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Crypto and Private Equity Won't Make Your 401(k) Great Again

By Sean Anderson and Robert Lawless2025-09-08T04:30:02000-04:00

If the Trump administration has its way, US workers will pay higher fees for the privilege of having more volatile 401(k)s.

President Donald Trump's recent move to allow workers to invest retirement savings in "alternative assets," namely private equity funds and cryptocurrency, is a bad idea unless you sell investments in these investment vehicles. The mindset behind it explains a lot about the reasons for the financial stress on US households.

Employers hire financial companies or other intermediaries to administer their employees' retirement plans. The administrators then decide what investments a retirement plan will offer.

The Employee Retirement Income Security Act of 1974, known as ERISA, treats the administrators, and often the employers, as fiduciaries, meaning they must make these decisions with the best interests of the employee-participants in mind. These fiduciary constraints are part of a tradeoff.

Employees and plan participants receive highly favorable tax treatment in connection with the plan. In exchange, the government imposes rules aimed at safeguarding plan assets.

The employers' and plan administrators' fiduciary obligations keep them from offering plans with overly risky investments. The plan can't be to bet everything on 22 black at the local casino. Although a win that would increase your retirement funds 35-fold sounds great, it isn't in participants' best interests to put their life savings on a bet that has a 97% chance of wiping them out.

When employers and plan administrators violate their fiduciary obligations, ERISA lets participants sue. In his executive order, the president directed the Department of Labor to clarify its guidance about what investments plans should offer.

An express purpose of the clarification is to curb fiduciary lawsuits, giving employers and plan administrators a potent weapon to defeat claims challenging risky investment options.

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It might not always be obvious when investments are too risky. The roulette example is easy, but how risky is too risky? Because the line is fuzzy, employers usually stay well clear on the safe side of the line.

That caution is a feature, not a bug. Most retirement accounts are small, with little capacity for risky investments in the portfolio. According to Federal Reserve data from 2022, the median size of US retirement accounts was $87,000. The figure climbs as households neared retirement, but that is exactly when adding volatility is a bad idea.

Trump's executive order brings flash to what should be boring. Households should aim for steady growth in their retirement savings.

Allowing retirement accounts to invest in private equity and cryptocurrencies will produce some winners, at least over the short term. It also will produce losers who make bad bets. There is no reason to expect that inviting plans to offer these alternative investments will lead to better outcomes overall for participants—especially considering the higher fees and expenses that typically come with them.

But there is ample reason to think these investment options will make things worse by increasing the risk of large losses for participants, most of whom can ill afford them.

The executive order claims to be about investor opportunity, but it is just the latest example of how, over several generations, we have collectively offloaded onto individuals risks that were once shared more broadly. One of us studies people who file for bankruptcy. Those files bear witness to what happens to everyday people who end up being the ones on whom the risk falls.

People 65 and over are the fastest-growing group of bankruptcy filers and now make up one of every six filers. Seventy-two percent of these filers have no retirement savings whatsoever. One-third report they stripped retirement accounts as their finances spiraled downward.

Today's retirement accounts have largely replaced traditional pension plans backed by government insurance, which spread the risk among all of us that specific plans might not pay. Each participant now has their own account, and it's the participant's problem if they don't end up with enough to live on in retirement.

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Retirement savings are only one example where we have put more risk on individuals.

Despite gains from the Affordable Care Act, we have pulled back from insuring people for the medical problems that befall them and providing income supplements when they can't work. And we have withdrawn much state and federal funding for higher education, which means individuals risk having insufficient income to pay off the loans they had to take to afford college.

Of course, our society wouldn't work if we bore none of the risks of our own decisions. But we continue to load more risk onto individuals for events largely outside their control. The president's order exemplifies a mindset that rewards the well-connected and says to the rest of us, "You're on your own, kid."

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