

Gender-related Differences and Investment Choices

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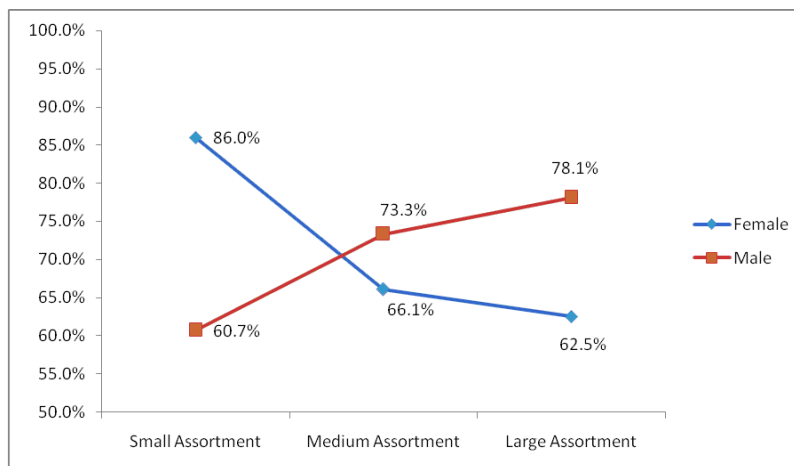
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Women and men respond differently when 401(k) investment fund options are greater rather than fewer. This has practical application because people who are aware of the gender-specific tendencies will think more carefully about their unique choice, and therefore have the opportunity to make a better decision.

Maureen Morrin from Rutgers University-Camden presented this work at the Networks Financial Institute at the Indiana State University Conference on May 14, 2009 in Indianapolis, Indiana. The core question of the research was, "Are women more negatively impacted by larger fund assortments in 401(k) plans?" Previous work by Nenkov, et al in 2008 showed some fund participants (decision maximizers) feel psychologically pained by a larger fund selection than others (decision satisfiers) because they would take more time and effort studying the differences between the various funds. This was part of the rationale behind the study.

Morrin and her colleagues, Susan Broniarczyk from the University of Texas at Austin and J. Jeffrey Inman from the University of Pittsburg, studied four hundred and thirty nine 401(k) plan participants. Forty eight percent were female. The mean age was 25. They were members of non-profit organizations, faculty, staff, and graduate students. The researchers used a decision simulation to decide whether the subjects would participate in the 401(k) plan and if so, which funds they would invest in and how much.

The investigators found that women and men respond differently to fund assortment size (figure below from Morrin and colleagues). The more options that were offered, the fewer women chose to participate. The reverse was true for the men.



Additionally, women invested less money when the fund assortment size was larger and men did just the reverse. The conclusion of the Morrin, Broniarczyk and Inman report was, "Women seem to be negatively affected by larger fund assortment size; men are not." One reason for the difference according to the authors in their paper is that "Women report being less knowledgeable than men, suggesting a potential explanation why large fund assortment may be demotivating for women"

This study has timely implications. Though the Pension Protection Act of 2006 offered automatic enrollment, default contributions and deferral increases, only 1/3 of 401(k) plans use it. If they do, an employee is automatically enrolled in the 401(k) plan and has to choose not to participate by taking action ("opt-out"). However, the majority of 401(k) plans, 2/3, remain "opt-in" meaning an employee has to decide to enroll and then make choices. This is why the study of Morrin, et al is important. It indicates that more rather than fewer choices will not only reduce participation among women compared to men, but also decrease the amount of money they will invest in their 401(k). This has important implications for the future wealth of working women.

Though the authors suggest that some policy changes in the way 401(k) plans are offered may be of benefit in moderating this gender effect, any adjustment to present offerings that involves the government or a committee may be a long time coming. Perhaps the more practical approach for a female investor is to be aware of gender-related tendencies and use that knowledge to personal advantage. This power through knowledge can go a long way in putting together and preserving a portfolio that will meet future goals.