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Boosting Lower Wage Earners' Retirement Readiness



A recent Vanguard report¹ sheds light on pressing challenges retirees face across different income brackets. The findings reveal that lower-income workers allocate a significant portion of their pre-retirement income to meet their daily needs, leaving them with a substantial shortfall in retirement readiness — even when factoring in Social Security benefits. The data highlights the disparities among income groups, with those earning \$22,000 annually (25th percentile) spending a staggering 96% of their pre-retirement income, in stark contrast to those earning

\$173,000 (95th percentile) who spend only 43%. This income spend-down disparity underscores the urgent need for lower and middle-income retirees to supplement their retirement income beyond Social Security.

Plan sponsors can take proactive steps to help participants better prepare for a secure retirement. For those in the 50th percentile and below, projected income falls considerably short of retirement spending needs, according to the Vanguard report. To help bridge this gap, companies could create a streamlined enrollment process with minimal paperwork and consider adopting an auto-enrollment policy, a mandatory requirement for new workplace plans beginning in 2025, per the SECURE 2.0 Act — and auto-escalation features. While the research shows that top earners appear better positioned for self-financing retirement, plan sponsors must focus on providing tailored solutions and financial education. This will ensure that all employees, regardless of income level, have a fighting chance at a comfortable retirement.

Targeted education. Develop tailored financial education programs specifically for lower-wage earners. Include peer testimonials of those in a similar income bracket who've benefited from participating in the retirement plan. Offer easy-to-use tools like retirement calculators to help employees project their future needs and retirement income.

Enhanced contribution options. Offer a more generous employer match and encourage workers age 50 and older to take advantage of catch-up contributions. And consider limiting the ability to take loans from retirement accounts to avoid disrupting long-term savings. Introduce a separate, easily accessible emergency savings component within the retirement plan.

Greater accessibility. Create multilingual resources aimed at all levels of financial literacy. Use gamification techniques and video content to enhance engagement and accessibility in retirement planning.

¹ https://corporate.vanguard.com/content/dam/corp/research/pdf/the_vanguard_retirement_outlook.pdf



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Financial counseling. Offer one-on-one financial counseling sessions for employees, providing personalized advice to help participants make more informed investment and retirement planning decisions. Also, provide counseling around hardship withdrawals to ensure participants understand the long-term implications and offer resources on post-retirement financial management — including the efficient withdrawal of funds. Encourage annual retirement readiness reviews for all participants.

Implementing these strategies can assist in bridging the retirement readiness gap for lower wage earners, helping ensure they have the opportunity to retire with greater financial security.

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