Private Equity and Crypto Investments Reshape U.S. 401(k) Options

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President Donald Trump recently signed an executive order aimed at expanding Americans' retirement investment choices. The move seeks to open 401(k) plans to private equity, cryptocurrency, real estate, and other alternative assets, a significant shift from the traditional mutual funds and ETFs that have dominated these accounts.

This policy change presents new opportunities for the financial industry, which manages an estimated $9 trillion in U.S. retirement accounts. Proponents argue that allowing access to private markets could diversify portfolios and potentially increase returns for savers.

Robert Brokamp, a financial planning expert at The Motley Fool, commented, “The theoretical benefits are that everyday Americans can invest in a broader menu of companies.”

However, with greater opportunity comes increased risk. Private equity and crypto investments generally involve less transparency and liquidity compared to conventional retirement assets. Brokamp warns, “There’s not as much information about the companies, and it could be hard to sell your investments especially during a panic when many investors are trying to sell at once.”

Currently, private equity in 401(k)s is rare but technically permitted, and cryptocurrency investments are even less common. Many 401(k) plan recordkeepers do not yet support private equity or crypto funds. The new executive order directs the Department of Labor to revisit its guidance on alternative assets within 180 days and instructs the Securities and Exchange Commission to explore ways to facilitate access to these investments for retirement plans.

Benjamin Schiffrin believes this will change the landscape significantly: “This is going to open the floodgates. Up until now, 401(k) plan managers have been hesitant to include private market assets like private equity and private credit.”

Despite the potential expansion, many employers may remain cautious about offering these options due to liability concerns related to losses.

Anh Tran, managing partner at SageMint Wealth and a certified financial planner, urges caution. “Investors attracted by higher returns might not fully understand the risks involved. Without proper safeguards limiting exposure to 5% to 10% of their portfolio, they could face serious and irreversible losses,” she said in a recent interview.

Knut Rostad, co-founder and president of the Institute for the Fiduciary Standard, warned that incorporating private assets into 401(k)s could endanger retirement security. “Many fiduciaries will ignore this directive because they foresee the consequences of a massive train wreck that could destroy people’s retirement accounts,” Rostad noted.

Cryptocurrencies introduce additional concerns. Schiffrin points out the lack of clear investor protections in the crypto space, making it a separate category of risk entirely.

On the other hand, the Securities Industry and Financial Markets Association (SIFMA) praised the executive order. Kenneth E. Bentsen Jr., SIFMA president and CEO, said, “Private markets have become a more robust asset class, primarily accessible to institutional and high-net-worth investors. Expanding access under ERISA and SEC rules could improve diversification and offer more choices to everyday retirement savers.”

While it may take months to implement any changes, experts emphasize the importance of investor education and regulatory safeguards. Tran concluded, “Transparency, education, and limits are essential to prevent widespread harm. Without these, there could be not just financial losses but broader economic and social consequences.”