What Factors Affect Generational and Gender Differences in Subjective Retirement Income Adequacy?

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Objective

Existing literature has not specifically considered the role that generation and gender differences may play in subjective retirement income shortfall. This research examines factors potentially affecting the subjective retirement income adequacy (RIA) of Baby Boomers (Boomers) and Generation X (Gen X) as they faced very different retirement planning environments. This research also considers gender difference while indirectly assessing effect of change in social context and labor market policies.

Literature

Much research has focused on Boomers and Millennials (born 1982 to 1996) (e.g. Kachroo-Levine, 2017; Fry, Igielnik, & Patten, 2018). However, relatively little attention has been given to Gen X, a generation of interest as it was the first to have access to IRAs, Roth IRAs, and defined contribution plans across their employment years. Also, existing literature does not specifically consider gender as a primary predictor of retirement income adequacy; rather, gender is a control (see Kim & Hanna, 2015; Kim & Hanna, 2013; Yuh, Hanna, & Montalto, 1998a; Yuh, Hanna, & Montalto, 1998b). We seek to fill some of the gap in research regarding gender and generational differences in subjective RIA while positing the following hypotheses:

1. Being female is negatively associated with subjective retirement income adequacy.
2. The effect of gender on subjective retirement income adequacy is different for different years.
3. Being in Gen X positively affects subjective retirement income adequacy.
4. The effect of generation on subjective retirement income adequacy is different for different years.

Methodology

In retirement planning, early life actions affect later life resources. Thus, theoretical perspectives are Life Course Theory (White, Klein, & Martin, 2015) and life cycle theory of consumption and savings (Ando & Modigliani, 1963). Full time working Baby Boomers (born 1946 to 1964) and Gen X (born 1965 to 1981) were observed when the youngest in each generation was in their early 20s to mid-30s using 1989, 2001, and 2016 Survey of Consumer Finances (SCF) data. Ordinal logistic regression was used to measure effect of being female (Model 1) and being in Gen X (Model 2) on the likelihood of rating subjective retirement income adequacy at a higher level than males and Baby Boomers respectively. Subjective RIA was assessed by respondent choice on an ordinal scale of one to five where expected retirement income was thought to be: (1) totally inadequate; (3) enough to maintain their standard of living; or (5) very satisfactory. Interaction of gender with year and generation with year evaluated effect of gender and generation moderated by time. Socioeconomic, demographic, and financial planning behavior characteristics were included as control variables.

Results

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Results did not indicate a significant relationship between being female and subjective RIA across all years. Being female in 2016 versus 1989 (but not being female in 2001) significantly decreased the likelihood of rating subjective RIA in a higher category, whereas the year 2016 alone resulted in significantly higher likelihood of rating subjective RIA in a higher category. Results from Model 1 indicated increased likelihood of rating subjective RIA in a higher category for respondents who identified as Black/African American, expected to retire before age 65, were optimistic about the economy, fell in the highest income and net worth tercile, earned a graduate degree, owned an IRA, and participated in an employer retirement plan. Results from this model indicated decreased likelihood of rating subjective RIA in a higher category for respondents who self-assessed their health as good or fair, expected to never retire, were pessimistic about the economy, fell in the lowest net worth tercile, and stated they were not willing to take financial risks. As debt-to-income ratio increased, respondents were less likely to rate subjective RIA at a higher category.

Results from Model 2, generational differences across the time periods, indicated that Gen X was significantly more likely to rate subjective RIA at a higher level, but when moderated by year, they were less likely to rate at a higher level in 2016. Like Model 1, results from Model 2 indicated increased likelihood of rating subjective RIA in a higher category for respondents who identified as Black/African American, expected to retire before age 65, were optimistic about the economy, fell in the highest income and net worth tercile, earned a graduate degree, owned an IRA, and participated in an employer retirement plan. Results from this model indicated decreased likelihood of rating subjective RIA in a higher category for respondents who self-assessed their health as good or fair, expected to never retire, were pessimistic about the economy, fell in the lowest net worth tercile, and stated they were not willing to take financial risks. As debt-to-income ratio increased, respondents were less likely to rate subjective RIA at a higher category.

Conclusion

The hypothesis that being female adversely affects subjective RIA was not supported. However, there was a mixed result for the effect of gender on subjective RIA for different years. While there was no significant relationship between 2001 and 1989, being female in 2016 was associated with a 108% greater likelihood of rating subjective retirement income adequacy at a higher level than men. This shift in effect may be attributable to such factors as the shrinking wage gap, increasing educational attainment, and greater workforce participation of women. This effect should be further investigated in future research.

The significant interaction between being female and 2016 suggests some positive strides may have been made for women in retirement planning. Role of such factors as the shrinking wage gap, increased female educational attainment, and greater workforce participation of women in retirement plan parity merit further investigation.

Being in Gen X does not affect gender differences in subjective RIA. The effect of generation on subjective RIA in different years was only significant when comparing 2016 to 1989. This interesting finding may be attributable to Gen X having more time to grow their retirement wealth and make up losses from recent economic adversity.

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