving financial literacy and closing the gender gap. Finally, the authors point out that gender-targeted methodologies in financial education are still in the beginning stages of study but are a potentially fruitful area for future research.

KEY TERMS ARE INDICATED AT FIRST USE WITH BOLD FONT.

financial literacy: Financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. The lack of these skills is called financial illiteracy.

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