RETIREMENT INCOME INSTITUTE

Alliance for Lifetime Income

Who Should Read This Insight:
Parents, consumers, financial professionals, policymakers

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

Definitions of **bold 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

Garrison, Selena T., and Michael S. Gutter. 2010. "Gender Differences in Financial Socialization and Willingness to Take Financial Risks." Journal of Financial Counseling and Planning *21 (2).*

Selena T. Garrison is a doctoral student and adjunct lecturer at the Family, Youth and Community Sciences, Institute of Food and Agricultural Sciences, University of Florida. At the time of the study, she was a master's student at the University of Florida.

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Insight:
GENDER DIFFERENCES IN HOW YOUNG PEOPLE LEARN ABOUT FINANCES AND THEIR WILLINGNESS TO TAKE FINANCIAL RISKS

IDEAS IN THE INSIGHT YOU CAN PUT INTO ACTION

When talking with their kids about financial topics, parents should avoid traditionally defined gender roles that may influence saving and investing behaviors over the long term. Until the time that these gender differences dissipate, **financial professionals** can encourage consumers, especially women, to include protected **lifetime income** plans when planning for retirement. Protected lifetime income plans fit with women's lower risk tolerance and can decrease the chance that women will outlive their retirement assets. Finally, given the importance of parents' role in socializing their kids about financial literacy, policymakers can design programs that encourage parental participation in financial education at home.

PRINCIPAL INSIGHTS

Multiple researchers have found that, in older populations, women take fewer financial risks and invest less money than men. But, few studies examine these gender differences among younger generations. This paper focuses on the genesis of the willingness to take financial risks by analyzing financial socialization differences in college students and discusses the long-term implications of these gender differences.

The researchers confirm that these gender differences also exist in college students along three dimensions. First, among college students, men are more likely to take higher levels of financial risks than women. These differences are significant, with twice as many men willing to take "above-average" financial risks than women. The paper categorizes willingness to take risks as substantial risk, above-average risk, average risk, and no risk.

Second, the paper shows that there are significant gender differences not only in overall financial socialization among college students, but also in certain topics college students discuss with and behaviors they observe in both their parents and peers. Generally, women have much more exposure to social learning opportunities about finance than their male counterparts. Among specific topics, female college students have more frequent discussions about saving and investing, overspending, and paying bills on time while male college students have more exposure to buying auto insurance and working with a mainstream financial institution. There were no gender differences when discussing checking credit reports and securing health insurance with parents or peers. Because parents play such a large role when their kids develop financial literacy, the researchers also suggest that policymakers design financial education programs that involve parents at home.

Third, the researchers conclude that the socializing activity of discussions with parents and peers about financial topics was associated with gender differences in willingness to take financial risks, but observing positive behaviors of parents and peers was not. This risk tolerance finding breaks from a widely accepted theory that the process of learning by observing others plays an important role in behavior change.

Importantly, although female college students have more opportunities to learn about finance from their parents and peers than male college students, they are still more likely to choose conservative saving and investment strategies. That is, female students talk more with their parents and peers about these topics, but those conversations may lead them to use approaches that are more risk-averse. Therefore, parents may be influenced by societal definitions of masculine and feminine gender roles when talking with their children about saving and investing.

This finding indicates that women show a lower willingness to take risks when they first become responsible for managing their own finances. And, women's conversations with parents and peers may have lasting effects on their risk tolerance over time. Previous research studies suggest why these gender differences in willingness to accept risk are important over the long term. Over their careers, women have demonstrated lower earnings than men for performing the same or similar jobs. Women also experience higher levels of poverty than men over their lifetimes. Moreover, they have a longer life expectancy than men. The effects of lower income levels and longer lives for women are compounded if they have lower willingness to accept investment risk. In other words, women are less likely to take sufficient financial risks and invest enough money to provide adequately for their retirement. This puts them at greater risk of outliving their assets or running out of money during their retirement years. To help mitigate this risk, financial professionals can encourage women to include protected lifetime income plans as part of their retirement saving strategies. Protected lifetime income plans can decrease the chance that women will outlive their retirement assets.

This paper uses data from a large web-based survey conducted in 2008 about the effects of financial education policies on financial behaviors. Nearly 16,000 students from 15 U.S. universities completed the survey. The survey measures financial socialization using four factors: conversations with parents, conversations with peers, observations of parents' behaviors, and observations of peers' behaviors. Socialization and gender role theories were used as a basis for exploring gender differences in this paper.

To learn more, visit the Retirement Income Institute at
www.allianceforlifetimeincome.org/retirement-income-institute

KEY TERMS ARE SOURCED FROM THE ALLIANCE FOR LIFETIME INCOME'S ANNUITIES LANGUAGE GLOSSARY AND INVESTOPEDIA

Financial professional: *A qualified person who can help you understand your options and make financial decisions to work toward your financial goals. work toward your financial goals.*

Protected lifetime income: *Income that can last your whole life—and potentially go to your beneficiaries.*

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