Wealth Distribution Within Couples and Financial Decision Making

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Wealth affects the possibility of current and future consumption and is therefore central to measuring well-being of households and their members. However, up till now few papers have dealt with the wealth distribution at the individual level and within households in particular. By making use of unique individual level micro data from the German Socio Economic Panel (SOEP) we examine the distribution of wealth within couples (married and cohabiting). We follow the literature on the existence of marriages of equally dependent spouses (Nock 2001) and examine the extent to which this also concerns wealth. We also examine whether inter-partnership financial decision making is an important factor in explaining the within household wealth gap.

The literature on within household income variation (e.g. Pahl 2000) puts forward several reasons for variation in couples' relative earnings. In the US, race has been a good explanatory variable for explaining higher wives contribution to family income as Black women have higher labor force attachment compared to White women and Black men are seen as the most disadvantaged group in the labor force. Winslow-Bowe (2006) finds that women with a college education are more likely to have a temporary or persistent earnings advantage over their husband (regardless of his education) then less educated women. On the other hand, more women compared to men concentrate in part-time jobs, where the pay per hour is less than in full-time.

The question is whether these explanations (education and labor market attachment) still hold true in the case of net worth. Sierminska, Frick and Grabka (2010) show that the gender wealth gap – for all men and women – already exists before marriage. Partners enter marriage with different levels of wealth because of age (typically men are 3 years older), men have higher earnings and their labor market participation is stronger. This gives rise to higher wealth accumulation for men than for women. The wealth gap can be attenuated if women and men invest differently (Jianakopolos and Bernasek, 1998), they have different consumption and saving patterns and also inheritances (Edlund and Kopczuk 2009). In our paper we further develop the findings by Sierminska, Frick and Grabka (2010) by focusing on the within-partnership wealth differences and examining the role of inter-partnership financial decision making.

Initial results indicate that the wealth gap is smaller for persons with the last say in financial matters (for both women and men) and these results are confirmed once we control for a higher willingness to undertake financial risk. A further relevant factor is the intra-partnership income resource allocation. If only women manage money the intra-partnership wealth gap is significantly smaller compared to couples where everybody manages his/her own money or where all money is put together. We apply quantile regression techniques to analyze whether our findings are robust over the wealth distribution. We also find that as long as couples pool and equally share all economic resources the wealth gap decreases with the duration of the marriage. The mean net worth gap within couples is roughly 30.000 Euros. The gap is highest for women aged 36-45 years with more than 42.000 Euro. With women in this age group, 55% of all couples report the male partner has more wealth at his command than the respective female partner and in 28% of these couples the female has more means at her disposal. The remaining 18% have even net worth. In contrast to the US American findings for income the intra-partnership wealth gap is reduced if the male partner is a migrant in Germany. For women this effect is not significant. If a woman does not have children there is a clear dampening effect on the within household wealth gap. This points to the relevance of the labor market attachment showing that any form of employment and in particular women’s self-employment leads to a decrease of the wealth gap. We find further explanations for the existing wealth gap within couples which goes beyond the general gender wealth gap.