



The new frontier of retirement

Integrating private market
investments into 401(k) plans





A significant shift is underway in the landscape of retirement savings, as the inclusion of private market investments within 401(k) plans gains momentum. This evolution, spurred by regulatory signals and product innovation, presents both a compelling opportunity for enhanced returns and diversification, and a complex web of challenges for plan sponsors and participants alike.¹ This article explores a few key benefits, risks, and regulatory considerations of this trend, and provides high-level action steps for plan sponsors to navigate this new frontier.

The allure of the private markets: Unlocking potential benefits

For decades, institutional investors like pension funds and endowments have leveraged private markets, including private equity, private credit, and real estate, to generate strong, long-term returns. Proponents argue that extending this access to 401(k) participants could offer several key advantages:

Enhanced returns and diversification

Private assets have the potential to deliver higher returns than their public market counterparts and can offer valuable diversification benefits, as their performance is not always directly correlated with the fluctuations of the stock and bond markets.



Access to a broader investable universe

Including private assets in 401(k) plans allows individual investors to tap into additional funds, previously delegated only to financial institutions and the wealthiest individuals, potentially increasing their portfolio diversification.



“Democratization” of investment opportunities

This trend is often framed as a way to “democratize” access to investments that have historically been reserved for the wealthy, giving everyday workers the chance to participate in the same types of opportunities as large institutional and high-net-worth investors.



Navigating the new frontier: Risks and challenges

While the potential upside is significant, the integration of private market investments into 401(k) plans introduces a number of critical risks and challenges that both sponsors and participants should carefully consider.

Risk/Challenge	Illiquidity	Private market investments are inherently illiquid, with long lock-up periods that can last for years. This conflicts with the daily liquidity needs of 401(k) participants who may require access to their funds for loans, distributions, rollovers, or reallocation of investments within the account.
	Complexity and lack of transparency	These investments are often complex, with opaque structures and infrequent valuations, making them difficult for the average participant to understand. This lack of transparency can also pose challenges for fiduciaries in conducting due diligence. Investor-education materials from organizations such as the Financial Industry Regulatory Authority (FINRA) underscore that alternative and emerging products tend to be more complex and often carry unique risks, reinforcing the importance of clear, accessible explanations. ⁶
	Higher and more complex fees	Private equity funds typically have higher and more layered fee structures, such as the “2 and 20” model (a 2 percent management fee and 20 percent of profits), compared to traditional mutual funds. These fees can significantly erode returns over time.
	Valuation risks	The infrequent and model-based valuation of private assets creates a risk of “stale” or misleading pricing. There is also a concern that 401(k) investors could become “exit liquidity” for institutional investors, buying into overpriced assets at a market peak, with the risk of significant price decrease if institutional investors exit.
	Conflicts of interest	Vertically integrated financial firms that act as both recordkeeper and asset manager may have a financial incentive to recommend their own proprietary, high-fee private funds. This creates a direct conflict with the fiduciary duty of loyalty. This can also lead to “fee layering,” where participants are charged multiple levels of fees by the same parent company.
	Increased fiduciary risk and litigation	The complexity, higher fees, and illiquidity of these investments expose plan sponsors to a greater risk of litigation alleging breaches of fiduciary duty. This has led to heightened scrutiny from fiduciary liability insurance carriers.

The regulatory landscape: ERISA, DOL guidance, and fiduciary duties

The inclusion of private equity in 401(k)s is governed by a complex and evolving regulatory framework, primarily under the Employee Retirement Income Security Act of 1974 (ERISA).²



ERISA's fiduciary duties

Plan fiduciaries are bound by strict duties of loyalty and prudence. The duty of loyalty requires them to act solely in the interest of plan participants, while the duty of prudence demands they act with the care and skill of a prudent person. When evaluating private market investments, fiduciaries must undertake a thorough and analytical process, considering the investment's complexity, risks, and alignment with the plan's participant profile.²



Department of Labor guidance

The Department of Labor (DOL) has issued guidance indicating that private equity can be included in a professionally managed asset allocation fund (like a target-date fund) within a 401(k) plan, provided a prudent process is followed. The guidance emphasizes the need for fiduciaries to evaluate manager expertise, diversification, liquidity, and participant needs.^{3,4}



Executive orders and the push for a "safe harbor"

Recent executive orders have directed the DOL and the Securities and Exchange Commission (SEC) to issue further guidance to facilitate the inclusion of private assets in 401(k)s, with the goal of creating a clearer legal framework and potentially a "safe harbor" to reduce litigation risk for plan sponsors.⁷



SEC commissioner remarks

As noted by SEC Commissioner Mark T. Uyeda in November 2025, "While there might be debate on what is the optimal level of exposure to private investments, what is clear is that the answer is NOT zero. Regulation should not presume that 0 percent exposure is inherently safer or preferable. The absence of access is not the same as the presence of protection,"⁸ demonstrating the commissioner's view that the diversification benefits associated with incorporating private-market assets into 401(k) plans can outweigh their potential drawbacks.⁸



A proactive approach for plan sponsors: Strengthening governance, risk, and compliance

As the market for private investments in 401(k) plans continues to evolve, plan sponsors need to take proactive steps to ensure their governance, risk, and compliance (GRC) frameworks are prepared for this new landscape.

GRC framework component

Action steps to consider

Governance

Enhance fiduciary expertise: Ensure the plan's fiduciary committee has the necessary expertise to evaluate private market investments or engage a qualified independent investment adviser with that expertise.

Update Investment Policy Statement (IPS): Revise the IPS to include specific guidelines for the selection, monitoring, and deselection of private market investments, addressing factors like liquidity, valuation, and fees.

Document a prudent process: Meticulously document the due diligence and decision-making process for including any private market investment option. This documentation is critical for demonstrating a prudent process in the event of litigation.

Focus on diversified, professionally managed vehicles: Some industry guidance suggests a prudent approach to consider is offering private market exposure through a professionally managed, diversified fund, such as a target-date fund or a custom balanced fund, rather than as a stand-alone option.

Risk management

Scrutinize liquidity and valuation: Thoroughly vet the liquidity management mechanisms and valuation methodologies of any fund with private asset exposure to ensure they can meet the daily transaction needs of participants.

Conduct rigorous fee benchmarking: Carefully analyze and benchmark the complex fee structures of private asset funds to ensure they are reasonable and justifiable in the context of the potential for higher net returns.

GRC framework component

Action steps to consider

Compliance

Ensure clear participant communication: Develop clear and accessible educational materials for participants that explain the unique characteristics and risks of private market investments, including illiquidity, valuation frequency, and fee structures.

Verify 404a-5 fee disclosure compliance: Ensure that all participant-facing materials accurately and understandably reflect the complexity in structure of private asset vehicles, in alignment with disclosure requirements.⁵

Monitor regulatory developments: Stay abreast of evolving guidance from the DOL and SEC, including any potential safe harbors, and adapt the plan's GRC framework accordingly.

The Future of retirement investing

The integration of private market investments into 401(k) plans marks a pivotal moment for the retirement industry. While the path forward is not without its obstacles, a thoughtful and prudent approach can unlock significant opportunities for retirement savers. By strengthening their GRC frameworks and prioritizing the best interests of plan participants, sponsors can navigate this new frontier and potentially deliver a more secure and prosperous retirement for their employees.





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Democratizing private markets

Expanding retail access to alternative investments



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