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Opening the Door Wider to PE



According to the 2024 DC PLANSPONSOR Benchmarking Report, only 2.2% of plan sponsors include any alternative investments whatsoever within their 401(k)s. That number may soon begin to shift. On August 7, President Trump signed an executive order intended to expand access to private equity (PE) and other alternative assets in retirement plans. Even so, this remains a complex topic for plan sponsors, who must weigh multiple

factors before adding PE to their lineup.

Private equity can offer opportunities for enhanced long-term returns and increased portfolio diversification. For some participants, access to PE through a target-date or other managed fund could be beneficial. However, these potential advantages must always be balanced against the inherent risks and challenges of this highly specialized asset class.

New Asset Class, Same Rules

Common concerns with PE as an investment for the average saver include complexity and costs. Unlike traditional equity and bond funds or ETFs, PE investments can often involve less liquidity, greater risk, and higher fees. These challenges may be mitigated through products that package PE into diversified, multi-asset vehicles with greater liquidity, though plan sponsors still have a fiduciary responsibility to ensure the investment is prudent and appropriate for their participants. Sponsors should carefully vet any PE-related investment for its valuation methods and consistency with the plan's long-term goals and risk parameters.

Regardless of the assets in the lineup, ERISA standards are clear and well-established: Plan fiduciaries must act solely in the interest of plan participants, with the exclusive purpose of maximizing risk-adjusted returns, net of fees. The recent executive order is unlikely to alter that underlying framework.

Moving Forward with Clarity and Confidence

If the choice is made to include PE exposure in the plan, clear communication becomes essential. Employers should help participants understand the nature of PE investments and how they may behave differently from more traditional publicly traded securities. And on an individual basis, they should be given tools and resources to assess how well PE fits into their overall asset allocation and financial plan — as well as the potential risks and trade-offs involved. Education can take the form of webinars, articles, videos, and in-person group and one-on-one sessions. Explaining how a PE allocation is managed within a target-date fund, for example, can also help demystify this new type of investment option for participants.



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Seek Strategic Alignment

Sponsors must determine whether and how PE exposure supports their broader objectives for the plan. There's no one-size-fits-all answer, and sponsors should work closely with their retirement plan advisor, recordkeeper, and ERISA counsel when evaluating the implementation of PE into their investment menu.

The decision to expand participants' access to PE in plans should be driven by a careful consideration of participant needs, plan design, and fiduciary obligations. Plan sponsors must make a careful determination of how PE exposure aligns with the plan's Investment Policy Statement. For sponsors who proceed, the path forward should include enhanced due diligence, thoughtful communication, and ongoing monitoring to ensure the investments offered continue to serve participants well.

Sources

<https://www.plansponsor.com/ahead-of-executive-order-what-to-know-about-private-equity-in-401k-plans/>

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