



Strategies for Roth and Traditional Retirement Accounts: Is There a Best Choice for Gen Z?



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Introduction

Retirement may seem far away to Generation Z, but financial independence later in life depends on the savings decisions made today. As Gen Z weathers an increasingly unstable economy, saving early and consistently is more critical than ever. In this paper, we explore how the retirement savings system accommodates Gen Z's unique financial situation. We look at the differences between Roth and traditional 401(k)s and IRAs and explore whether any of these account types can sustain a successful retirement on its own. Ultimately, we question whether the current array of retirement saving vehicles is sufficient, or whether the system itself needs to change.

Our research points to a clear answer: Roth retirement accounts benefit Gen Z savers early in their careers. Later in life, investors may switch to a combination of Roth and traditional accounts. To supplement their Roth accounts, Gen Zers should consider opening secondary savings accounts and modifying their asset allocation. Although this strategy is optimal for many young savers, the retirement system must ultimately undergo significant change in order to truly accommodate Gen Z.

Gen Zers, born between 1997 and 2012, make up around 20% of the US population.¹ Saving for retirement is one of their top three financial goals,² and they have more assets in their defined contribution plans (employer-sponsored retirement accounts) than Gen X (those born 1965 to 1980) did at their same age.³ In fact, it seems that Generation Z has *more* than previous generations in several ways. Gen Zers are more educated and more digitally fluent than their predecessors.⁴ They also have longer life expectancies and, currently, the longest investment horizon of any working generation.⁵

At the same time, Gen Z is plagued by rising job insecurity and overall growing economic instability. Despite projections that it will become the wealthiest generation by 2030,⁶ almost one-third of Gen Z is living paycheck to paycheck.⁷ Gen Z workers' biggest concern is the cost of living.⁸ Day-to-day expenses are higher than ever before, with the Consumer Price Index up 308% since 1980.⁹ Even if Gen Zers can overcome high prices, their extended lifespans mean that they must save more money for longer retirements.

As costs rise, Gen Z workers' income streams are only growing more uncertain. For example, 43% of

Gen Zers participate in the gig economy, meaning that they miss out on both the stability and the benefits of traditional full-time employment. This percentage is higher than the 36% of all Americans who engage in gig or freelance work.¹⁰

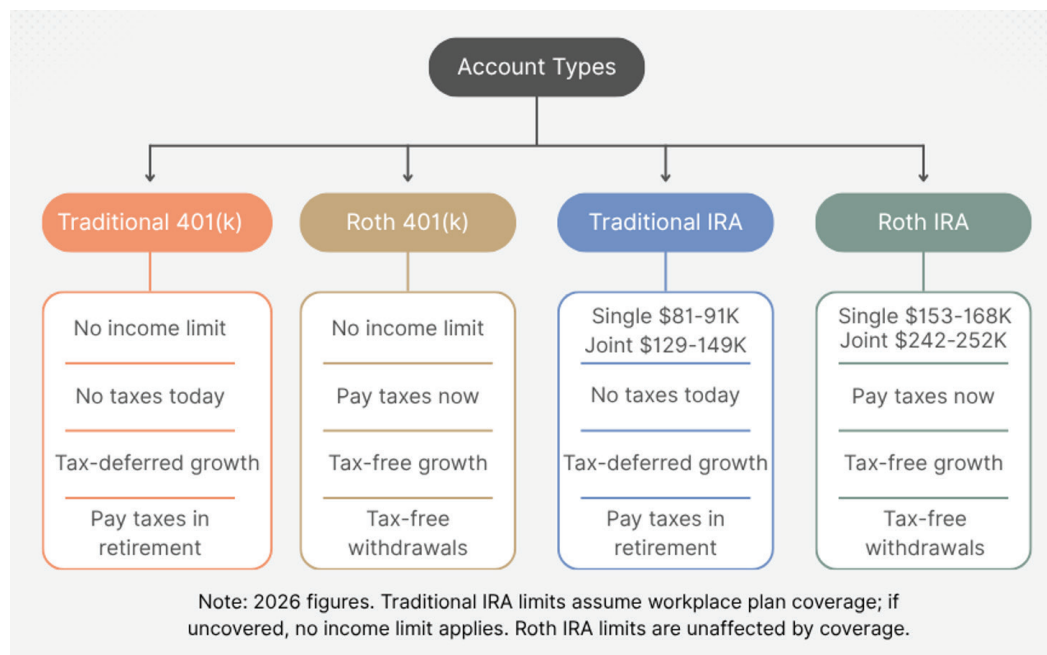
Without predictable income streams, many Gen Zers are unable to make full contributions to their retirement accounts. In hard times, young savers withdraw money early to pay off debt or sudden expenses.¹¹ Early withdrawals disrupt the compounding effect of retirement accounts; money withdrawn today could double in value if left invested for another decade.¹² Lost growth puts long-term retirement goals in jeopardy.

More broadly, less than half of Gen Z expects to own a home someday.¹³ This lack of confidence is closely tied to student debt payments, which have caused 84% of Gen Z student borrowers to put off major investments like buying a home.¹⁴ In 2025, only 38% of the oldest Gen Zers owned their homes, compared to 43% of their parents at the same age.¹⁵

Some Gen Zers are affected more than others. Surveys show that retirement saving is heavily skewed toward the wealthy. In 2016, high-income families were seven times as likely to have retirement savings as low-income families. Similarly, white and college-educated families accounted for a much larger portion of total savings than other Americans.¹⁶ Since 61% of Gen Zers get their financial education from their parents,¹⁷ this imbalance is likely cyclical.

Although Gen Z is at a systemic disadvantage for retirement, it has more savings options than any previous generation. The retirement system is constantly evolving and adding new saving routes. Gen Z can now build multifaceted retirement

Exhibit 1. Account Types



Source: Internal Revenue Service, *Notice 2025-67* (Internal Revenue Service, 2025), <https://www.irs.gov/pub/irs-drop/n-25-67.pdf>.

plans using vehicles like Roth IRAs and 401(k)s, emergency savings accounts and health savings accounts (HSAs), and thoughtful asset allocation. Such flexibility provides this young generation with a strong foundation for savings.

Of all Gen Z's options for retirement saving, the choice between traditional and Roth contributions is the most consequential. With a traditional retirement account—either an IRA or a 401(k)—savers let their money grow tax-deferred, paying taxes only when they withdraw their savings. Conversely, with a Roth account, savers pay taxes up-front, then let their retirement savings grow. When they withdraw their money later in life, both the contributions and the earnings are tax-free—and thus protected from higher tax brackets. Savers who prefer Roth-type tax treatment can open a Roth IRA, a Roth 401(k), or both. A 401(k) is an employer-sponsored account whereas an IRA is individual. Exhibit 1 demonstrates the main differences between Roth accounts and traditional retirement accounts. To reiterate, our research shows that Gen Z is uniquely positioned to take advantage of Roth accounts. As Gen Z workers' incomes grow throughout their lives, they should graduate to a combination of Roth and traditional accounts.

Although a Roth-combination strategy makes the best use of existing retirement vehicles, further innovation is necessary to ensure that Gen Z can save enough for retirement. One source of this innovation may be legislation, which is already putting safety measures in place for Americans who are behind on saving. The 2019 SECURE (Setting Every Community Up for Retirement Enhancement) Act and its 2022 successor, SECURE 2.0, have expanded and simplified 401(k) plans for many workers. The laws also introduced automatic enrollment and emergency savings accounts, which are intended to increase saving rates and discourage early withdrawals. Looking forward, Americans can expect the proposal of SECURE 3.0 to further increase the accessibility of retirement accounts.¹⁸

Although these recent laws signal progress, the traditional system must further adapt to Gen Z's new economic landscape. Our research indicates that traditional advice and savings vehicles do not completely meet Gen Z's needs. Until they do, Gen Z needs more flexibility from supplemental saving routes, which are now essential to ensuring financial independence in retirement. Legislators should decrease restrictions on such supplements to make retirement accessible for a greater portion of Gen Z. This may include expanding eligibility for HSAs and relaxing income limits for Roth IRAs.

In the following sections, we will trace this argument step by step. First, we will discuss the financial strains that put Gen Z's long-term savings at risk. Then, we will explore why today's retirement vehicles fall short of Gen Z's needs, how recent reforms are helping, and how Gen Z savers can adapt their plans to fit within the system. We begin with the core principle of every saving trajectory: the power of compounding.

The Impact of Gen Z's Financial Strains on Their Ability to Invest Over the Long Term

The Power of Compounding & the Consequences of Early Withdrawals

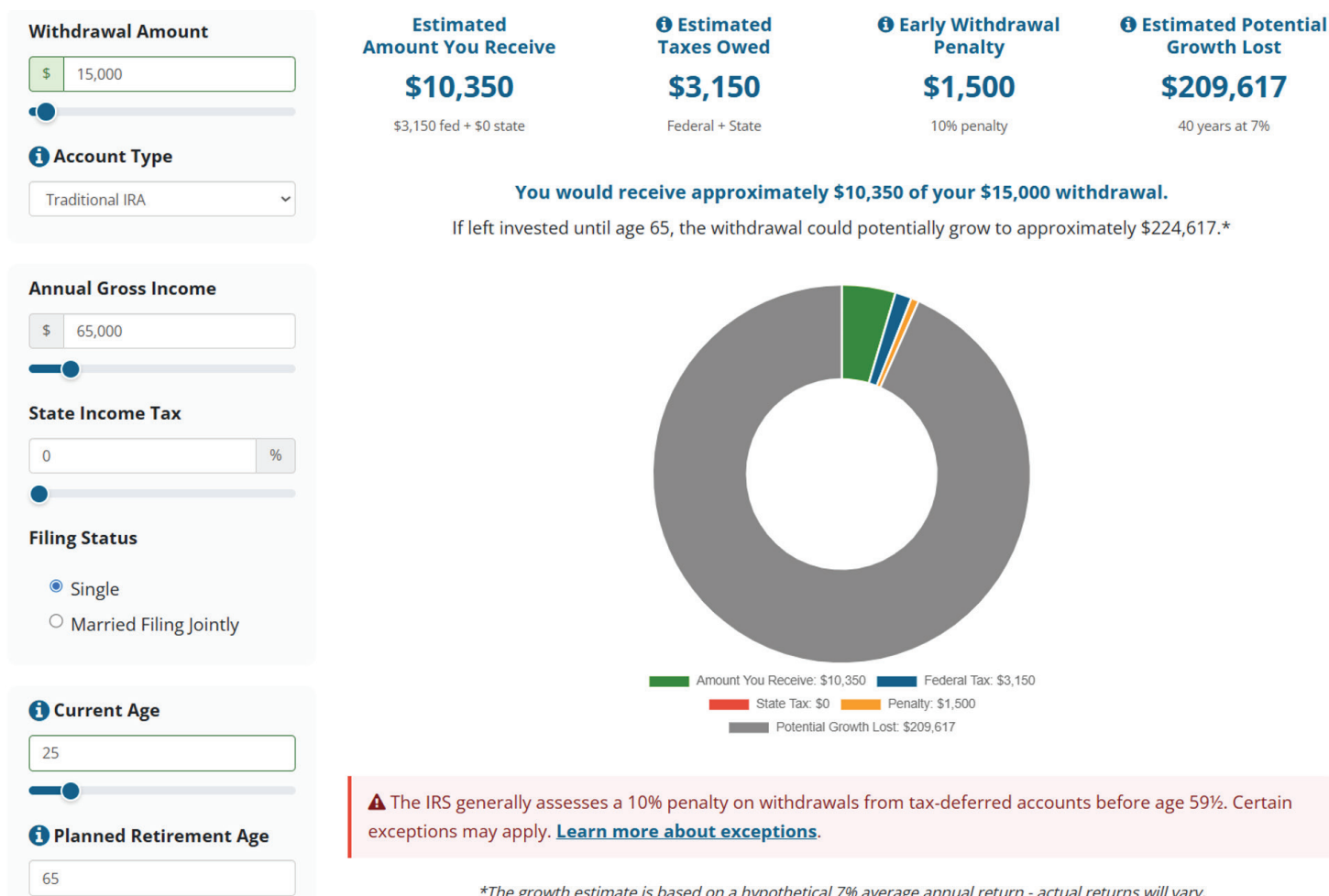
Although many Gen Zers are just beginning to think about retirement, saving early is critical to financial independence later in life. The reason is that investing early in a Roth IRA—and later in a

combination of Roth and traditional accounts—provides savers with the benefit of compounding investments. Compound growth is defined as the process of earning investment returns on both initial contributions and the accumulated interest that is reinvested. Compound growth is important because it is exponential, rather than additive. A \$1,000 investment with an annual 10% interest rate would make you \$100 in a year; if these gains are reinvested over the next 40 years without adding a single penny, that initial \$1000 would turn into more than \$45,000.¹⁹ Compound growth is most powerful for Gen Zers who are saving for retirement because of their generation's long investment horizon.

“The data on early withdrawals is concerning; nearly half (46%) of Gen Zers have withdrawn funds from their retirement accounts for emergencies or to repay both student loan and credit card debt.”

Young Gen Z workers must save not only early, but also consistently. The data on early withdrawals is concerning; nearly half (46%) of Gen Zers have withdrawn funds from their retirement accounts for emergencies or to repay both student loan and credit card debt.²⁰ Investors with longer investment horizons who interfere with their contributions in their twenties significantly reduce the power of compounding. Withdrawing even small amounts of contributions may seem harmless, but in reality this means that investors will require higher monthly contribution rates to reach a similar balance by age 65. As a result, the investor who withdraws early contributes more dollars in total principal, but earns less from compounding growth, than the investor who avoided early withdrawals.²¹

This trend of early withdrawals is driven in part by behavioral factors such as self-control and “present bias.” Present bias is the tendency to gravitate toward immediate returns at the cost of losing future returns.²² Even though Gen Zers

Exhibit 2: The Effect of a \$15,000 Withdrawal at Age 25

Calculations determined using Decision Partners, “IRA & 401(k) Withdrawal Calculator,” generated August 1, 2026, <https://www.moneyedu.org/public/calculators/ira-withdrawal-calculator.cfm?code=SMEFCU&calcs>.

are digital natives with unprecedented access to financial information and support for financial literacy, they are still prone to financial stress and emotional decision-making. This is especially true for employees who have experienced job loss, unexpected expenses, and low levels of liquid savings. Behavioral factors such as self-control and financial present bias play a significant role in an individual’s decision to withdraw money from their retirement account. These behaviors are often responsible for financially costly decisions.²³

Although early retirement withdrawals may provide immediate financial relief, they also impose short-term costs that outweigh the potential immediate benefits. The consequences vary depending on which tax-advantaged account is being withdrawn

from, whether post-tax (tax up front) Roth accounts or pre-tax (upon withdrawal) traditional accounts, as well as the circumstances of withdrawal. In a traditional account, investors may pay income taxes and a 10% penalty for all assets withdrawn early. In a Roth account, investors must pay penalties only on the gains.²⁴ Although Roth accounts may provide flexibility and temporary financial relief by offering penalty- and tax-free withdrawals on contributions, young investors’ emergency reliance on retirement accounts has undeniable long-term effects. Investors should minimize their reliance on retirement assets during emergencies to reduce lost compound growth and lost wealth accumulation. *Exhibit 2 considers an investor who has been consistently contributing to his traditional IRA portfolio who makes just one \$15,000 withdrawal at age 25; based on that one decision, he*

ends up paying almost \$210,000 in lost potential growth by age 65 when he chooses to retire early.

The Importance of HSAs and Emergency Savings

Gen Zers can avoid dipping into retirement savings by building a financial buffer to absorb emergencies before they cause long-term damage. One harmful cause of early withdrawals is medical emergencies. Health insurance has become one of the most desired benefits for Gen Z employees.²⁵ The growing demand for health benefits highlights the importance of reducing out-of-pocket healthcare expenses, which often influence investors to draw early from their retirement assets. Health savings accounts (HSAs), which are offered by some employers to allow workers to save for medical expenses, are one of the most effective tools to prevent large sums of debt from unexpected medical expenses. HSAs have the benefit of being triple-tax-advantaged: they allow for tax-free contributions, tax-free capital gains, and tax-free withdrawal funds for qualified medical expenses.²⁶ For non-qualified medical expenses, HSAs still allow investors to withdraw tax-deferred funds (taxed on withdrawals), like pre-tax traditional accounts, starting at age 65, and they offer potential employer matches.²⁷ Serving as an additional financial buffer, HSAs prevent investors from withdrawing savings from their primary retirement account to pay for medical expenses or emergencies, with the advantage of providing investors with an additional compounding investment account for retirement.

Although HSAs help with unexpected healthcare expenses, keeping Gen Zers from disrupting their compounding investments, they don't address daily living expenses. Often, high expenses lead to the accumulation of credit card debt. An emergency fund should cover six months of expenses in case investors cannot receive income to pay for their expenses. Gen Z investors should keep their emergency funds in high-yield savings accounts. These are a type of deposit account offered by banks. High-yield savings accounts provide a higher annual percentage yield (APY), allowing savers to earn higher interest rates, which both aids growth and minimizes loss of value from inflation.²⁸ Maintaining six months of living expenses in a high-yield savings account allows

investors to build an emergency fund, reducing the temptation to withdraw from retirement accounts during unexpected emergencies.

The Triad of Compounding, HSAs, and Emergency Funds

As housing becomes less affordable, with 67% of Gen Zers reporting struggles to cover housing costs, and as student loans continue to strain Gen Zers' budgets, financial resilience and planning have become increasingly important.²⁹ Three steps to help avoid early withdrawals from retirement accounts are budgeting for monthly expenses, building a six-month emergency fund, and contributing to an HSA if eligible. Applying these safety nets should provide Gen Z investors with peace of mind. They can curb the temptation to withdraw from retirement accounts during job transitions or financial emergencies, and they prevent the accumulation of bad debts. In the future, provisions like universal access to HSAs as well as new retirement savings vehicles that further discourage early withdrawals may be essential to supporting Gen Z's financial independence. They are effective because they encourage Gen Zers to take full advantage of the power of compounding.

The Current Retirement System: Why It Doesn't Fit Gen Z

As Gen Z navigates a unique set of macroeconomic challenges and workplace realities, it has become apparent that traditional retirement advice is fundamentally mismatched with Gen Z's reality. The problems that this generation faces are distinct from those of past generations. As a result, retirement advice and savings vehicles must undergo significant change to support Gen Z in effectively preparing for the future. This change should include both modifications and entirely new ideas for retirement planning.

The existing array of retirement savings vehicles available to Gen Z is well-designed for some challenges, but not all. These vehicles mainly consist of both traditional and Roth IRAs and 401(k)s, and they focus on two main questions: *Would you prefer to pay taxes now or later?* and *What structures are available to you through your*

employer? Although these vehicles offer some flexibility to savers, they ultimately fall short of Gen Z's needs. This is unsurprising considering that these vehicles were created decades ago. They stretch all the way back to 1974 for IRAs³⁰ and 1978 for 401(k)s.³¹ Even the Roth 401(k), the newest vehicle of the group, was created in the early 2000s—before most Gen Z investors were born. The age of these vehicles has created a deep divide between whom they were created to serve and whom they must serve today.

The current savings vehicles were developed with a very different group of people in mind than the current generation. The 401(k) was designed for the baby boomer generation as a replacement for the pension plan. The IRA, on the other hand, was meant to be a supplement to employer-sponsored plans. Today, pension plans are largely obsolete, and IRAs serve as many workers' primary saving vehicles. Necessarily, Gen Zers are not using these savings vehicles as they were intended to be used.

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At the time of their conception, both the 401(k) and the IRA assumed that retirees would also benefit from Social Security. Today, Social Security funding is running low, with estimates that its trust fund will run out as early as 2032.³² If this were to happen, it would reduce Gen Zers' ability to rely on Social Security as a supplemental source of income in their old age. This is significant, because 401(k)s and IRAs were designed with Social Security in mind. Specifically, they were not designed to be the holder's sole source of income in retirement. Rather, they were meant to be used along with Social Security benefits. If Gen Z were

to lose Social Security income, it would further prove that the current set of retirement accounts was created for a world that no longer exists for younger investors, and it would put more pressure on retirement accounts than they were originally designed for.

Beyond account design, the baby boomer generation (born 1946–1964) enjoyed a financial stability that Gen Z has largely been unable to obtain. Boomers had stable jobs where they stayed long-term, often until they chose to retire. Research shows that, on average, boomers spent 7.5 years at each place of employment. In comparison, Gen Z is spending only about one year at each job.³³ This difference is generational, not age-related; even early on in their careers, baby boomers stayed at their first jobs longer than later generations did, on average.³⁴ Boomers' jobs were their primary source of income, and they provided a predictable income stream with growth over time. Perhaps most significantly, the jobs also had solid benefits and offered 401(k) plans to employees. 401(k) plans often included employer matching contributions, offering workers an easy way to prepare for retirement. This context makes it easy to trace the origins of traditional retirement advice. Boomers were able to put a certain percentage of their stable incomes into 401(k)s, enjoy employer matching, and simply let their money grow over time. However, this model is incompatible with Gen Z workers who switch jobs at high rates as they chase competitive salaries and increased job security.³⁵

Job instability extends beyond traditional employment; Gen Zers also participate in gig work to a higher degree than other generations. Gig workers are classified as freelancers or independent contractors, which greatly reduces their access to employer 401(k) plans. Nontraditional gig workers do not receive any additional contributions from an employer, so they must take a more active role in investing through utilizing an IRA instead of a 401(k). Additionally, gig workers suffer more from employment instability than other Gen Z workers. Unpredictable income streams make saving much more difficult than the traditional advice model suggests it should be. This issue is only magnified for workers who rely on their own investment choices in an IRA, whereas workplace-based plans tend to offer automatic saving.

Critically, IRAs were never meant to be a standalone retirement solution. Instead, they were designed as supplements to the 401(k)s that replaced pension plans and had higher contribution limits. IRAs have lower contribution limits: only \$7,500 for 2026 versus \$24,500 for 401(k)s. This means that Gen Z investors who rely solely on an IRA due to their employment status are at a significant disadvantage. Their contributions into an IRA will not suffice as their sole source of retirement savings, so they will have to place any excess contributions in standard taxable accounts. This will eat into their returns over time. Therefore, IRAs' low contribution limits further prove that the current retirement solutions were not designed for the world Gen Z lives in.

Gen Z's incompatibility with the traditional system is largely design-based, but Gen Z also faces unique economic challenges that boomers did not. One of these challenges is record-high federal debt.³⁶ In the future, the federal debt will likely result in very unfavorable tax rates, especially as ever-increasing interest payments on this debt strain the government's budget. Higher tax rates would sharpen the distinction between Roth and traditional accounts, putting pressure on the retirement account selection process for Gen Z. Specifically, for many Gen Z investors, the use of Roth accounts will be more important due to potentially rising tax rates as they get closer to retirement. However, a Roth IRA still may not fit all of Gen Z's needs, especially for nontraditional workers or job hopppers. Changing economic circumstances and the outdated design of saving vehicles make it clear that traditional retirement advice does not meet the demands of Gen Z's unique challenges.

Improvements to the System

Looking at the present and towards the future, it is not all bad news for Gen Z workers. Although current retirement savings vehicles are antiquated, recent legislation has helped them evolve to better suit younger and nontraditional workers' needs. Future legislation also looks promising and may result in further changes that will support Gen Z for decades to come. The financial services industry has also improved retirement advice for younger investors with innovations such as

the backdoor Roth IRA (a tax strategy explained below) and the promotion of Roth 401(k) accounts.

“Changing economic circumstances and the outdated design of saving vehicles make it clear that traditional retirement advice does not meet the demands of Gen Z’s unique challenges.”

A key piece of legislation that has significantly changed how Gen Z can use savings vehicles to its advantage is the SECURE Act, which is currently in its second iteration, with a third on the horizon. Starting with the SECURE Act 1.0 in 2019, this series of laws has modified traditional accounts to better suit the needs of the current working population. First, the SECURE Act confronted the fact that Americans are now working and living longer than ever. They must plan to use their savings over a longer time span or possibly at a later age if they continue working past a traditional retirement age. This creates a problem with the structure of certain retirement accounts with a required age at which the owner must begin withdrawing their assets. A required withdrawal age increases the risk of someone running out of funds early. It also forces people who are still earning an income to begin withdrawing and thus lose out on the power of further compounding. Required withdrawal ages are an especially important issue for Gen Z workers as new medical technology further extends lifespans. Younger investors will have to be more cautious about planning their savings for a longer retirement period. SECURE Act 1.0 addressed this issue by increasing the age for required minimum withdrawals from 401(k)s and traditional IRAs from 70.5 to 72. The SECURE Act 2.0, enacted in 2022, further expanded upon this by raising the age for these required minimum withdrawals to 73, then increasing it again to 75 beginning in 2033.³⁷ Therefore, legislation has helped modify current retirement vehicles to better

suit the needs of a generation with longer life expectancies and careers.

The SECURE Act also introduced more provisions to help Gen Z workers who participate in nontraditional work and lack a stable income source. The SECURE Act significantly expanded company retirement plan access to part-time employees by implementing the “long-term, part-time” (LTPT) employee rule.³⁸ This rule requires employers to allow part-time employees to take part in company 401(k) plans, if they have been employed there for at least three consecutive years and worked a minimum of 500 hours per year. This change is especially important for younger workers who, as mentioned previously, often rely on multiple jobs or gig work to piece together their incomes. Their unpredictable income streams make consistent saving difficult. By giving part-time workers access to 401(k) plans and employer matching, the SECURE Act offers this demographic an easier way to save and grow their retirement funds. The SECURE Act 2.0 has further helped this segment of the labor force by shortening the requirements of the SECURE Act 1.0, such as reducing the time a part-time worker must have been at their company to just two consecutive years. The updated 2.0 legislation also expands these rules to workers with 403(b) plans, which are accounts like 401(k)s but generally used at employers such as nonprofits, public schools, and churches.

Finally, the SECURE Act has also benefited Gen Z workers who have pursued higher education by offering more flexibility in how retirement savings vehicles and education expenses can be used together to benefit younger workers. Specifically, the SECURE Act 2.0 focused on tackling the issue of education expenses. Retirement accounts can now be used to help pay student expenses through student loan retirement matching, which allows employers to treat a worker’s student loan payments as 401(k) contributions and gives them matching benefits, even if workers are unable to directly contribute to their retirement accounts.³⁹ This is a significant change for Gen Z, which is becoming the most educated generation and therefore the generation that makes up the highest load of national student loan debt.⁴⁰ As younger workers attempt to pay down their debts, it is of utmost importance that they also

contribute to their retirement savings in order to take full advantage of the power of compounding over time. However, this may be difficult for many workers who are just entering the labor force in lower-paying roles and with high monthly loan repayments. As a result, this legislation can be life-changing in supporting Gen Zers at the start of their careers, when saving early will pay massive dividends later. Another change the SECURE Act 2.0 introduced was the rollover of unused funds from 529 accounts into a Roth IRA with no penalties for the beneficiary.⁴¹ These 529 accounts are tax-advantaged investment accounts designed to be used to pay for K-12 or higher education for the beneficiary.⁴² If funds are withdrawn for non-education-related expenses, taxes and penalties will come into effect, even if the beneficiary’s education has been fully paid for. Although many Gen Zers deal with student loans, other members of this demographic have no debts from education, but rather unused funds in their 529 account. Those funds can be now used to start investing for retirement, and Gen Zers can allow the power of compounding to get to work as early as possible.

Efforts are also being made to introduce SECURE Act 3.0, a new iteration designed to further help young workers. Though it remains to be seen whether the SECURE ACT 3.0 will come to fruition, and what exactly it may contain if it does, it includes several additional proposals that would be especially helpful for Gen Z workers. For example, the proposed Helping Young Americans Save for Retirement Act would allow workers aged 18 to 20 to participate in employer-sponsored retirement plans.⁴³ If passed, this would be especially impactful because of the power of compounding when one starts investing early. It would also allow many younger Gen Z workers to take advantage of employer matching programs. Another proposal that would tackle one of Gen Z’s problems is the Unclaimed Retirement Rescue Plan Act. As stated previously, Gen Z workers switch jobs at higher rates than any previous generation. Although they may switch jobs to chase benefits such as more competitive pay, doing so often results in forgotten “zombie” 401(k) accounts that are left behind when people switch jobs. This new proposal would enable the Department of Labor to better use tools such as unclaimed property programs and the

Retirement Savings Lost and Found database to help workers recover their lost savings.⁴⁴

Alongside the efforts of legislators in Washington, D.C., the financial services industry has played a crucial role in preparing Gen Z for retirement. Today, Roth IRAs have income limits for contributions (\$153,000 for single filers and \$242,000 for joint filers).⁴⁵ Young workers now may rarely have incomes exceeding these limits, but the limits will become an issue for many as their careers progress and salaries rise, limiting whether or not they will be able to take advantage of a Roth IRA account. The financial services industry has innovated to solve this issue and offer higher earners more options through the creation of a "backdoor Roth conversion." This strategy involves making after-tax nondeductible contributions to a traditional IRA account that has no income limits and then transferring these funds to a Roth account.⁴⁶ Since conversions have no income limits, the backdoor Roth strategy effectively gets rid of income limits for Roth IRA contributions, allowing high earners to take advantage of Roth IRA tax benefits.

The financial services industry has also promoted the use of Roth 401(k) accounts, allowing workers who utilize company retirement plans to take advantage of the tax-now nature of these accounts. Although Roth 401(k)s have been available since the mid-2000s, they have taken time to become mainstream. As of 2023, approximately 93% of employer plans offered Roth 401(k)s, the highest since their creation and an increase of about 30% from a decade earlier.⁴⁷ However, even though these accounts are now prevalent, only around 21% of workers contribute to them, signaling a need for their continued growth so that more workers can take advantage of them. This need will fall heavily on the financial services industry, especially financial advisors and planners who already often advise lower-income and younger workers to take advantage of Roth 401(k)s.⁴⁸ As time progresses and more Gen Zers begin saving for retirement, the financial services industry will play a critical role in promoting Roth 401(k)s to younger workers.

Should Gen Z Pay Taxes Now or Later?

Although traditional retirement savings strategies may not fully align with Gen Z's career paths, they remain the foundation of today's retirement system. As more young adults work multiple jobs, freelance, or engage in gig careers without traditional employer-

sponsored retirement plans, the question becomes: Should Gen Z workers prioritize Roth or traditional retirement savings? This may seem like a simple decision; in reality, it requires investors to weigh their current tax bracket against their expected tax bracket in retirement.

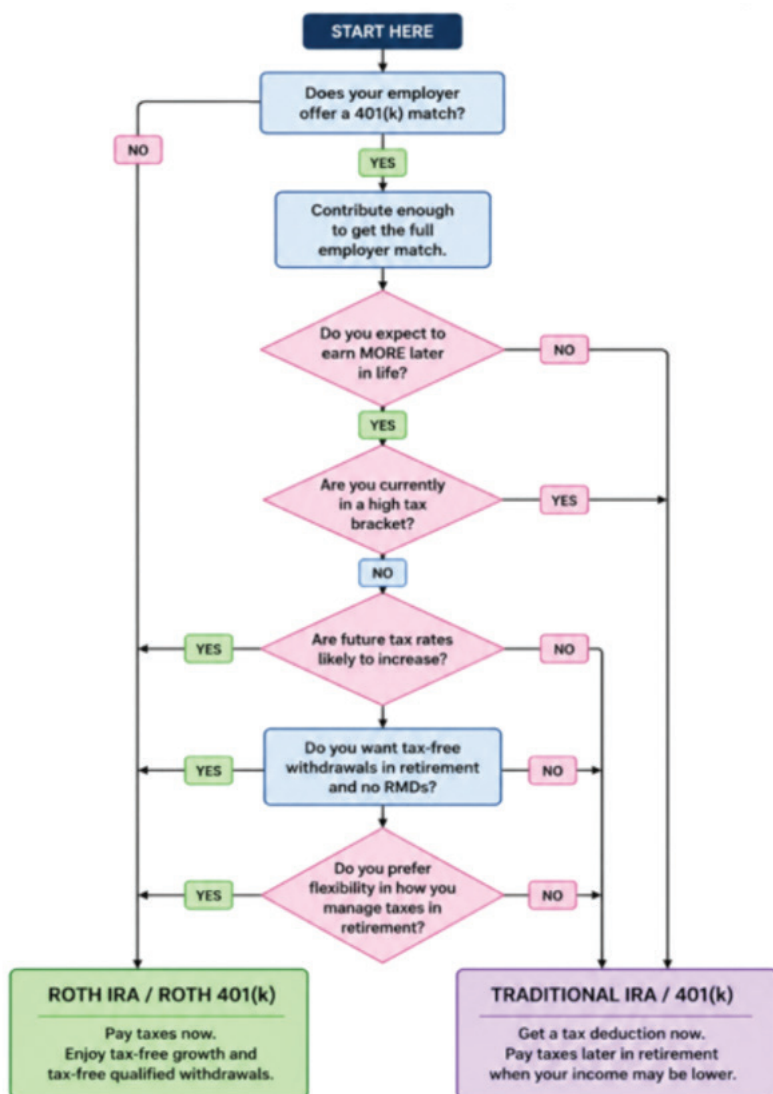
Although retirement accounts can take different forms, including IRAs and employer-sponsored 401(k)s, they generally fall into two tax-treatment categories: Traditional and Roth. Traditional retirement accounts, including Traditional IRAs and Traditional 401(k)s, generally allow individuals to contribute pre-tax dollars, reducing taxable income in the year they make the contribution. Investments then grow tax-deferred until retirement, when withdrawals are generally taxed as ordinary income. This provides an immediate tax benefit and may appeal to individuals who expect to be in a lower tax bracket during retirement.

“The decision between these two account types depends on one central question: Will your tax rate be higher today or during retirement?”

In contrast, Roth retirement accounts, including Roth IRAs and Roth 401(k)s, are funded with after-tax dollars, meaning contributions do not provide an immediate tax deduction. However, when certain IRS requirements are met, qualified withdrawals, including decades of investment growth, can be completely tax-free in retirement. This tax-free growth can be especially valuable over long investment horizons. For example, consider a 24-year-old who contributes \$7,000 at the end of each year through age 65. The potential outcome varies depending on the assumed investment return. At a 6% average annual return, the account could grow to approximately \$1.16 million by the time the investor retires at age 65. At an 8% return, it could reach approximately \$1.96 million, and a 10% return could produce approximately \$3.45 million. These figures illustrate how crucial long-term retirement outcomes are to investment-return assumptions.

The decision between these two account types depends on one central question: *Will your tax rate*

Exhibit 3. Retirement Account Decision Flow (Roth vs. Traditional)



be higher today or during retirement? If an investor expects to retire in a lower tax bracket, traditional accounts provide greater value because withdrawals are taxed at a lower rate during retirement. For investors who expect to retire in a higher tax bracket or believe tax rates will rise over time, Roth accounts provide greater value because taxes are paid at today's lower rates.

Rising federal debt and growing government budget deficits make it difficult for Gen Zers to assume that today's tax rates will remain the same throughout their careers. Retirement savings may remain invested for 40 or even 50 years, making the choice between Roth and traditional accounts a long-term decision rather than a short-term one. For many members of Gen Z, long investment horizons and low early-career

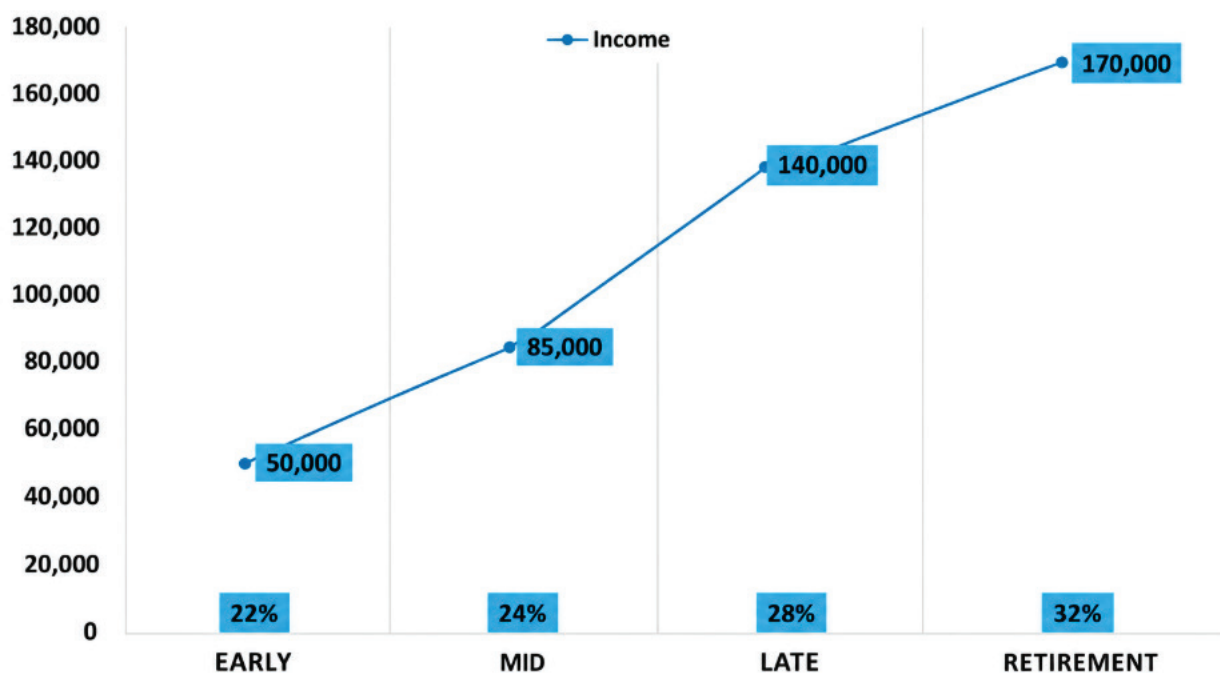
tax brackets make paying taxes now through a Roth account more attractive. However, no single retirement strategy is appropriate for every investor. Over those decades, tax laws, government spending priorities, and economic conditions will likely change. Rather than viewing Roth and traditional accounts as opposing choices, young investors should look at them as strategies designed for different financial circumstances. Selecting the right account requires investors to evaluate their current financial situation alongside their expectations for future income and tax rates. *Exhibit 3 offers a flowchart that guides young investors through key considerations when choosing between Roth and Traditional retirement accounts, including employer matching, expected future income, current and future tax rates, and preferences for tax-free withdrawals in retirement.*

Why Future Tax Rates Matter

Since the federal income tax was established in 1913, Congress has repeatedly adjusted tax rates, with the top marginal rate ranging from as low as 7% to as high as 94%.⁴⁹ Congress adjusts tax rates in response to shifts in the economy, government policy, and fiscal needs.⁵⁰ Unlike workers approaching retirement, young investors will spend decades adding to their retirement accounts before making their first withdrawal. During that time, the United States is expected to continue facing rising federal debt, increasing spending on programs such as Social Security, Medicare, and Medicaid. The asset management firm BlackRock notes that these long-term fiscal trends increase uncertainty surrounding inflation, government borrowing, and future tax policy.⁵¹

No one can predict whether taxes will rise; however, few economists would argue that current tax rates are guaranteed to remain in place for the next half century.⁵²

Many members of Gen Z are likely to experience income growth throughout their careers.⁵³ Entry-level salaries for young workers often are in low tax brackets, but promotions and increased earnings move workers into higher brackets over time. If both personal income and national tax rates increase, then paying taxes while income is low will likely be less costly than paying those taxes at the time of retirement. Exhibit 4 illustrates this relationship by showing a hypothetical career path in which both income and tax rates increase over time.

Exhibit 4: Sample Projected Income and Tax Rates Across a Career

If a young investor's income and tax rate rise over the course of their career, paying taxes earlier through a Roth account may be more advantageous than postponing those taxes until retirement. Financial decisions should never rely on speculation or predictions about future legislation. Instead, young investors should focus on taking advantage of today's conditions: low early-career income and the longest investment horizon of any living generation.

Our Recommendation: Roth First, but Not Roth Only

The value of Roth versus traditional contributions depends on *when* an investor expects to face the lower tax rate. Given the uncertainty surrounding future taxes, today's tax position is especially important for Gen Z. We recommend that many members of Gen Z begin their retirement savings with Roth contributions, whether through a Roth IRA or a Roth 401(k), depending on their employment situation and access to an employer-sponsored plan. Most recent college graduates begin their careers in lower tax brackets before advancing higher-paying roles over time. Starting with Roth contributions allows investors to benefit from today's lower tax rates before higher

earnings make traditional accounts more attractive. As incomes increase and tax deductions become more valuable, traditional accounts can begin to play a bigger role within an overall retirement plan. However, Roth should not be the only retirement strategy considered. As income rises, tax circumstances change, or workers gain access to employer-sponsored plans, Traditional accounts may become more advantageous. Gen Z investors should reevaluate their retirement strategy over time and use both Roth and Traditional accounts when appropriate.

Key Takeaway for Workers Whose Employers Offer a Match: Capture the Full Employer Match First

Employees with an employer-sponsored retirement plan should always contribute enough to receive the full employer match, regardless of account type. An "employer match" means the employer contributes additional money to the employee's retirement account based on the employee's own contributions. Because the employer makes this contribution at no additional cost to the employee, it is a guaranteed return on the worker's investment. Employer matching formulas vary by company, but the match is typically based on a

percentage of the employee's own contributions, often up to a specified limit. For example, an employer may match 50% of an employee's contributions up to a certain percentage of the employee's salary.

If an employer offers a match, investors should contribute enough to capture the full amount before deciding how to allocate additional retirement savings. If an employer does not offer a match, investors can move directly to choosing between Roth and Traditional contributions based on their current income, expected future tax rate, and long-term financial goals.

The "corporate" scenario in the next section provides a typical example for workers who do have access to employer matching.

Applying the Framework: Scenarios for Startup, Corporate, and Gig Workers

No single retirement account is better than the other. The better question is not *"Which account is best?"* but, rather, *"Which account is best for my financial situation today?"* For many members of Gen Z, the answer is a Roth-first approach early in their careers, with traditional accounts playing a larger role as income rises. Rather than choosing one account for life, investors should view retirement planning as an evolving strategy that changes with their financial circumstances.

"No single retirement account is better than the other. The better question is not, "Which account is best?" but rather, 'Which account is best for my financial situation today?'"

Rather than identifying one "correct" choice, these scenarios show how retirement decisions should be based on individual financial circumstances.

A young professional working for a startup may earn a good starting salary but receive few retirement benefits, including little or no employer matching. Employees at fast-growing companies often expect salary increases as their careers progress. In this situation, prioritizing Roth contributions allows taxes to

be paid while income remains low, leading to decades of investment growth. As earnings increase later in the employee's career, traditional contributions may become more valuable because the tax deduction has a greater benefit.

An employee working for a corporation is more likely to have access to a 401(k) plan with employer matching contributions. In this case, the priority should be setting aside enough to receive the full employer match. For example, an employee earning \$80,000 whose employer matches dollar-for-dollar (that is, a 100% match) up to 5% of salary would receive an additional \$4,000 each year by setting aside 5% of their salary. After receiving the full match, a corporate employee can use a Roth account for additional retirement savings while they remain in a lower tax bracket. As wages increase over time, a traditional account becomes more beneficial because the immediate tax deduction becomes more valuable.

Gig workers and freelancers face the greatest retirement planning challenges. They usually don't have employer-sponsored retirement plans and have less predictable incomes. Rather than contributing a fixed amount every month, many save whenever their income allows. For example, a freelance graphic designer earning around \$40,000 per year may not be able to set aside the same amount every month. Instead, they may invest more after completing a large project and less during slower months. Consistently investing whenever possible can still build sustainable retirement savings over time. Many gig workers begin in low tax brackets; a Roth IRA is often a better option and starting point that allows future investment growth to be withdrawn tax-free during retirement. Gig workers who have a high-deductible health plan may also consider contributing to an HSA. As income rises and an investor moves into a higher tax bracket, the upfront tax deduction offered by Traditional contributions can become more valuable because each pre-tax dollar contributed may offset income that would otherwise be taxed at a higher rate. Exhibit 5 summarizes how income, employment circumstances, and access to employer-sponsored plans can influence whether Roth or Traditional retirement savings may be more appropriate.

Asset Allocation Through Life

Choosing the right retirement account is important, but how those savings are invested within that account

Exhibit 5: Decision Matrix for Choosing Roth vs. Traditional Retirement Vehicles Depending on Employment

Situation	Roth	Traditional	Why?
Startup employee expecting income growth	✓	•	Pay taxes while income is lower
Corporate employee with employer match	✓	•	Capture full match first, then consider Roth
Corporate employee with higher income	•	✓	Tax deduction becomes more valuable
Gig worker / freelancer with lower income	✓	X	Low tax bracket favors Roth
Gig worker with unpredictable income	•	•	Depends on income and cash flow
LEGEND ✓ Recommended • It depends X Generally not recommended			

(or multiple accounts) is equally important. Asset allocation is the process of divvying investments among stocks, bonds, and cash.⁵⁴ It is one of the most important factors influencing long-term investment performance. It also allows Gen Z savers to further personalize their retirement saving plans. According to J.P. Morgan Asset Management's 2026 *Guide to Retirement*, younger investors should allocate a larger portion of their portfolios to stocks because they have more time to recover from market volatility.⁵⁵ As investors approach retirement, their portfolios should shift toward bonds and cash, which provide stability and help accumulate and preserve wealth.

For example, a 25-year-old investor saving for retirement may hold a portfolio consisting of 90% stocks and 10% bonds. If the stock market declines by 20% during the next year, the investor still has decades before retirement. This leaves time for the market to recover. On the other hand, a 60-year-old investor has much less time to recover from a market decline. A portfolio with a larger allocation to bonds and cash might help an older investor reduce volatility and protect their previous retirement savings. Exhibit 6 demonstrates how an investor might change their

asset allocation as they age. Gen Z savers should implement thoughtful asset allocation as an additional retirement saving tool.

Limitations of Current Roth Policy

Although Roth accounts can provide significant benefits for younger investors, current retirement policy does not equally support all members of Gen Z. Annual contribution limits, income restrictions, and reliance on employer-sponsored plans can limit how effectively young workers save for retirement. These barriers are particularly important as more workers pursue freelance, gig, and nontraditional careers without access to workplace retirement benefits. Policymakers could address these limitations through several reforms. First, Congress could expand access to Roth accounts by raising the income limit for direct Roth IRA contributions. This would allow more workers to continue contributing to a Roth IRA as their earnings increase throughout their careers.

Additionally, policymakers could create stronger incentives for low- and middle-income workers who do not receive an employer match. A federal matching

Exhibit 6: Asset Allocation by Age

Age	Stocks	Bonds	Cash
20–30	90%	10%	0%
30–40	80%	20%	0%
40–50	70%	30%	0%
50–60	60%	35%	5%
Retirement	45%	45%	10%

Source: J.P. Morgan Asset Management, 2026 Guide to Retirement; Young, Roger, CFP®. “Retirement Savings by Age: What to Do With Your Portfolio in 2026.” T. Rowe Price, December 2025. <https://www.troweprice.com/personal-investing/resources/insights/retirement-savings-by-age-what-to-do-with-your-portfolio.html>

contribution could provide eligible workers with an additional retirement contribution based on the amount they save. This could give gig workers, freelancers, and employees without workplace retirement benefits an incentive to consistently save for retirement.

These reforms would not make Roth accounts the correct choice for every investor. Instead, they would expand access to retirement savings opportunities and help more Gen Z workers build long-term retirement savings regardless of their employment situation.

Conclusion

As the last members of Gen Z filter into the workforce, more young adults will have to decide between Roth and traditional retirement accounts. At its core, this is a question about tax rates and future income. It is also, as our research demonstrates, a generation-wide accessibility issue. Gen Z workers are saving for retirement within a system that was not built for them. They face high tax rates and higher costs of living. They pay more for healthcare and have less steady streams of income. Unlike generations before them, they cannot rely on Social Security or pension plans. Gen Z’s struggle to afford the present is harming its future chances at successful retirement. In this economic context, behavioral missteps such as undersaving and early withdrawals are not moral failings at all, but casualties of an outdated system.

Although the retirement industry does not offer Gen Z the straightforward path to retirement that it did baby boomers, young adults can take comfort in recent progress. The two versions of the SECURE Act prove that legislative change is possible and

effective. Emergency savings accounts and HSAs provide promising avenues of supplemental saving. The retirement industry is already evolving to accommodate its newest entrants.

Most important, the system allows each worker to craft a personalized retirement plan. For some savers, this looks like adopting a combination of Roth and traditional retirement accounts. Others might change their portfolio’s asset allocation and open additional savings accounts. Young adults have the flexibility to choose the plan that works best for them.

“In this economic context, behavioral missteps such as undersaving and early withdrawals are not moral failings at all, but casualties of an outdated system”

Although Gen Zers should be encouraged by their many options, further innovation and updates to existing vehicles are necessary to make retirement accessible for all. Roth IRA income limits prevent many investors from adding to their retirement savings. If the limits were relaxed or removed, higher-earning Gen Z workers could bypass the extra step of opening a backdoor Roth and more easily reap the tax benefits of Roth IRAs. Similarly, annual contribution caps on Roth accounts could be adjusted to allow for more effective retirement saving, and federal matching contributions

could be introduced. Beyond Roth IRAs, supplemental savings accounts like HSAs should become more widely available. This would protect more Gen Zers from dangerous withdrawal behaviors.

In 1974, the American economist Richard Easterlin discovered a paradox: “[W]hile wealthier individuals tend to be happier than poorer people, as countries get richer their populations don’t get significantly happier.”⁵⁶ A 2025 study tried to explain this conflict by introducing social variables to Easterlin’s measures of income and relative happiness. The study found that in richer countries, “higher income only matters due to its correlation with the social variables [like health and social support].”⁵⁷ This result indicates that wealth alone can only add so much to an individual’s overall well-being. Past a particular income level, social support is crucial to improving quality of life. If translated into retirement, this finding suggests that financial readiness cannot be measured by account balances alone. Certainly, the existence of Roth and traditional retirement accounts can afford Gen Zers a baseline of financial well-being. If investors

can create a plan and follow it, they will likely lay a meaningful foundation for their future retirement. But such retirement plans cannot build upward until they consider other strains on Gen Z’s financial well-being. High costs of living, debt, and healthcare expenses are inevitably part of the retirement question. Only a more flexible and far-reaching network of support, including stronger safety nets and adaptable workplace benefits, will allow Gen Z to turn early savings into true retirement success.

Lawmakers can continue to build this supportive network by making small adjustments to existing retirement vehicles, but a fundamental restructuring of the entire system is ultimately necessary. That process must begin with a shift in framing: Gen Zers’ undersaving and early withdrawals are not individual weaknesses, but symptoms of a retirement system that was not built for them. Once lawmakers and the retirement industry accept this, they can begin to implement larger changes to accommodate a new generation.

Authors’ Note

Our paper examines how retirement saving accounts, particularly Roth and traditional 401(k)s and IRAs, serve Generation Z savers. We explore Gen Z’s saving behavior, trace the evolution of retirement vehicles over time, and compare Roth and traditional account types with young savers’ needs in mind. We posit that while Gen Z workers can create optimized plans within the current retirement saving system, expanded supplemental saving options as well as structural changes to the system will ultimately be necessary.

We are deeply grateful to the Sapere Aude Consortium for inviting us into their investment and wealth management program and for supporting first-generation students and children of public servants. Our sincere thanks go to our mentors, Salma Mgawe, Emily Pachuta, and Rachel Schleicher, whose insight and encouragement guided both our research and our personal growth; this project would not have been possible without their support. We are also grateful to Joseph Craven and Melissa Bowman for their dedication to this program, and to Anne Lester for generously sharing her time and perspective on the future of retirement for Gen Z.

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