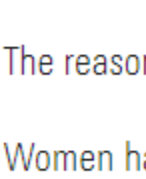
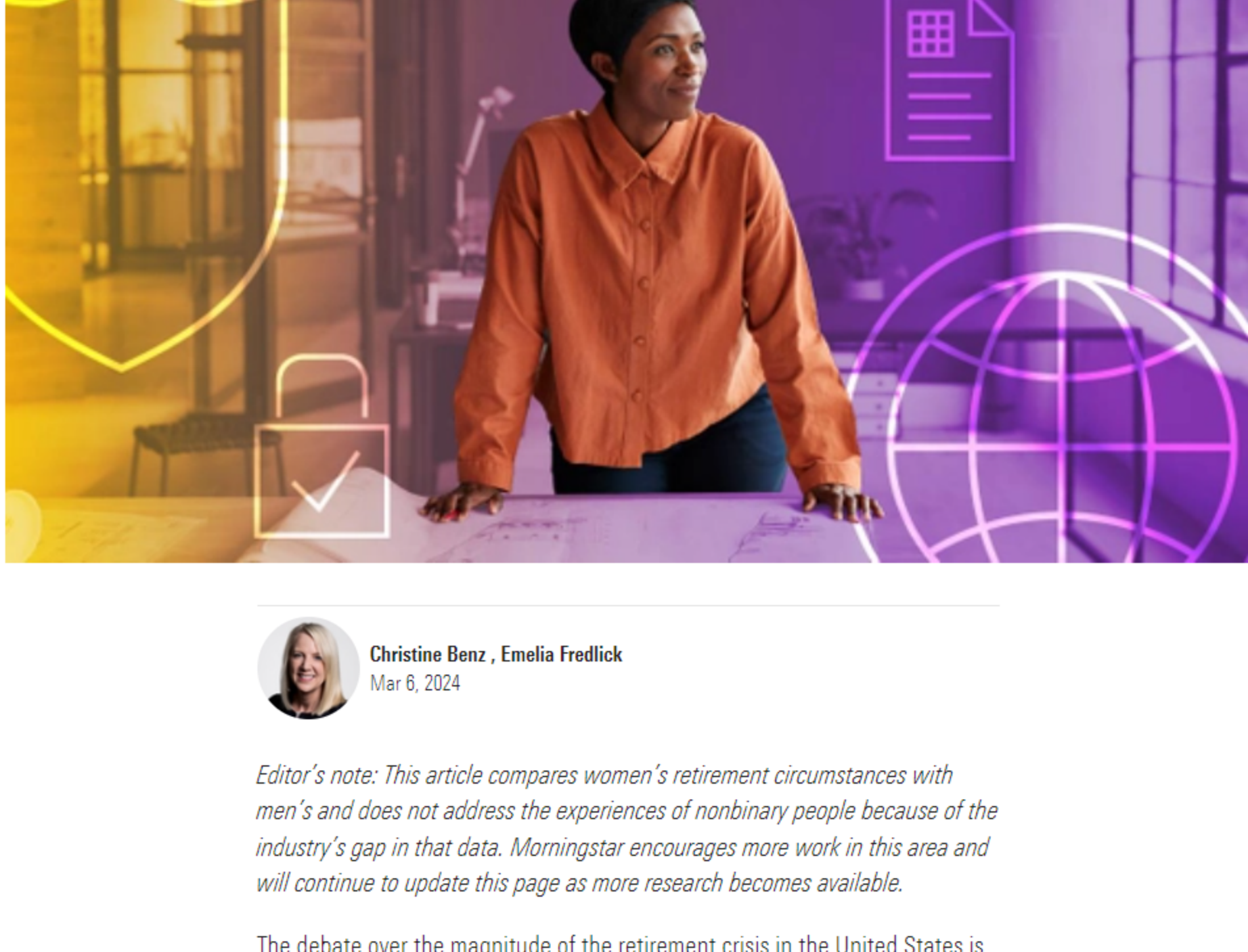


5 Steps Women Can Take to Stave off a Retirement Shortfall

Use these questions to get started.



Christine Benz , Emelia Fredlick
Mar 6, 2024

Editor's note: This article compares women's retirement circumstances with men's and does not address the experiences of nonbinary people because of the industry's gap in that data. Morningstar encourages more work in this area and will continue to update this page as more research becomes available.

The debate about the magnitude of the retirement crisis in the United States is ongoing, but one aspect is settled: Women are in worse shape than men on nearly every important metric.

The reasons are manifold, but a few factors loom large.

Women have lower lifetime earnings than their male counterparts, which translates to fewer opportunities to fund retirement accounts. This can be attributed to both wage inequality and the fact that women are more likely to stop working to devote time to caregiving for family members. These caregiving needs substantially intensified during the pandemic: In 2021, the percentage of women in the labor force dropped to 56.1% (the lowest since 1967), though women's workforce participation rate has since rebounded.

In addition, women have longer life expectancies than men. This means they must stretch those smaller average balances over a longer time frame. Women aged 65 outlive their male counterparts by more than two years, on average, and approximately two thirds of people in nursing homes are women.

That convergence of lower retirement balances and a longer retirement period helps explain why women are much more likely than men to be [poor in retirement](#).

There's no easy fix for this issue. But women can consider these five questions to improve their retirement readiness.

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- **How Long Should I Plan to Work?**
- **How Reliant Will My Retirement Income Be on Social Security?**
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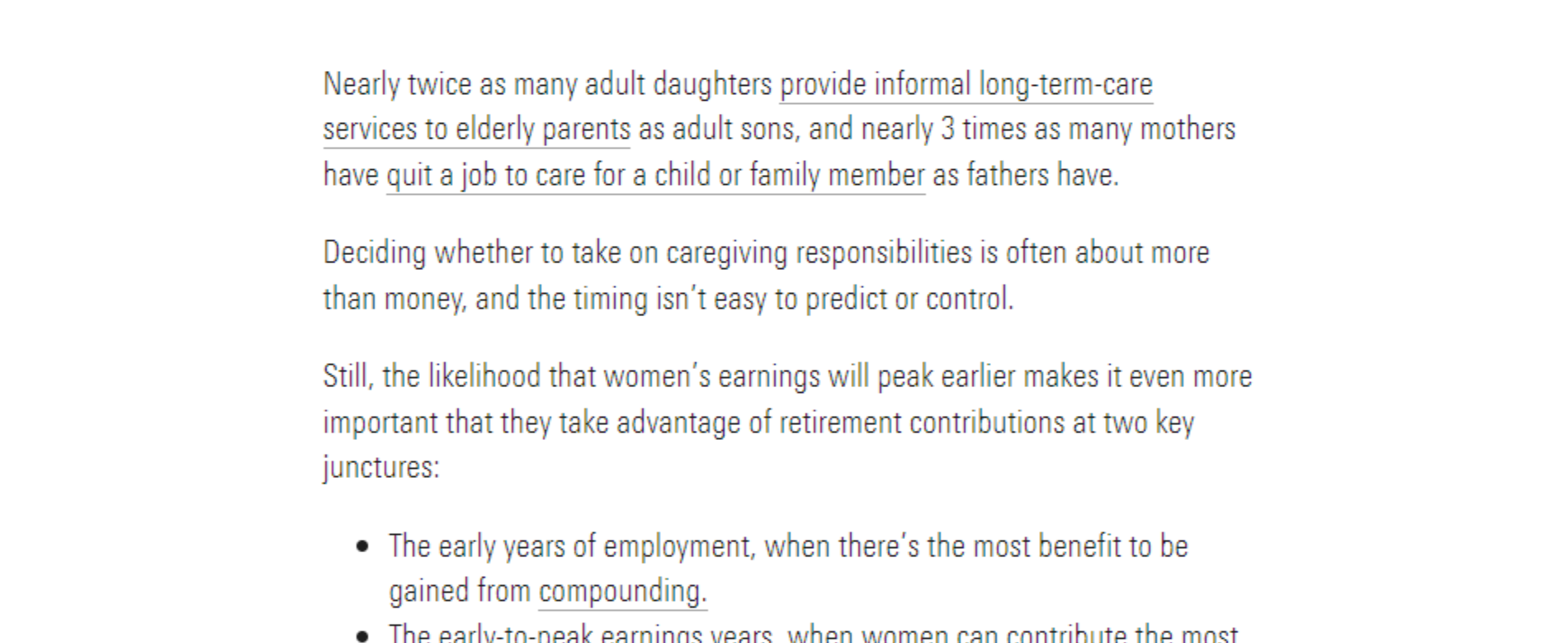
How Might My Earnings Affect My Retirement?

Women's earnings tend to peak earlier in life than men's—and those peak median earnings are substantially lower—according to 2022 data, the most recent data available.

In addition to broader wage inequality, this happens because women are more likely to reduce their paid work schedules or quit work altogether to devote time to unpaid caregiving for children or elderly parents.

Peak Earnings for Women vs. Men

Women's earnings tend to peak at least a decade earlier—and at substantially lower sums—than men's do.



Source: [Bureau of Labor Statistics](#). Data as of Dec. 31, 2022.

Nearly twice as many adult daughters provide informal long-term-care services to elderly parents as adult sons, and nearly 3 times as many mothers have quit a job to care for a child or family member as fathers have.

Deciding whether to take on caregiving responsibilities is often about more than money, and the timing isn't easy to predict or control.

Still, the likelihood that women's earnings will peak earlier makes it even more important that they take advantage of retirement contributions at two key junctures:

- The early years of employment, when there's the most benefit to be gained from compounding.
- The early-to-peak earnings years, when women can contribute the most money.

During periods when they're not earning a salary, married women can still contribute to an IRA, provided their spouse has enough earned income to cover the contribution amount of the nonearning spouse. This can help minimize the retirement-savings shortfall that can accompany work interruptions.

In addition, women who have reduced or stopped working because of caregiving obligations can play catch-up further down the line. If they reenter the workforce later in life and have the extra income, they could contribute more to their retirement accounts during the empty nest years. Additional catch-up contributions to IRAs and company retirement plans such as 401(k)s are available to people over the age of 50, and health savings account catch-up contributions are available after age 55.

What to Do
Maximize retirement contributions in the early years of employment and in the early-to-peak earnings years.

What Is an Appropriate Amount of Risk?

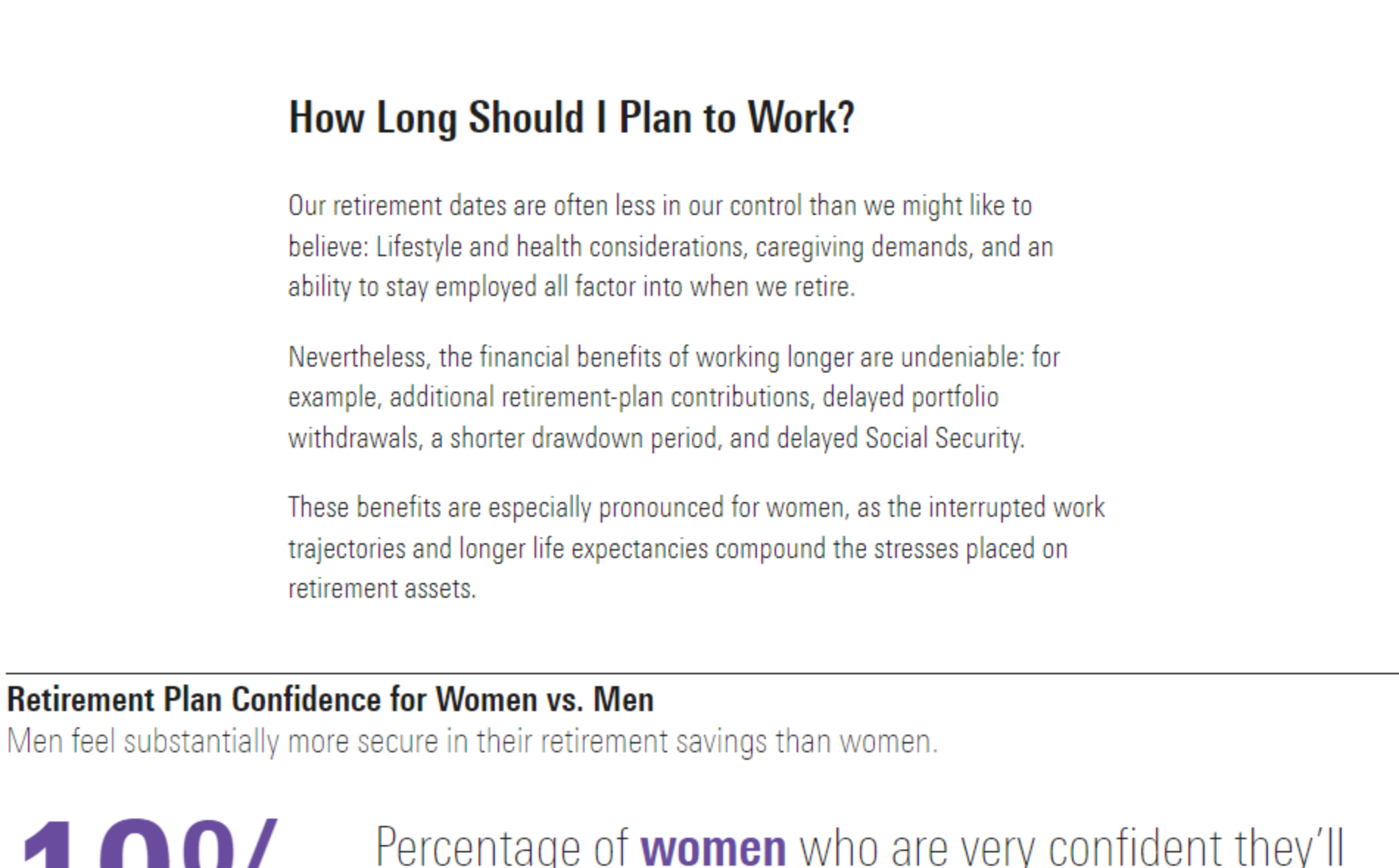
Though some research has shown a marked difference in how women approach investing compared with men, a more nuanced look indicates that this difference largely can be attributed to the [gender income gap](#).

As a group, women make less money than men. So, with less margin for error in their overall finances, they may also be less inclined to risk their savings by investing in stocks. Still, controlling for demographics (comparing men and women with similar ages, incomes, and plan balances, rather than comparing all men to all women) reveals more closely aligned investing behaviors.

The below data on 401(k) plan contributions, for example, shows that men are only slightly more likely to allocate a greater portion of the contributions to equities and to self-direct (that is, to manage their own retirement portfolios).

Retirement Plan Contributions for Women vs. Men

Differences in men and women's approaches to retirement saving largely melt away when controlled for factors like income.



Source: [One million retirement plan accounts from a major 401\(k\) recordkeeper](#). Morningstar calculations. Data from 2020.

To ensure they're assuming a situation-appropriate amount of risk, women can take advantage of professional advice solutions such as managed accounts or target-date funds. These accounts help ensure that women's asset allocations are appropriate given their proximity to retirement, and this has helped bring women's asset allocations more in line with men's.

While many investors make use of automatic investments through their company retirement plans, investments into IRAs can be automated, too. Using a multi-asset product like a target-date fund takes the guesswork out of how to invest the funds.

What to Do
Take advantage of automatic investments into IRAs, and consider a multi-asset product like a target-date fund.

How Long Should I Plan to Work?

Our retirement dates are often less in our control than we might like to believe: Lifestyle and health considerations, caregiving demands, and an ability to stay employed all factor into when we retire.

Nevertheless, the financial benefits of working longer are undeniable: for example, additional retirement-plan contributions, delayed portfolio withdrawals, a shorter drawdown period, and delayed Social Security.

These benefits are especially pronounced for women, as the interrupted work trajectories and longer life expectancies compound the stresses placed on retirement assets.

Retirement Plan Confidence for Women vs. Men

Men feel substantially more secure in their retirement savings than women.

19% Percentage of **women** who are very confident they'll be able to fully retire with a comfortable lifestyle.

26% Percentage of **men** who are very confident they'll be able to fully retire with a comfortable lifestyle.

Source: [Transamerica Center for Retirement Studies](#). Survey data collected from Nov. 8 to Dec. 13, 2022.

For women hurtling toward retirement shortfalls, delaying retirement will be the single-most financially impactful decision they can make. In research I conducted with Amy Arnott and John Rekenhale, we found that a 3.3% withdrawal rate is a safe one (assuming fixed real withdrawals over 30 years of retirement, from a 50% equity/50% bond portfolio). Delaying retirement by only one year can lift this withdrawal rate to 3.5%; delaying retirement by five years can lift it to more than 4.0%. (Our research has shown that the specifics of a starting withdrawal rate has since ticked up, but the value of delaying retirement remains strong.)

The financial benefits of delaying retirement argue for maintaining work skills through investments in continuing education, being mindful of the incidence of ageism and staying alert to combat it, and making investments in physical health.

It's also worth noting that "working longer" doesn't necessarily mean sticking it out in a job that makes you miserable. If you can tick a couple of the working longer benefits outlined above—for example, delaying Social Security and portfolio withdrawals even if you aren't earning enough to make additional retirement plan contributions—that can still have a big impact for your plan.

What to Do
Prioritize being able to work longer by investing in continuing education, being mindful of how to combat ageism, and making investments in physical health.

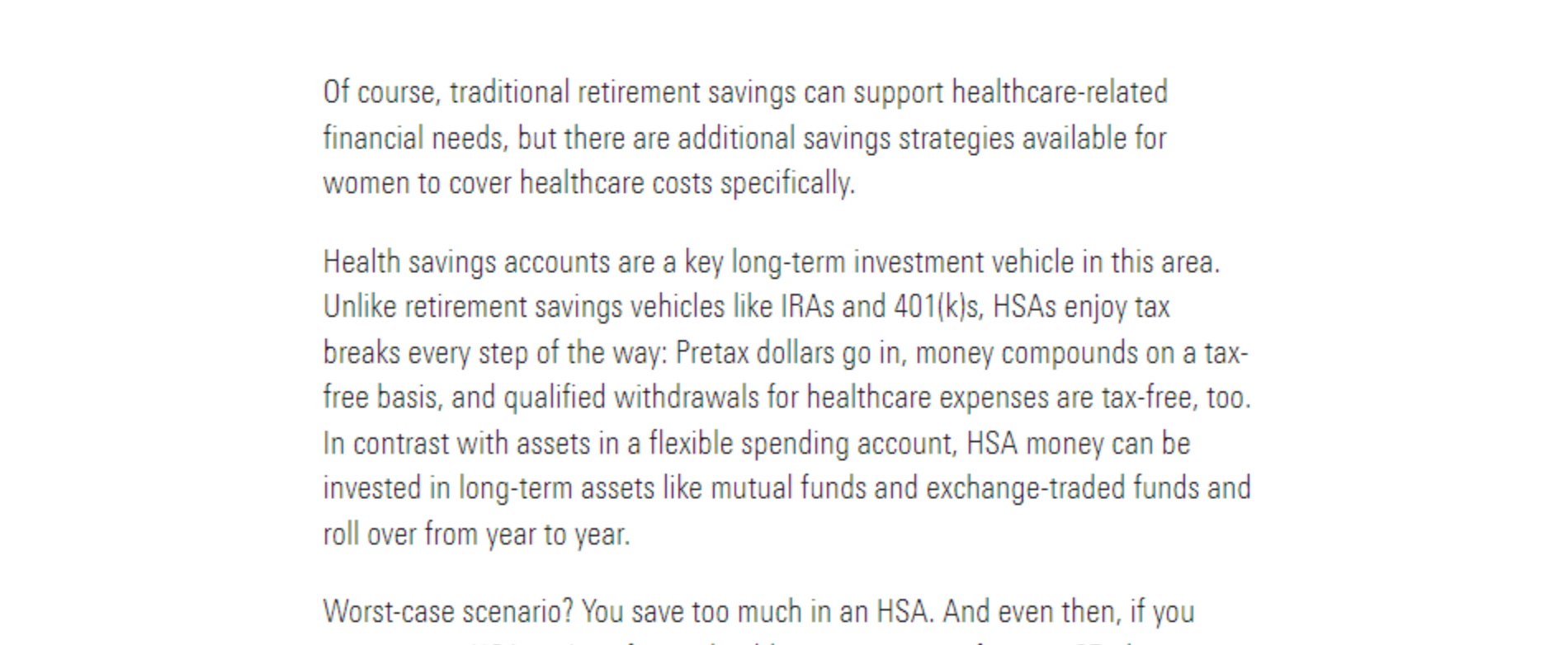
How Reliant Will My Retirement Income Be on Social Security?

Social Security plays an outsized role in women's retirement plans: In 2021, the most recent year for which data is available, women represented 55.2% of all Social Security beneficiaries age 60 and older, and approximately 63.3% of beneficiaries age 85 and older.

But at the same time, women's average Social Security benefits are lower than men's, which helps explain why women are much more likely to face financial hardships in retirement.

Social Security Reliance for Women vs. Men

Men collect more than \$4,000 more in Social Security than women—and they also tend to have more income from other sources.



Source: [U.S. Census Bureau and Bureau of Labor Statistics](#). Data from 2022.

This reliance on Social Security, combined with the fact that women live longer than men on average, accentuates the importance of maximizing the lifetime value of Social Security for women.

Women who expect to have longevity on their side have every reason to delay Social Security claiming in the interest of enlarging their eventual benefit. And married couples should focus their decisions on maximizing lifetime income over both partners' lives.

For women who will claim a spousal benefit (because half of their partners' benefits will be higher than their own benefit), that argues for the higher-earning spouse delaying Social Security, if possible, to maximize the eventual benefit for the surviving spouse.

What to Do
Delay Social Security if possible, and get familiar with how to [get the most out of Social Security](#).

How Am I Planning for Healthcare Costs?

Because of their longer life expectancies, women have [higher lifetime healthcare outlays](#) than men and a greater need for paid long-term care.

Women are often the caregivers for their spouses; when their spouses predecease them, they require paid services to fulfill their own care.

Long-Term-Care Needs for Women vs. Men

Women's greater likelihood to need long-term care is largely due to their longer life expectancies.

64% Estimated percentage of **women** 65 and older who will need long-term care during their lifetimes.

49% Estimated percentage of **men** 65 and older who will need long-term care during their lifetimes.

Source: [U.S. Department of Health and Human Services](#). Data projected for people turning 65 in 2021 to 2025.

Of course, traditional retirement savings can support healthcare-related financial needs, but there are additional savings strategies available for women to cover healthcare costs specifically.

Health savings accounts are a key long-term investment vehicle in this area. Unlike retirement savings vehicles like IRAs and 401(k)s, HSAs enjoy tax breaks every step of the way: Pretax dollars go in, money compounds on a tax-free basis, and qualified withdrawals for healthcare expenses are tax-free, too. In contrast with assets in a flexible spending account, HSA money can be invested in long-term assets like mutual funds and exchange-traded funds and roll over from year to year.

Worst-case scenario? You save too much in an HSA. And even then, if you want to use HSA savings for nonhealthcare expenses after age 65, the withdrawals are treated like traditional IRA withdrawals, taxed at the investor's ordinary income tax rate.

In addition, greater long-term-care usage suggests that women should be especially thoughtful about developing a long-term-care plan. HSA assets can also be used to pay long-term-care insurance premiums or out-of-pocket long-term-care expenses.

What to Do
Create an action plan for long-term care in advance. HSAs can be a beneficial vehicle to include in this plan, both for long-term care and general healthcare costs.

Women's Retirement Savings in 2024

The data are clear: Women are much more likely than men to have a savings shortfall in retirement.

It's more important than ever that women take steps to ensure their retirement savings stay on track. A few well-planned adjustments can significantly help stave off financial hardship in the long term.

About the Authors

Christine Benz is director of personal finance for Morningstar.

Emelia Fredlick is a senior editor for Morningstar.

Contributors

Design editors: Zhan Su, Nura Hussein, Alex Skoirchet

Editors: Margaret Giles, Ann Sanner King

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