Brief

Incomplete, Not Obsolete:

A 401(k) Toolkit To Help Solve America's Retirement Crisis

JULY 2025

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Acknowledgments

Dayforce commissioned this report to identify key trends relating to the state of retirement security for a workplace audience. The insights and opinions expressed in this report are those of the Financial Health Network and do not necessarily represent the views or opinions of our partners, funders, and supporters.

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Introduction

The 401(k): A 40-Year Experiment in Retirement Security

Every day, more than 11,000 Americans turn 65 and enter retirement, marking the largest surge in the nation's history.[1] Those retiring today are the first generation to rely primarily on the 401(k) as their main retirement savings tool.

The 401(k), a defined contribution (DC) plan, emerged from a provision in the Revenue Act of 1978 intended to limit companies' ability to create tax-advantaged profit-sharing plans that largely benefited executives. Ted Banna, a benefits consultant, is credited with taking that provision and creating the 401(k) plan as we know it today – a savings vehicle that allows employees to contribute their own dollars, with employers able to make matching contributions.[2]

As the 401(k) came into existence, the old paradigm of retirement savings was already in decline. At its peak, close to 40% of private sector workers retired with a defined benefit (DB) pension plan.[3] Today, only about 1 in 10 private-sector employees participate in a DB plan.[4]

The shift away from DB plans accompanied broader changes in the economy and the employer-employee relationship. Employers grappled with the financial and regulatory burdens of managing DB plans, while workers changed jobs more frequently and private-sector union membership declined sharply.[5] While multiple factors contributed to the decline of DB and the rise of DC plans, this fundamental shift ultimately placed more financial responsibility and risk on workers.

Unlike DB plans, which guarantee a specific payout in retirement, DC plans shift the financial risk to employees. This places the burden of investment decisions and savings on workers, even as wage stagnation and rising costs have made it increasingly difficult to save for the future.[6]

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[1] Jason J. Fichtner, "The Peak 65® Zone Is Here – Creating a New Framework for America's Retirement Security," Retirement Income Institute, January 2024.
[2] Alyssa Fetini, "A Brief History Of: The 401(k)," TIME, October 2008.
[3] "How many American workers participate in workplace retirement plans?," Pension Rights Center, October 2023.
[4] Ibid.
[5] Jason J. Fichtner, "The Peak 65® Zone Is Here – Creating a New Framework for America's Retirement Security," Retirement Income Institute, January 2024.
[6] "A Timeline of the Evolution of Retirement in the United States," Workplace Flexibility 2010, Georgetown University Law Center, August 2011.

As the first 401(k) generation enters retirement, we are seeing clear gaps in the retirement system. Research in 2024 suggests nearly a quarter of Americans retiring today lack any retirement savings.[7,8] These statistics underscore that a "do-it-yourself" approach is falling short for many Americans.

The United States faces a collective challenge – the need for secure retirement after work – and yet, the system currently relies heavily on individuals to solve it on their own. This unresolved tension leads to a provocative question: **Was the 401(k) a mistake?**

The 401(k) is Not Obsolete, but Incomplete

While it's fair to question its value, it seems unlikely the 401(k) will be jettisoned anytime soon. Tens of millions of workers have access to and participate in workplace retirement savings plans.[9] Abandoning this approach would require significant political will and buy-in from a diverse range of stakeholders.

If the 401(k) remains a critical component of the retirement system, how can businesses and policymakers offer tools to support long-term financial security for workers? Scaling access to and enhancing features of savings vehicles like the 401(k) is an immediate opportunity to help more workers pursue a secure retirement. But today's economic realities also demand new solutions and approaches.

Employees and employers need a modern, flexible toolkit that complements the 401(k) and offers additional opportunities for long-term financial security. Indeed, many Americans and companies are already turning to alternative strategies, including investing in outside retirement accounts or broad-based employee ownership models.[10]

To better meet the evolving financial needs of today's workforce, employers should integrate holistic wealth-building support – alongside the 401(k) – to drive better long-term financial security for more workers.

[7] Jason J. Fichtner, "The Peak 65® Zone Is Here – Creating a New Framework for America's Retirement Security," Retirement Income Institute, January 2024.
[8] "Economic Well-Being of U.S. Households in 2020 – May 2021," The Federal Reserve, May 2021.
[9] "How many American workers participate in workplace retirement plans?," Pension Rights Center, October 2023.
[10] Meghan Greene, Wanjira Chege & Lisa Berdie, "Wall Street to Main Street: Who Accesses Non-Retirement Investment Accounts?," Financial Health Network, March 2025.

Making the 401(k) Work for All: Employer-Led Interventions

Across the country, efforts are underway to improve both access to and use of retirement savings vehicles. From state-mandated retirement savings to expanded 401(k) eligibility for different segments of the workforce, such as part-time workers, momentum is building around retirement reform. Emerging approaches offer insight into how to help more workers build their retirement savings and long-term financial security.

Improving Access and Usage of Workplace Retirement Plans

State mandates have emerged as a key policy tool to expand access to retirement plans. As of 2025, 20 states and two cities have enacted state-sponsored retirement programs; 17 of which are mandatory for certain employers.[11] These mandates have resulted in over 1 million employees gaining access to retirement plans, collectively accumulating more than $1 billion in assets since 2018.[12,13]

Paradoxically, states with mandates have also seen a rise in private-sector 401(k) plans.[14] Early evidence suggests that mandates are spurring both public and private growth in access to and utilization of retirement plans.[15] As more research becomes available, these state policies may serve as a useful guide to ensure that every American worker has access to a retirement savings solution.

Leading Employer Practices for Workers' Retirement and Financial Well-Being

Beyond policy mandates, a number of employer practices are emerging to ensure more workers gain access to 401(k)s. These include eliminating eligibility waiting periods, granting access to part-time workers, and making it easier for employees to take their retirement balances with them when they change jobs.[16] These design features are part of the toolkit that employers can use to help scale access to more workers.

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[11] "The current state of state-sponsored retirement plans," Capital Group, December 2024.
[12] Alana Semuels, "For Many of America's Aging Workers, 'Retirement Is a Distant Dream'," TIME, February 2025.
[13] "How many American workers participate in workplace retirement plans?," Pension Rights Center, October 2023.
[14] Adam Bloomfield, Lucas Goodman, Manita Rao & Sita Slavov, "State Auto-IRA Policies and Firm Behavior: Lessons from Administrative Tax Data," National Bureau of Economic Research, August 2024.
[15] Ibid.
[16] Matt Bahl, Riya Patil & Tanya Ladha, "The State of Retirement Security in America," Financial Health Network, June 2024.

Financial Health Features For Retirement Plans

- [ ] **Eliminating Waiting Periods to Expand 401(k) Access:** Shortening waiting periods for 401(k) enrollment is a proven strategy to increase participation and improve long-term financial security for workers. For many lower-income or frontline workers, this earlier access can be a critical step toward achieving greater financial stability, enabling them to build savings gradually, take advantage of compounding interest, and benefit from a more secure retirement.[17] **Target** expanded access to the company's 401(k) plans by reducing waiting periods, allowing employees to save sooner.[18]
- [ ] **Expanding Access to Part-Time Workers:** Part-time, gig, and seasonal employees frequently lack access to employer-sponsored retirement plans. Expanding eligibility to these groups is a critical step employers can take to enhance overall workforce financial security.[19] **Starbucks** offers 401(k) benefits to part-time employees who work at least 240 hours over three consecutive months, with a dollar-for-dollar company match on the first 5% of their eligible pay contributed.[20]
- [ ] **Offering Financial Guidance to Support Retirement Readiness:** Personalized financial guidance can help improve workers' retirement readiness – particularly when paired with support for short-term financial needs.[21] Recent estimates find that holistic financial advice could unlock more than $4,000 of value per year for households.[22] Many employers also provide retirement planning programs to help older workers make informed decisions, such as the optimal age for retirement.[23]

Beyond the 401(k): A Holistic Approach to Employee Financial Health

Access alone is unlikely to lead to a secure retirement. In a system that places the retirement burden on individuals, the ability to manage day-to-day financial challenges and still save is critical. Yet these goals are out of reach for many Americans amid rising costs for housing, healthcare, childcare,

[17] Matt Bahl, Riya Patil, & Tanya Ladha, "The State of Retirement Security in America," Financial Health Network, June 2024.
[18] "Target to Set New Starting Wage Range and Expand Access to Health Care Benefits to More Team Members," Target Brands, Inc., February 2022.
[19] Matt Bahl, Riya Patil &, Tanya Ladha, "The State of Retirement Security in America," Financial Health Network, June 2024.
[20] "Future Roast 401(k)," Starbucks Benefits, 2024.
[21] Matt Bahl, Riya Patil &, Tanya Ladha, "The State of Retirement Security in America," Financial Health Network, June 2024.
[22] Shlomo Benartzi, "The Value of Holistic Financial Advice", Financial Planning Review, January 2025.
[23] Beth Ritter & Bob Clark, "Financial Education Supports Retirement Readiness," North Carolina State University Poole College of Management, April 2024.

transportation, and education.[24] Chief among these challenges is having sufficient income to contribute to a retirement plan.[25]

Preparing workers for a secure retirement starts with improving their daily financial health and boosting overall financial security. That includes earning a living wage, having access to affordable benefits, access to emergency savings, debt repayment tools, and other options for building long-term wealth.

Augmenting the 401(k) with Additional Wealth-Building Tools

Broad-Based Employee Ownership To Supplement Retirement Savings

Profit-sharing and equity ownership can be powerful tools for improving workers' financial health.[26] In recent years, a growing number of organizations have begun offering broad-based equity and ownership shares alongside traditional retirement benefits like 401(k)s. Research shows that profit-sharing and equity ownership as part of a diverse compensation plan can support employees' retirement savings and overall financial stability.[27]

Employee ownership – through Employee Stock Ownership Plans (ESOPs) or general grants of restricted stock units (RSUs) – allows employees to share in the value they help create.[28] ESOPs, often structured as defined contribution retirement plans, typically provide employees with company stock without requiring them to purchase shares out of their wages or savings.[29] When a company performs well, employees benefit, too – helping build stronger alignment across the workforce.

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[24] Meghan Greene & Lisa Berdie, "Financial Health Frontiers: Households Under Financial Pressure," Financial Health Network, September 2024.
[25] Matt Bahl, Riya Patil & Tanya Ladha, "The State of Retirement Security in America," Financial Health Network, June 2024.
[26] Joseph Blasi & , Douglas Kruse, "Building the Assets of Low and Moderate Income Workers and their Families: The Role of Employee Ownership," Institute for the Study of Employee Ownership and Profit Sharing, March 2019.
[27] Ibid.
[28] Nancy Wiefek & Nathan Nicholson, "S Corporation ESOPs and Retirement Security," National Center for Employee Ownership, December 2018.
[29] Joseph Blasi & Douglas Kruse, "Employee Ownership and ESOPs – What We Know from Recent Research," Aspen Institute, April 2025.

This model also provides significant potential for wealth-building. Research consistently finds that ESOP participants have far more retirement savings than peers at non-ESOP firms.[30,31] For employers, offering ownership shares can reinforce a culture of shared success, reward long-term commitment, and offer a tangible retirement asset – especially when paired with education and transparency.

Employer Spotlight: Publix Super Markets
Publix offers an Employee Stock Ownership Plan (ESOP) program, with approximately 85% owned by its employees through its ESOP structure. This ownership structure has been credited with fostering a strong organizational culture and boosting its workforce's financial health.

Expanding Access to Alternative Investment Vehicles

Employers can also play a role in broadening access to non-retirement investment accounts. An increasing number of Americans are utilizing alternative investment vehicles to supplement their workplace retirement plans, build wealth, and improve overall financial health.[32] In fact, households with non-retirement investment accounts tend to be more financially healthy than those without such investments (58% vs. 24%).[33]

In 2023, 29% of U.S. households held non-retirement accounts, with the majority of those households earning annual incomes above $100,000.[34] These accounts were largely part of a broader investment portfolio: 93% of households with a non-retirement account also had either an employer-provided retirement savings account or an individual retirement account (IRA), and 57% had both.

In contrast, only 55% of households without non-retirement accounts had access to an employer-provided or an IRA, and just 14% had both.[35] These gaps highlight an opportunity for employers to help more financially vulnerable workers access and use alternate investment vehicles and financial tools that have traditionally been used by higher-income individuals.[36] By offering

[30] Joseph Blasi & Douglas Kruse, "Building the Assets of Low and Moderate Income Workers and their Families: The Role of Employee Ownership," Institute for the Study of Employee Ownership and Profit Sharing, March 2019.
[31] Joseph Blasi, Richard Freeman & Douglas Kruse,"Do Broad-based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?," British Journal of Industrial Relations, September 2015.
[32] Meghan Greene, Wanjira Chege & Lisa Berdie, "Wall Street to Main Street: Who Accesses Non-Retirement Investment Accounts?," Financial Health Network, March 2025.
[33] Ibid.
[34] Ibid.
[35] Ibid.
[36] Ibid.

access to these options, employers can help workers diversify their savings strategy and avoid over-reliance on the 401(k) as a sole retirement savings plan.

Homebuying Support

Homeownership – once a marker of the American dream – is increasingly out of reach for the vast majority of Americans. Nearly half of renters believe homeownership is unattainable.[37] The inflation-adjusted median home price has soared from about $90,000 in 1950 to over $400,000 in 2025.[38,39] Yet most Americans (74%) still rank owning a home as the primary indicator of financial security and prosperity.[40] Homeownership even topped being able to retire and having a successful career (66% vs. 60%).[41]

Employers have also seen the impact of housing on their workforce, from decisions about where to locate a company to the productivity impacts of long commute times.[42] Faced with these challenges, employers have begun experimenting with different workforce housing models – from building new "company towns" to direct cash support for workers to pursue stable housing and homeownership.[43]

Employer Spotlight: Yale University

Some employers have implemented housing support programs to help workers live near their workplaces.[44] Yale University's Homebuyer Program, established in 1994, provides eligible employees with up to $30,000 in financial assistance to purchase and reside in homes within designated New Haven neighborhoods. The benefit includes a $5,000 first-year bonus and annual $2,500 grants for up to 10 years, contingent on continued employment at Yale and occupancy of the home.[45] As of fall 2022, over 1,300 Yale employees have utilized the program, contributing to nearly $270 million in real estate value in New Haven.[46]

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37 "Renters' Reality: the Cost, Challenges and Aspirations of Homeownership," NeighborWorks America, March 2025.
38 Sydney Borchers, "Average cost of an American home in the decade you were born, from 1940s to present day," Fox Business, February 2024.
39 "Median Sales Price of Houses Sold for the United States," Federal Reserve Bank of St. Louis, April 2025.
40 "73% of aspiring homeowners cite affordability as their primary obstacle," Bankrate, April 2023.
41 Ibid.
42 Aaron Shroyer & Veronica Gaitán, "Four Reasons Why Employers Should Care about Housing," Urban Institute, September 2019.
43 Charity L. Scott, "Facing Labor Shortages, Pella Reinvents the Company Town in Rural Iowa," The Wall Street Journal, August 2022.
44 Ethan Roberts, "Large Employers Building Affordable Housing For Workers: Wave Of The Future?' Benzinga, September 2024.
45 "Homebuyer Program," Yale University.
46 Lisa M. Maloney, "Finding a Home in the City of New Haven," Yale University, June 2023..

Conclusion

Building a More Inclusive Retirement System

Americans need more pathways to build longer-term financial security and wealth, with structures that reflect their real financial lives. Employers and policymakers alike have an opportunity to act decisively to create a retirement system that works for all.

Employers are in a powerful position to lead. By expanding access to wealth-building benefits beyond the 401(k) – like employee ownership opportunities and homebuying support – they can help workers build wealth more sustainably. Now is the time to act: not to replace the 401(k), but to build on it and create a retirement system that reflects today's realities and delivers true financial security.