

# Bridging the Gap: Retirement Preparedness for Generation Z



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## Introduction:

Generation Z, born between 1997 and 2012, is the newest generation to enter the workforce, where it now represents 18% of employees<sup>1</sup>. Although every generation has its unique characteristics, those of Gen Z put retirement readiness and sustainability at risk based on three factors: the generation's projected longevity, its attitudes about work, and its preference for digital learning. These three traits present opportunities for regulators and employers. This paper will answer the question, "What do regulators, policymakers, and employers need to do to future-proof the retirement savings system for Generation Z?" Gen Z is expected to live longer than any previous generation, due to increased life expectancy and medical advancements—including therapies like stem cell interventions, which may extend the human lifespan by up to 10 additional years when combined with healthy lifestyle choices and medical advancements<sup>2</sup>. Although members of Gen Z have the same number of working years to save for retirement as previous generations, their savings must last significantly longer due to increased life expectancy, creating a heightened longevity risk. A 22-year-old woman today can expect to live to nearly 86 years of age<sup>3</sup>, compared to the current average life

expectancy of 77.5 for baby boomers.<sup>4</sup> The current full retirement age for anyone born after 1960 is 67 (compared to 65 for most Boomers). Assuming Gen Z retires at age 67, they may face a retirement lasting 19 years or more. Today's median individual annual retirement income is \$47,620.<sup>5</sup> Based on these numbers, that means that Gen Z needs an additional \$404,770 in retirement savings, or over \$1.2M when adjusted for inflation, to cover the additional 8.5 years of life expectancy. If a Gen Z worker saves only the traditionally recommended percentage of income for retirement, their savings could be depleted by age 73 if they live to 100.<sup>6</sup>

This generation is also set apart by its unique attitudes toward work. As of 2023, 52% of Gen Z reported engaging in freelance work.<sup>7</sup> This concentration on freelance work is attributable to the rise of the gig economy—a labor market characterized by short-term, flexible, and independent jobs. Although freelancing offers flexibility, it comes without employer-sponsored retirement plans. Only 58% of gig workers list retirement as a financial goal, compared to 67% of full-time employees—demonstrating a disconnect between gig workers and traditional employees regarding their retirement trajectory. Gig workers

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also come up short on future retirement planning, since 30% of them expect never to retire, and 45% don't expect to retire before the age of 65. In addition, this generation's strong interest in entrepreneurship—the process of starting and scaling a new business venture—and small business ownership—which often involves operating an established, independently owned business—sets them apart from previous generations. Whether participating in the gig economy or pursuing small business ownership, young workers are navigating careers without employer-sponsored retirement plans, resulting in uncertainty about their retirement trajectory.

Finally, Gen Z, the first generation of digital natives, learns and processes information in ways that are fundamentally different from those of previous cohorts. This age group is much more attracted to gamified user interfaces that use colorful, game-like displays and employ incentives to keep users engaged with content.<sup>8</sup> An example is investment apps like Robinhood, whose gamified user interface attracts a significantly younger demographic of investors.<sup>9</sup> Additionally, 95% of Gen Zers have access to a smartphone, and 45% say they are online “almost constantly,”<sup>10</sup> making digital platforms their primary source of information. At least half of Gen Z encounters news through social media daily,<sup>11</sup> and they are five times more likely than older generations to seek financial advice online—often engaging with financial influencers—finfluencers—through platforms like TikTok, YouTube, and Instagram.<sup>12</sup> While this high level of digital engagement offers unprecedented access to information, much of what they consume focuses on short-term gains or speculative strategies, with less emphasis on long-term tools like retirement plans. This disconnect means that even when Gen Z workers participate in employer-sponsored retirement programs, they may do so without fully grasping how to maximize contributions or invest strategically putting them at risk of falling short of their retirement goals despite their early efforts. Although 62% of Gen Z workers contribute enough to receive their full employer match,<sup>13</sup> 63% of Gen Z admit they don't understand enough about investments to confidently manage their own savings.<sup>14</sup>

Gen Z's three defining characteristics—longevity,

unique attitudes about work, and digital learning preferences—sit against the backdrop of existing and looming structural challenges that will affect their retirement savings and the possibility of a secure retirement. In addition to the projected depletion of Social Security's retirement and disability funds by 2034, a key factor influencing Gen Z's retirement prospects is the steady decline of defined benefit pension plans, which once were the foundation of private-sector retirement security. In 1987, such pension plans made up 28% of all retirement plans, but by 2023, only 10% of private-sector nonunion workers had access to them. Companies have shifted toward defined contribution plans like 401(k)s, which are less costly to employers and easier to manage. This shift has fundamentally changed the landscape of retirement planning in the United States, transferring the responsibility for building retirement wealth from employers to individual workers. Baby boomers were the first generation to rely heavily on 401(k) plans, which emerged in the early 1980s following the Revenue Act of 1978 and IRS clarification in 1981. By the late 1980s, these plans had replaced many traditional pensions, setting the stage for the individual-driven retirement system that Gen Z inherits today.

Today's young workers are paying more than twice—about 2.28× as much—as baby boomers paid for a four-year public university (\$90,875 vs. \$39,780 in today's dollars), and these costs continue to climb. The average debt of Gen Z members with student loans is \$22,948.<sup>15</sup> The burden of student debt repayment forces Gen Z to balance paying off loans with saving for the future, delaying or limiting their ability to build wealth. On top of this, inflation and soaring housing costs strain Gen Z's budgets even further. More than half (51%) of the average Gen Z monthly budget goes toward housing expenses alone, leaving little room for long-term savings. When asked what they're saving for, only 9% said retirement, while a much larger share—17%—said they're simply trying to cover day-to-day living costs.<sup>16</sup> Taken together, these factors make it clear that Gen Z must navigate a retirement landscape defined by fewer guarantees, higher costs, and more personal responsibility than any previous generation.

How can regulators, policymakers, and employers' future-proof the retirement savings system for

Generation Z? Solutions center on closing two gaps: coverage and quality. The coverage gap refers to the portion of the workforce that lacks access to employer-sponsored retirement plans. The quality gap refers to the growing disparity between the resources that retirement programs are designed to provide and the actual financial outcomes they deliver—especially for low-income and working-class Americans.

Progress has been made, but there is more to do. Lawmakers passed the SECURE 2.0 Act in 2022, one of the most significant updates to the U.S. retirement system in decades. Building on the original SECURE Act of 2019, this legislation includes more than 90 measures designed to strengthen retirement savings and make it easier for Americans to prepare for their financial future. One key provision is allowing workers at least 21 years of age who work a minimum of 500 hours per year for three consecutive years consecutive years to be eligible to participate in their employer’s 401(k) plan—a significant change from the previous 1,000-hour threshold. These policy changes begin to bridge at least some of the coverage gap, setting up Gen Z in a better position for retirement.

**“To secure a stable future, Gen Z will need more than policy fixes. They will need regulators and employers to come together with tailored solutions that acknowledge Gen Z’s unique characteristics.”**

Products like the SIMPLE 401(k)—a simplified, low-cost retirement plan designed to help small businesses offer retirement benefits—are intended to expand access. However, they remain underutilized: nearly two-thirds of small employers don’t offer retirement plans, with 48% citing affordability and 22% feeling overwhelmed by administrative burdens.<sup>17</sup> As a result, small business owners and independent workers rarely establish retirement plans on their own, and without an automatic or employer-facilitated system in place, consistent savings do not occur.<sup>18</sup>

To secure a stable future, Gen Z will need more than policy fixes. They will need regulators and employers to come together with tailored solutions that acknowledge Gen Z’s unique characteristics—as digital natives, many of whom depend on gig work, with a long life expectancy—to close the coverage gap, improve the quality of retirement savings options, and make long-term financial planning both accessible and relevant to their lives.

## Creating a Culture of Retirement Readiness

Before developing solutions specific to Gen Z, we need to address the fact that, of all living generations, Gen Z has the lowest financial literacy despite saving more money in their youth than previous generations.<sup>19</sup> Financial literacy consists of understanding and applying budgeting, investing, credit, and other skills to make informed decisions about one’s funds.<sup>20</sup> The 2021 TIAA Institute/GFLEC Personal Finance Index showed that two-thirds of Gen Z correctly answered fewer than 50% of questions on budgeting, investing, and credit.<sup>21</sup>

Why does Gen Z have the lowest financial literacy? One reason is the lack of mandated personal finance courses in high schools and colleges. But in Georgia, Idaho, and Texas, three states that introduced high school personal finance mandates, students later entered adulthood with higher credit scores and lower default rates compared to peers in states without such requirements.<sup>22</sup> Financial literacy directly affects the choices people make about when, how, and how much to save for retirement.<sup>23</sup>

The fate of retirement for Gen Z depends on the industry’s ability to close the gap between access and participation in retirement plans through the delivery of culturally relevant and emotionally resonant financial education that will allow Gen Z to take ownership of their financial lives. Gen Z’s saving habits may be a good sign for our future, but investing in a 401(k) is not the same as understanding how it works or how much one will need for retirement. Financial literacy is especially important for Gen Z, who, without employer-sponsored plans, now hold their retirement completely in their own hands.

An underrated aspect of financial education is how the retirement industry, educators, and employers are not adapting to Gen Z's learning style. To place Gen Z in a better position for the future, these groups need to go beyond traditional education to make financial literacy and retirement culturally relevant and relatable to Gen Z. This means meeting members of Gen Z where they are and reframing retirement as financial freedom and flexibility.<sup>24</sup> Today, many Gen Zers believe saving for retirement is about getting old rather than about having a lifetime of financial freedom. Retirement needs to be reframed as freedom and not as old age.

**“Gen Z is most engaged when they feel that they belong to something bigger than themselves.”**

Many Gen Zers have a “soft saving” mindset, which means they prioritize wellness today over saving for the long term. Over 70% of Gen Zers said they would rather have a better quality of life than extra money in the bank.<sup>25</sup> Since they see retirement as being for old people—and they're not old—Gen Z is more likely to spend their money on present satisfaction and wellness. In such a culture-driven generation, the industry must meet Gen Z where they are and find ways to motivate a culture of long-term planning and retirement preparedness. We might see a correlation between saving for retirement and the culture of marathoners. In contrast to the soft saving mindset, running a marathon takes preparation, discipline, and mental strength to value long-term gains over short-term ease. Just as marathoners train months or years for one race, retirement demands that Gen Z develop a similar attitude: every incremental habit today lays the groundwork for autonomy tomorrow.

Gen Z is most engaged when they feel that they belong to something bigger than themselves. This is true across cultures and industries around the world, and it's the trends from those cultures that the finance world must incorporate. For example, Gen Z's engagement with sneaker culture and the hype behind GameStop prove that belonging

and identity are what drive action. Sneaker culture isn't just about sneakers; it's about identity and belonging. Wearing a pair of Jordans or Nike Dunks is a badge of personal taste, status, and cultural awareness. The same goes for the GameStop stock frenzy in 2021 and how an investment move became a mark of belonging.<sup>26</sup> The GameStop surge symbolized a “swirl of distrust” toward Wall Street, with young investors framing their actions as a rebellion against a system they believed was rigged in favor of hedge funds.<sup>27</sup> No less than the sneakerheads who track when their dream shoe will drop or WallStreet Bets users who share trade humor, these groups can make and mobilize long-term economic consciousness.

Ultimately, retirement education should be experiential and story-driven to meet Gen Z where they already are, with the tools and narratives they already trust.

Finally, it's very popular for Gen Z's behavioral patterns to be shaped by influencers. Influencer culture wields real purchasing power. When TikTok personality Charli D'Amelio featured a Dunkin' drink in one of her posts, the restaurant chain saw a 20% sales spike the day of and a 45% spike in cold brew coffee sales the day after they featured her drink on the menu. Gen Z is more likely to try behavior if a creator they know and trust or with whom they identify approves of it. If this approval can apply to a coffee drink, it can apply to a personal finance tool as well. Banks can partner with lifestyle and cultural influencers (not necessarily money makers) to make saving cool. A YouTube sneaker influencer could show fans how to balance saving for retirement with enjoying life's reasonable pleasures—like picking up a new pair of Nike Dunks. Saving can become culturally relevant with the right sponsor. Of course, there's a risk that influencers may oversimplify financial concepts or promote trends without fully understanding their long-term impact, so partnerships should prioritize credibility and clarity. Additionally, most influencers are likely already wealthy, which can make their relationship to such financial responsibility not very relatable to average Gen Zers.

For these reasons, for Gen Z, simply offering a retirement plan like the ones that past generations have isn't enough. As many employees enter

the workforce with limited financial literacy, believing that retirement is irrelevant to them and more motivated by influencer culture, it's crucial for employers to help bridge the quality gap to improve Gen Z saving outcomes.

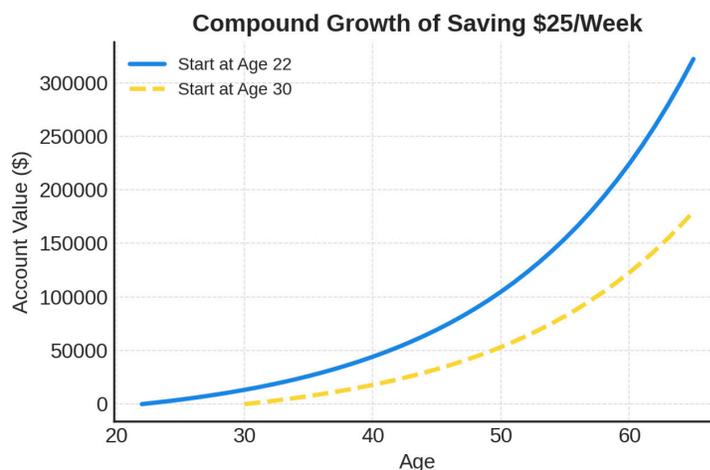
## Digital, Inclusive, and Behavioral Solutions for Gen Z Retirement Success

Employers must take active steps to incentivize participation and keep employees engaged over the long term. Whether a traditional 401(k), SIMPLE 401(k), Safe Harbor 401(k) or other plan, each offers unique tax advantages and setups tailored to different financial goals and organizational structures. Still, even when retirement plans are available, employees often delay saving due to present-day financial stress. Even among employees who have access to employer plans, 17% don't manually enroll in them, and the hypothesis is that this is not a conscious choice. People are just busy.<sup>28</sup> This underscores the importance of designing systems for both traditional employees and nontraditional workers—like freelancers, part-timers, and gig workers—to make saving easier and harder to put off. As Gen Z increasingly earns income outside of W-2 jobs, employers and platforms must offer accessible, easy-to-use savings options and create more personal, intentional relationships with retirement planning. Employers can empower their teams to save more efficiently, leading to greater confidence, productivity, and financial security.

Gen Z's strong preference for digital financial solutions means that employers need to transform the user experience across the life cycle of retirement savings. This means platforms that incorporate intuitive dashboards, automation, ESG (environmental, social, and governance-focused) investing, and gamified experiences.<sup>29</sup> The use of goal tracking, milestone rewards, and progress indicators can reduce the risk of financial disengagement.<sup>30</sup>

### Digital-First Onboarding Workshops

Although employer-led onboarding is not a new concept, it's time to transform how it's used, particularly when targeting Gen Z employees just entering the workforce. To build a lasting culture of financial wellness in the workplace, employers should use the onboarding process not just to explain benefits but also to create good financial habits. As Gen Z (ages 13 to 28) comes of age, many in their early 20s are entering the workforce and earning steady incomes for the first time. This makes it an ideal moment to introduce savings workshops and mentorship that go beyond the basics. Helping young employees define short-term financial goals while also showing them the long-term impact of early saving can make retirement feel relevant and attainable to young workers. For example, emphasizing the importance of starting to save early and benefiting from the full power of compounding. Employers can do this by using clear visuals to make this benefit tangible and easy to understand as seen in Exhibit 1, and can help young employees connect with the value of long-term saving.

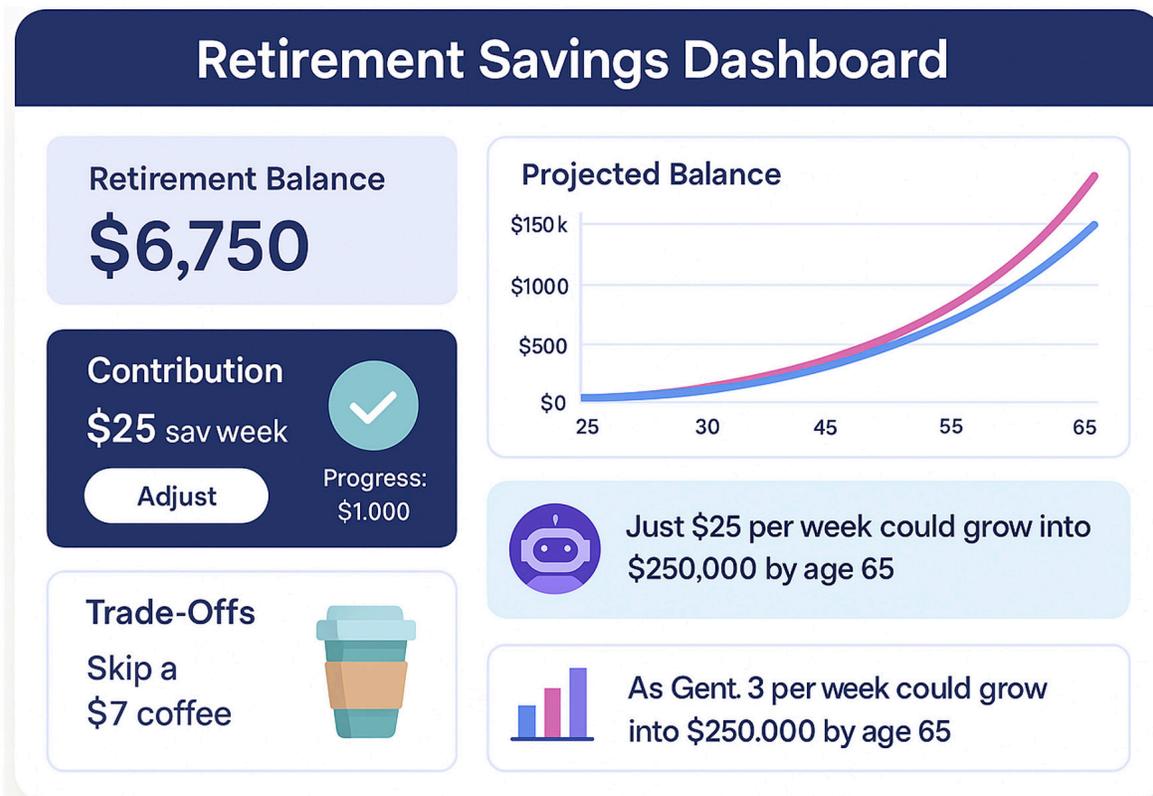


**Exhibit 1. To increase engagement, employers should send clear, actionable emails that break down how compounding works and use relatable examples and visuals.**

## Interactive Dashboards

Integrating AI-powered tools or chatbots during onboarding and on company dashboards can personalize the experience by showing employees how their retirement savings could grow over time with increased contributions, compared to their current 401(k) contribution rate. For example, instead of simply saying “save 10% of your paycheck,” a chatbot could show them how contributing just \$25 per week could grow into six figures over time based on their age, salary, and personal goals. As new users interact with a

retirement portal, consider presenting essential options (like increasing contributions) clearly and disclosing deeper customizations only with user action to avoid distracting their critical progress. These tools let employees experiment with different contribution levels, visualize trade-offs like skipping a \$7 coffee, to create their own personalized path toward financial goals like seen in Exhibit 2’s<sup>31</sup> digital-first mindset. By updating traditional onboarding with tech-enabled, personal guidance, employers can turn a standard HR process into something relevant and rewarding.



**Exhibit 2. An interactive dashboard can show employees in real time how small changes like increasing their weekly contribution by just \$10 or how their current contribution can compound and lead to major long-term gains.**

## “Free Money” Matching/Vesting

One of an employer’s most effective savings incentive strategies is employer matching, where the company contributes to an employee’s 401(k) based on how much the employee contributes from their paycheck. This approach not only encourages saving behavior but also helps overcome barriers like low financial literacy or pressing short-term expenses. When framed

correctly, matching contributions can feel like “free money” since the more an employee contributes, the more they receive from their employer, which builds positive reinforcement to saving behaviors.

To further increase engagement, employers should update benefits platforms to show the real-time value of matching contributions. Visual

dashboards or progress meters can make the benefit more tangible and reinforce its long-term value. Standardizing the match across firms and introducing tenure-based increases can also strengthen trust and motivate continued participation. Research from Vanguard supports this strategy: offering a match significantly boosts plan participation—78% of employees participate when a match is offered, compared to just 48% when no match is available.<sup>32</sup>

Another key tool for promoting retention and long-term savings behavior is the vesting schedule. Vesting determines when employer contributions officially belong to the employee. Instead of granting ownership all at once, companies can use graded or cliff vesting to reward consistency and loyalty. For example, under a three-year cliff vesting schedule, employees earn full ownership of employer contributions only after staying with the company for three years. This creates a powerful incentive both to stay with the company and to commit to saving.<sup>33</sup> Accelerated vesting options where employees gain faster access to employer contributions by exceeding base contribution rates can further reinforce this commitment. This flexibility shows that employers are investing in their employees' futures and rewarding smart, consistent financial behavior.

By combining thoughtful employer matching strategies with well-structured vesting schedules, companies can create a retirement benefits system that not only helps their employees build financial security, but also supports trust, engagement, and long-term employee retention within their company.

## Behavioral Nudges

Small behavioral interventions like “nudges” embedded in pay stubs can dramatically improve retirement savings participation. Employers should not only send nudges in digital communications, but also should ensure that these nudges are everywhere an employee might see them: the benefits portal homepage, plan websites, digital announcement boards, and physical bulletin boards in employee break rooms.<sup>34</sup> Employers can take this insight further by aligning pay stub nudges with matching and

vesting schedules. For example, a paycheck message might read: “You’re leaving \$1,200 in free employer match on the table this year; contribute at least 5% to claim it.”

These nudges tap into the psychology of loss aversion. Loss aversion is a psychological and economic concept that describes how individuals prefer to avoid losses rather than pursue equivalent gains. Research indicates that the emotional pain associated with losing is typically felt more intensely than the pleasure of winning, often quantified as being twice as impactful.<sup>35</sup> Playing on loss aversion helps employees visualize the real value of participating and staying enrolled rather than missing out on the potential upsides in saving. Especially for younger workers or those with lower incomes, these nudges provide clarity around difficult concepts like vesting schedules and matching, which can be confusing and difficult to follow.

Incorporating personalized or semi-personalized nudges into payroll systems, especially around bonus season and annual raises, can reinforce the idea that retirement saving is not just a future concern but an immediate financial opportunity. When tied to matching incentives and clear vesting milestones, pay stub nudges can become a low-cost, identifiable way to promote long-term retirement readiness and reduce early withdraws from their retirement funds.

## Support Beyond the 401(k)

As Gen Z workers step into a new stage of life, first balancing student debt, rising rents, and modest early-career wages and then earning higher income and thinking about major financial goals like buying a home, employers have a valuable opportunity to provide support that goes beyond digital tools. For example, pairing employees with executive mentors can foster meaningful, personal relationships that guide them through financial decisions from a real-world perspective. This kind of mentorship signals that the company values not just professional growth, but also the employee’s long-term financial well-being.

Another example relates to housing. Housing inaccessibility poses a significant challenge

for younger generations in America, including millennials and Gen Z, compared to their parent and grandparent generations. This challenge is primarily driven by contributing factors such as wage stagnation, an increased cost of living, and a housing shortage.<sup>36</sup> In fact, 36% of 401(k) withdrawals are made to avoid eviction or foreclosure, and other urgent housing costs like repairs also lead to retirement account leakages, meaning money that leaves the account prematurely instead of compounding for retirement.<sup>37</sup> The impact is especially pronounced among Gen Z workers with smaller savings account balances, where two-thirds of retirement cashouts come from accounts under \$7,000.<sup>38</sup> This finding suggests that even minor financial shocks can disrupt retirement saving habits before they develop. Employer-assisted housing (EAH) programs can serve as a powerful tool to bridge this gap, offering support such as rent assistance or down payment help that stabilizes housing and allows younger workers to stay in high-cost urban areas where jobs are concentrated. These programs not only improve retention and recruitment but can also be more cost-effective than raises, offering tax advantages to both employers and employees. By integrating housing benefits into broader financial wellness efforts, employers can help Gen Z start strong and stay on track.

**“When saving and planning are part of the culture, not just side conversations, employees are more likely to take action and feel supported in their goals.”**

Employers play a powerful role in normalizing financial conversations in the workplace. When saving and planning are part of the culture, not just side conversations, employees are more likely to take action and feel supported in their goals. This approach helps close gaps in financial literacy and turns distant retirement planning into something personal and accessible. Wealth stability plays a foundational role in overall workplace wellbeing. Embedding saving and planning into the workplace culture helps employees

take ownership of their goals while reducing stress and uncertainty. According to PwC, the vast majority of employees now seek financial guidance from their employers, viewing them as more trustworthy and objective than banks or plan sponsors.<sup>39</sup> Employees want support with investing, education, and direct access to financial professionals. This need is particularly strong among younger generations, who now make up most of the workforce. A TIAA Financial Wellness Survey found that 65% of Gen Z and 61% of millennials believe it is a company’s responsibility to help employees improve and maintain their financial wellness.<sup>40</sup> But beyond traditional employees with the rise of Gen Z entrepreneurs and small business employees who may not have access to traditional workplace benefits, incorporating state-facilitated retirement savings programs is also an important part of building financial security for this generation. It’s important to recognize the growing number of Gen Z employees who are pursuing entrepreneurship or working for small businesses, where access to employer-sponsored retirement plans may be limited.

## The Role of the Workplace in Promoting Wealth Sustainability

Employees largely trust their workplace for guidance on retirement plan participation and investment decisions, with approximately 75% of workers willing to participate in retirement savings programs when offered by their employers.<sup>41</sup> This makes the workplace an ideal place to address financial challenges, given its established infrastructure, payroll integration, and ability to influence savings behavior. It starts with the design of workplace retirement investment products and the mediums through which workers grow and sustain their retirement savings. Furthermore, offering financial aggregation platforms, which integrate with employer-sponsored plans to provide personalized insight, allows for better engagement and more informed decisions.

However, the effectiveness of workplace sponsored plans faces significant challenges due to premature leakage from retirement accounts. For instance, student debt burdens constraints Gen Z’s savings and ability to fund retirement

accounts, which is amplified by inadequate emergency savings, with 56% reporting a lack of sufficient funds.<sup>42</sup> Additionally, a large portion of Gen Z assumes the primarily family caregiving role, with nearly one-third of caregivers resorting to premature withdrawal from their retirement or personal savings. These challenges begin to compound, driving further leakage from retirement savings. Notably, nearly 90% of 401(k) plans report having active participation loans, and 42% of departing employees fully cash out their retirement accounts during job transitions despite financial penalties.<sup>43</sup>

### Developing the Investment Line-Up

To effectively address the longevity risk and other financial challenges faced by Gen Z, employers must modernize their investment line-up by focusing on two key strategies: first, improving and stabilizing returns during the savings years; and second, incorporating guaranteed lifetime income solutions as employees transition into retirement. Regarding the first strategy, retirement plans have begun to offer private equity (PE) allocations into portfolios, which offer the potential to provide higher returns and lower market volatility. For example, the municipal retirement system of Texas has been able to use PE to produce better returns compared to public markets.<sup>44</sup> In alignment with this trend, the Trump administration is expected to issue an executive order facilitating the inclusion of private market investments in defined contribution (DC) plans via professionally managed solutions.<sup>45</sup> However, the use of PE presents challenges for participants such as high fees, limited liquidity, and lack of transparency. The opaque pricing models, the fact that fund managers lack fiduciary responsibility, and excessive compensation with typically 2% management fees and 20% profit sharing<sup>46</sup> provide grounds for structural changes. To safely leverage PE's returns within retirement plans, firms should require mandatory fiduciary obligations.<sup>47</sup> A simpler approach channels PE investments through already regulated investment instruments such as collective investments trusts (CITs) or target date funds (TDFs) which protect investors while still allowing retirees to responsibly benefit from PE's potential for higher returns.

For the second strategy, to mitigate the risk of Gen Z's longevity, DC plans must also include strategies to provide guaranteed lifetime income. Including qualified longevity annuity contracts<sup>48</sup> (QLACs) and deferred income annuities (DIAs) among existing DC plan offerings provides retirees with stable and predictable income, typically between the ages of 80 to 85.<sup>49</sup> This ensures participants are equipped to manage the risk of outliving their savings, leading to greater financial confidence and security throughout their retirement.<sup>50</sup>

Collective defined contribution (CDC) plans provide the ability to share risk amongst participants to further retirement security. By pooling investment risk amongst account holders, CDCs are able to reduce individual exposure to market volatility. This way participants can benefit from more stable retirement payouts and improvements to long-term financial resilience.<sup>51</sup>

### Mitigating the Risk of Early Withdrawal of Retirement Savings

To keep younger employees from viewing their 401(k) account as emergency savings, employers can offer so-called "sidecar" savings accounts linked to retirement plans. This allows employees to build emergency reserves without putting retirement savings in jeopardy. This emergency liquidity eliminates the need for loans or withdrawals from the retirement plan, which in turn effectively preserves wealth and the continuation of compounded growth.<sup>52</sup>

**“By minimizing longevity risks, increasing financial engagement, and offering safe, high-return investment opportunities, the younger workforce can have a more resilient financial future.”**

While implemented outside of the workplace, the use of baby bonds serves as a tool to promote wealth building for the next generation. These accounts, being piloted in Connecticut and

Washington, D.C., are established for children upon birth and made accessible to them in adulthood. As a policy, baby bonds reduce reliance on debt and contribute toward greater financial security across lifecycles.<sup>53</sup>

The adoption of workplace-sponsored products can improve Gen Z's ability to build and sustain wealth over longer retirement periods. By minimizing longevity risks, increasing financial engagement, and offering safe, high-return investment opportunities, the younger workforce can have a more resilient financial future.

## The Role of Policymakers

Although employers are important players, policymakers must also work to address the disparity between what retirement programs are designed to provide and what Gen Z is projected to have when they retire. This work may involve continuing policy changes through the development of SECURE 3.0, as well as more complex and controversial Social Security reform and consideration of a Universal Savings Plan.

Translating these initiatives into meaningful change will require concrete policy reform. By building on SECURE 2.0 and creating a Universal IRA system as part of a SECURE 3.0 act, we can ensure that all Gen Z workers—not just those with jobs offering traditional 401(k)s—have access to retirement plans and the tools they need to begin saving early. Although SECURE 2.0 made important progress, like offering tax credits to help small businesses start retirement plans, it still leaves out many Gen Z workers. The act doesn't reach the growing share of freelance and gig workers, who face greater financial insecurity and barriers to long-term saving. Targeted reforms to address these gaps are essential to truly democratize retirement savings for the next generation.

SECURE 3.0 could take the next step by including reforms that directly address the barriers young workers face. One idea is student loan interest forgiveness, which would forgive federal student loan interest for each year a borrower contributes to an IRA or 401(k). This approach would directly incentivize young workers to invest in retirement funds while relieving the financial pressure of

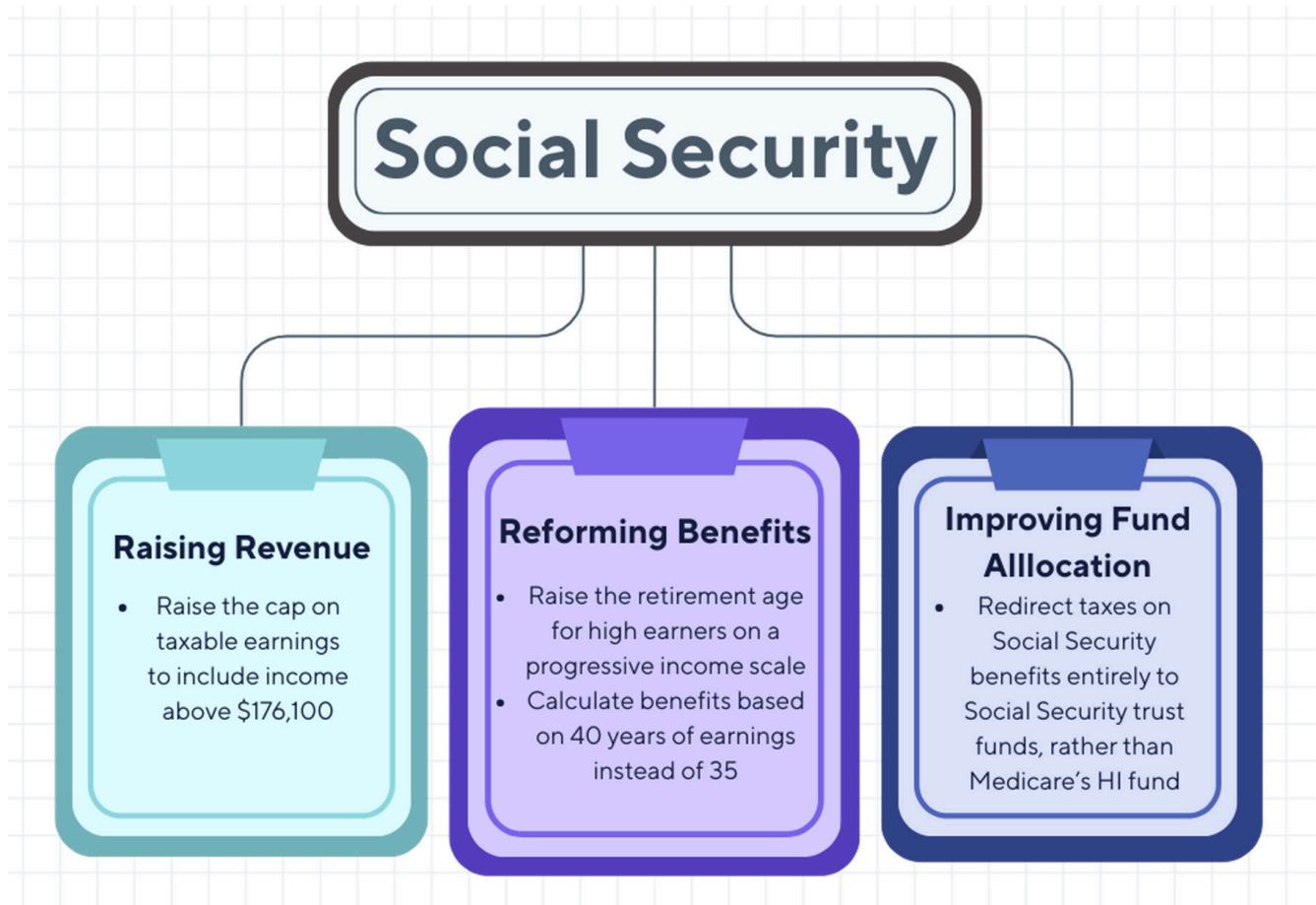
doing so. In addition, a Renters' Retirement Saving Match could support young workers facing high housing costs. Modeled on the Saver's Match introduced in SECURE 2.0, this program would extend similar incentives to renters under 35 who spend more than 30% of their income on housing. The government could provide a 50% match on retirement contributions, up to \$2,000, for individuals earning up to 200% of the federal poverty level.<sup>54</sup> This would effectively offer free dollars to help younger, lower-income workers start saving early.

Social Security and Medicare are essential anti-poverty programs that millions of retirees rely on—but without reform, Gen Z may not be able to count on these same safety nets when they reach retirement age. Both programs face long-term financial challenges: the Social Security trust fund is expected to become depleted by 2034,<sup>55</sup> and Medicare's Hospital Insurance (HI) trust fund by 2036,<sup>56</sup> primarily due to a shrinking working-age population.<sup>57</sup> Once depleted, Social Security could initially pay benefits using tax income, but without reform, only about 77% of promised benefits for Gen Z would be covered in their retirement.<sup>58</sup> Medicare poses an even greater concern, given that its rising share of the federal budget follows an unsustainable trajectory.<sup>59</sup> Given these long-term funding challenges, it is crucial to evaluate how each program affects Gen Z's retirement outlook.

Although both programs require reform, this paper focuses on Social Security due to its direct impact on individual retirement savings, while recognizing that Medicare's long-term sustainability is critical and merits more targeted policy attention.

## The Social Security Shortfall

Social Security's funding shortfall demonstrates the urgent need for reform. The projected insolvency of the Social Security trust fund means that by the time Gen Z reaches retirement age, they may receive only 77% of the benefits they've been promised, forcing them to save significantly more on their own to maintain a similar standard of living as their predecessors.<sup>60</sup> Over the next 75 years, the program faces a long-term funding shortfall equal to 3.5% of federal taxable payroll.<sup>61</sup> An effective solution must combine three core strategies: raising revenue, reforming benefits,



**Exhibit 3. Three core strategies to restore Social Security's solvency: raising revenue, reforming benefits, and improving fund allocation.**

and improving fund allocation. As shown in Exhibit 3, these approaches work together to strengthen the program's finances. One key step is to raise the cap on taxable earnings to collect Social Security payroll taxes from high earners, an approach that could raise more than \$1 trillion in revenue in a decade while making the system more equitable.<sup>62</sup> Currently, a worker earning \$30,000 pays 6.2% of their total income in Social Security taxes, whereas a worker making \$201,000 pays only 5.2%; adjusting the cap upward would help correct this imbalance.<sup>63</sup>

Reforms should adjust benefits and eligibility. For example, raising the retirement age for high earners reflects the fact that they live significantly longer than low-income individuals. For example, men aged 62 in the top income quintile live 25.6 years longer on average, compared to 15 years for those in the lowest quintile.<sup>64</sup> Additionally, calculating benefits using 40 years of earnings better reflects modern working patterns.<sup>65</sup>

Finally, all Social Security benefits should be redirected purely to OASDI trust funds, rather than partially to Medicare's HI fund as it is now. Because this revenue is generated from taxing the program itself, it makes more sense for it to reinforce Social Security's finances directly. Medicare, by contrast, draws on multiple funding streams, including payroll taxes and premiums from beneficiaries, which gives it more flexibility to absorb changes. Social Security has no such backup, making this reallocation a fairer and more logical step. Together, these reforms would help close the long-term funding gap while preserving benefits for low-income retirees and ensuring the program's long-term sustainability.

### Policy Reform

Separately, a Universal Savings Plan could further close the retirement coverage gap and strengthen Gen Z's long-term financial security. Unlike the Universal Savings Accounts Congress has debated, which are flexible tax-free vehicles, this

plan would be dedicated to retirement and include automatic enrollment to promote consistent saving. To put that vision into practice and ensure all American workers, including gig workers, part-time employees, and the unemployed, have access to a retirement plan, the federal government should establish a national, universal IRA program. This would build on and expand existing state-mandated auto-IRA programs currently active in 12 states, which require employers without retirement plans to enroll employees in a state-run IRA.<sup>66</sup> To help offset starting costs, small businesses would be eligible for an existing startup tax credit.

A Universal Savings Plan should include several key features:

- First, automatic enrollment would raise participation by defaulting workers into a plan. Since most people won't take the extra step to opt out, more will stay enrolled and keep saving.
- Second, offering both Roth and traditional IRAs would help savers diversify their tax exposure, paying taxes now on Roth contributions while deferring taxes on traditional contributions. Since individuals cannot always accurately predict their future tax rates, having both options increases flexibility and spreads risk in retirement.<sup>67</sup>
- Third, simplifying investment options by defaulting participants into target-date retirement funds would reduce decision fatigue and align with behavioral evidence that too many options reduce participation.<sup>68</sup> For example, a saver with 30 years until retirement could automatically be placed in a fund holding 90% stocks and 10% bonds, with the fund weighing bonds more and stocks less the closer the saver gets to retirement.
- Fourth, raising IRA contribution limits to match the combined limits of 401(k) plans and traditional IRAs would also ensure gig workers have equal long-term savings potential.
- Finally, making accounts portable would tie them to individuals rather than employers, so workers wouldn't need to fill out paperwork to transfer funds when changing jobs. This would

help prevent employees from withdrawing funds from 401(k) accounts when switching jobs, a choice that 42% currently make.<sup>69</sup>

**“A Universal Savings Plan would make it far easier for millions of Americans currently left out of the retirement system to stay invested in the long run.”**

Although offering a Universal Savings Plan sounds ideal, significant barriers remain to enacting them at the federal level. Building bipartisan support remains difficult, particularly among Republicans who have expressed concerns over federal overreach and administrative burdens on small businesses.<sup>70</sup> Additionally, opposition from financial firms worried about losing market share has previously stalled reforms such as stronger fiduciary standards.<sup>71</sup> Beyond political resistance, implementing such a system would require substantial administrative infrastructure, adding costs to a growing budget deficit. There is also a risk that some employers might scale back their own retirement offerings in response. However, these challenges are not insurmountable. Many employers may still maintain plans to attract talent and benefit from tax incentives, and spending reductions elsewhere could offset new costs. Overcoming these obstacles will require political will and careful policy design, but doing so is critical to closing retirement gaps nationwide.

A Universal Savings Plan would make it far easier for millions of Americans currently left out of the retirement system to stay invested in the long run. Many small businesses, already handling similar administrative tasks for this program, might find it worthwhile to set up their own 401(k) plans and to access federal tax credits and deductions, while providing workers with benefits like employer matching contributions. By combining a stronger Social Security system with even greater access to retirement savings, policymakers can provide Gen Z, and the growing number of entrepreneurs and small business owners, with the stable foundation necessary to retire.

In sum, ensuring Gen Z's retirement security will require both strengthening existing government programs and expanding access to private savings opportunities. Reforms to Social Security, such as raising the taxable earnings cap and adjusting eligibility based on income and longevity, are essential to preserving its long-term solvency. At the same time, policies like a Universal Savings Plan and targeted incentives under a SECURE 3.0 framework can close coverage gaps and make retirement savings more accessible for all workers, including those in gig and part-time roles. Together, these hard policy solutions offer a path toward a more inclusive and sustainable retirement system for the current generation of young workers.

## Conclusion

Generation Z's path to retirement is distinct, shaped by unprecedented factors such as longer life expectancy, nontraditional career trajectories,

and a rapidly evolving economic landscape. These realities distinguish Gen Z from previous generations and fundamentally shape their trajectory toward retirement.

As this paper has shown, no single solution will suffice. While recent policies such as the SECURE Act 2.0 of 2022 offer critical scaffolding, they are not enough. A sustainable solution will require a multidimensional approach: policymakers must modernize the retirement infrastructure to reflect Gen Z's employment realities, employers must engage young workers early and inclusively, and financial institutions must embrace culturally relevant strategies that reflect how this generation learns and interacts with money.

The urgency is clear. By investing in innovative and more accessible strategies today, we have the chance to reshape the retirement landscape for an entire generation.

## Authors' Note

Our paper set out to examine the risks Gen Z will face in retirement if current systems remain unchanged, from Social Security's projected shortfalls to the lacking culture of saving. We argue that no single fix will suffice; securing retirement for our generation will require a coordinated effort spanning federal policy, private employers, and individual action. In this opinion snapshot, we outline practical, concrete steps such as universal auto-enrollment and interactive dashboards that people from a range of backgrounds can use to move toward lasting retirement security.

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