Prime Capital FINANCIAL

ALTERNATIVE INVESTMENTS IN 401(K)S:

What You Need to Know

President Trump is expected to sign an executive order that would open 401(k) plans, and other retirement plans to private investments increasing the options for plan participants while also introducing new risks for investors.

What This Could Mean for 401(k) Savers:

Alternative investments are not entirely new to 401(k)s. Alternative investments are allowed, but only a few plan sponsors, roughly 2.2%, currently offer any alternative investments in their 401(k) plans. If these changes take effect, 401(k) participants could see:

- **Potentially Greater Returns:** This is often called an "illiquidity premium," meaning you might earn more for investing in assets that aren't easily bought or sold, such as private equity.
- **Increased Diversification:** The executive order offers the potential to diversify across asset classes that investors previously did not have access to, including private equity, cryptocurrencies, and metals.

Risks to Be Aware Of:

While the potential for higher returns exists, there are important risks:

- **Complexity and Transparency:** These investments can have complex fee structures and may lack the same level of transparency as more traditional investments.
- **Fiduciary Headwinds:** The complexity of the investments will greatly increase the due diligence process by plan sponsors to ensure the investments meet fiduciary standards and do not leave the plan sponsor open to legal difficulties under ERISA.
- **Less Liquid Investments:** Private assets are generally harder to sell quickly than stocks or bonds. This means it could be more difficult to get your money quickly if you need to take a hardship withdrawal, lose your job, or require funds for retirement.
- **Higher Fees:** Alternative investments typically come with higher fees compared to traditional options and as a result, the fees can impact the returns on the underlying investment over the long term.