Q&A with Liz Davidson on the Gender Gap in Financial Literacy

**Questions are compiled from actual questions we've received from reporters and clients.*

Question: Your research is showing the gender gap in financial knowledge is still prominent. It seems there shouldn't be a gender gap at all these days. Shouldn't women and men be pretty equal in their financial knowledge and overall financial security?

Liz Davidson: Well, yes, you'd think so. But there are several issues at play here:

When it comes to financial security, women have so many more obstacles than men in dealing with finances. They earn less, but they have to save significantly more since they live on average 5 years longer than men and have higher health care costs in retirement. This puts a lot of pressure on their ability to become financially secure to begin with and also lowers their confidence in whatever knowledge they do have. It also creates a sense of "learned helplessness"—the attitude that "I'm so far behind that I'll never be able to achieve financial security, so what's the point of trying?"

Also, we still live in a society where women are usually the primary caregivers. Even if they work full time, most women who have families take on most of the burden of childcare responsibilities. As a result, women become accustomed to putting others' needs before their own and this extends to finances. Their own financial security takes a back seat to making sure their families have what they need today, and that their children are set for college.

Lastly, when it comes to proactive financial management—investing and financial planning—most resources out there are not designed to appeal to women. The financial media tends to focus on short-term market and economic news, as opposed to providing the ongoing financial education and support women need to make the right decisions for themselves and their families. For the most part, they don't hit on women's priorities so women tune them out, which only adds to the problem.

Q: In which area or areas is the gap widest?

LD: Women are furthest behind men when it comes to their knowledge and confidence in investing. There is a 20 percentage point gap in women's basic knowledge of stocks, bonds, and mutual funds vs. men, and that's where the problem with investing starts. As a result, only 25% of women report that they feel confident about how their investments are allocated, while 42% of men say they are comfortable with theirs.

Budgeting is also a big issue. Only 63% of women spend less than they make each month vs. 80% of men. It goes back, again, to that care giving mentality; wanting to make sure everyone in the household is happy and has what they need, which sometimes means getting overextended.

Q: What about the areas they are doing pretty well in compared to men?

LD: The one thing women are doing well is saving for retirement. 92% said they saved in their 401(k) or other employer retirement accounts, which was around the same for men at 91%. This shows that women, and men too for that matter, appear to understand they need to be saving, they know that it's important, and they need to begin taking it more seriously. Our most recent studies have shown an increased urgency in retirement planning so we're hoping this momentum continues. But there's still a downside even to what they are doing well, because they are still saving far too little and may be investing far too conservatively to be able to meet their income needs in retirement.

Q: Do you see the trend in women gaining financial knowledge continuing?

LD: In the short term, it depends a lot on the economy, as women tend to be more vulnerable in a tough economy. Since our last gender study in 2009, the gap has narrowed, but it's a fragile cycle.

The long-term trend I think is moving in the right direction, so when you look 10, 20, 30 years out, I think we'll ultimately get to a point where women are at parity with men, or possibly even ahead. There is definitely a growing awareness among women, school districts, and employers that this is a problem. As a result, we are seeing more employers offer financial education in a way that appeals to women, and more women are taking advantage of it. At the same time, there's been a resurgence in female oriented financial sites and blogs which is a very good sign.

Q: What is the impact of the danger signs you are seeing from this gender gap for employers, especially those that have many women in their workforce? What risks could they face?

LD: This gender gap has huge implications for employers that could directly and indirectly affect the bottom line. If women don't accelerate the rate at which they are saving, and as a result don't get to where they need to be when they're at retirement age, they'll end up needing to delay retirement and remain in the workforce. Studies show the cost for one employee who delays retirement is anywhere from $10,000 to $50,000 a year. When you have a lot of women in your workforce, there's a much higher chance of this happening. Employers also face the risk of having female employees who are not satisfied with their benefits or their jobs. This leads to low morale and lower productivity due to financial stress which, in turn, means higher health care costs. There are a host of risks employers face if their employees don't get on track with their savings and finances in general.

Q: How do we solve this problem?

LD: First and foremost, we need to recognize the problem, discuss it, and understand both the roots and the implications of it. This includes women, politicians in Washington who create financial legislation, and schools that include financial education as part of the curriculum. Companies need to be proactive in this area as well so that they don't end up with a large percentage of their female employees delaying or completely forgoing retirement.

Second, we need to change our approach. As a society, we are fixated on what is happening right now with the market, with the economy, and with our investments. Organizations who teach financial planning have to battle this transactional, in-the-moment mentality and shift people to view finances more holistically. We need to get away from financial transactions and move towards financial planning—helping people establish their key financial goals and work towards those goals by saving sufficiently, investing wisely, and protecting their assets along the way. We need to make finances about people and their families, not just about the market.

When we do this, we will engage women at a much deeper, more meaningful level; that's where you'll see the biggest changes. It's already happening. You are seeing financial institutions increasingly shift from a transactional mentality to a more broad-based financial planning mentality. There has also been a growth in the number of fee-based financial planners who approach finances holistically. Companies are starting to move away from traditional benefits communication where employees are bombarded with technical information on benefits and towards holistic benefits planning which starts with an employees' financial goals first, then looks at how the employee can best manage their benefits to achieve these goals. These are all huge steps forward.

Now, it's a matter of continuing the progress on all fronts so we don't lose this momentum. The biggest risk we face is complacency.

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