INSTITUTE ON ASSETS AND SOCIAL POLICY

Monthly Perspective

Women and Wealth: Expanding the Asset Development Paradigm

Anita F. Hill - October 2005

Recent news about the nation's current economic recovery underscores the need for focused and thoughtful policies that promote asset development among women. According to the Center for Economic Policy Research, since 2001, employment rates for women ages 25 to 54 have declined significantly. In fact, though the country was recovering from a recession during that period, women lost a disproportionate number of jobs in four major industries. Evidence suggests that this reduction in employment rates is due to decreased employment opportunities for women stemming from either scheduling conflicts or skill mismatches. However, the loss may also be attributed to women choosing to stay home rather than enter or re-enter the job market. Whatever the reason for the reduction, without heightened attention to their particular roles in the economy, women's ability to work, accumulate wealth and prepare for retirement will all suffer.

Overall women have fewer resources to draw upon to enhance their current needs and to invest towards retirement than men. Women's earnings, upon which most of their asset accumulation relies, is only 76% of men's. For single women, lower earnings mean less money for the entire household and thus less that can be put into savings. For all women this wage gap adds up. Over a lifetime, a woman, on average, will earn $300,000 less than a similarly situated man. Compounding the problem of lower wages is the fact that women and minorities are disproportionately working in jobs that do not offer benefits like affordable health insurance or on-the-job training that allow them to advance. These expenses, if incurred, must be paid out of pocket and can cut substantially into savings that otherwise might be used for purchasing a home or planning for retirement.

Historically, government policies and programs have provided ways of ensuring security and upward mobility through subsidization of education, housing, business start-ups and healthcare. But efforts of this kind, such as the GI Bill, often left out single women and minorities whose opportunities to participate in the programs were limited because they lacked military experience or because of other forms of racial or gender discrimination. There are some policies in place that help women to build assets. Individual Development Accounts are innovative policy tool that enables low-income families to build assets and achieve some of their economic goals by establishing savings accounts that are matched up to a ratio of three to one. Matches come from a variety of sources including state and federal government. Financial literacy, a critical component of the IDA, is particularly significant for women for many still have limited access to information about money management.

However, as participants in a recent summit on women and asset policy concluded, these types of innovative programs must be combined with a refashioning of existing programs that ignore gender disparities and an introduction of new programs that speak to the women's specific circumstances. Policymakers could help women better protect their economic base by strengthening jobs training programs and Social Security; proposing sound childcare policies; and supporting legislation for paid family and medical leave. These measures, along with rigorous enforcement of anti-discrimination laws, would better position women to develop the financial and social capital they need to succeed in accumulating wealth.

For example, in the solutions offered for improving Social Security rarely do policy makers acknowledge how critical the program is to women and the disadvantages they experience under the existing system. Women's lower average income and longer average life-span as well as smaller pension and savings and their roles as caregivers impact women in two ways. First, these factors combine to make women more reliant than men on Social Security. Second, the disparity in lifetime earnings alone disadvantages women substantially relative to men by reducing the benefits they are entitled to receive.

The National Women's Law Center has offered several ideas for strengthening Social Security that improve benefits for women in low-wage markets and for those who take time off from work to care for children or the elderly. Their suggestions include ways reducing the number of years for eligibility for the Special Minimum Benefit program as well as counting years that low-wage workers spend in caregiving toward their eligibility. More generally, the Center also suggests adjusting the Social Security survivor benefit to allow survivors to keep a larger fraction of the couple's benefits.

Efforts that truly support women's accumulation of wealth and assets must support increased childcare funding and add new policies that encourage employers to offer childcare as a benefit. A full 25% of families with preschool age children earn less than $25,000 per year. Childcare for one toddler can cost anywhere between $4,000 and $10,000 per year which puts it well outside the budget of many such families. The Children's Defense Fund urges congress to support increases in the Child Care and Development Block Grants that go to states for child support. But that alone is not enough. Childcare is an area in which private employers must play a significant role. Policymakers would do well to provide tax incentives for private employers to encourage them to include childcare among the benefits they offer workers.

Longevity, reduced wages and work years, limited resources, and shifts in family composition significantly shape women's financial experiences and opportunities. The slow economic recovery and the reduction in women's employment rates certainly pose challenges to policymakers, private industry, and women themselves. Yet, these challenges can open us to new thinking about how to promote economic growth that provides all Americans a real chance to accumulate wealth. This new thinking will require an honest examination of women's lives; a true appreciation of the role they play in the economy; and a willingness to value and enhance their contributions.

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