



Institute for Portfolio Alternatives

U.S. RETIREMENT POLICY

The IPA supports increasing opportunities for Americans to better meet their retirement financial needs by expanding access to alternative investment products in defined contribution accounts. We also support efforts to broaden investments in individual retirement accounts and promote bi-partisan policies to help retirement savers achieve financial security.

ALTERNATIVE INVESTMENTS IN DEFINED CONTRIBUTION PLANS

The IPA supports Congressional efforts to broaden opportunities for investment in alternative products, such as real property, public and private credit, and private equity, for defined contribution plans by encouraging the U.S. Department of Labor to provide legal certainty for defined contribution plan sponsors that offer alternative investments.

- Today, individuals own and drive investment decisions and control options relating to their retirement accounts, including defined contribution (401(k)) and IRAs. Investors choose their funds, hire trusted advisers, and can move retirement accounts when they change employment.¹ Of the 69% of American private sector workers that have access to employer-sponsored retirement plans, 96% are covered by defined contribution plans.²
- However, American 401(k) retirement savers are at a *disadvantage* compared to prior generations where defined benefit pension plans were prevalent. 401(k) savers lack access to portfolio diversifying investments that align with their long-term investment horizons. These plans generally do not permit investment in important long-term diversification opportunities such as real estate, public and private credit, and other real assets.
- Traditional defined benefit pension plans readily allocate to long-term asset classes like infrastructure, private real estate, and other private asset classes, while 401(k) savers — even those with 30-to-40-year horizons — are generally exclusively given access to investments that can be priced and traded daily like mutual funds and collective investment trusts holding only stocks and bonds. These limitations lead to increased volatility and sacrifice illiquidity gains that 401(k) savers could otherwise obtain.
- Recent academic studies concluded that 401(k) savers would achieve greater levels of retirement security if they had in-plan access to the types of investments defined benefit pension plans use.³
- While defined benefit plans have long used diversifying investments like real estate, private credit or private equity, litigation risk has chilled the inclusion of asset classes that can generate better retirement outcomes for defined contribution plans.
- The U.S. Department of Labor has provided some help to 401(k) savers to obtain better access to portfolio diversifying investments. In 2020 and 2021, DOL issued a series of information letters identifying considerations for plan fiduciaries to evaluate when deciding if greater diversification could be achieved in 401(k) plans through the inclusion of portfolio diversifying asset classes.
- The IPA supports Congressional efforts to seek opportunities to encourage investment and product design innovation. Towards that end, we encourage Congress to take steps to help reframe the 401(k) plan investment framework away from a focus on “fees” and towards one that focuses on “risk-adjusted rate of return net of fees over a retirement savers expected investment horizon.”



¹The landscape of investment opportunities available to individual investors has undergone a sea change over the last 40 years. Individual investors are now empowered to a remarkable degree. Today, 77 million households make their own decisions regarding their retirement savings — a 700% increase since 1973. The number of retirement savers subject to the private pension system has fallen from 27 million households to 15 million. See Golberg, “How the SEC advice rule improves on the DOL fiduciary rule,” InvestmentNews, May 29, 2018, available at <http://www.investmentnews.com/article/20180529/BLOG09/180529924/how-the-sec-advice-rule-improves-on-the-dol-fiduciary-rule>.

²U.S. Bureau of Labor Statistics, *Retirement Plans for Workers In Private Industry and State and Local Government in 2022*, <https://www.bls.gov/opub/ted/2023/retirement-plans-for-workers-in-private-industry-and-state-and-local-government-in-2022.htm>

³“The share of large private pension plan assets held in alternative investments, such as hedge funds and private equity, nearly quadrupled between 2008 and 2017.” <https://www.regulations.gov/document/EBSA-2020-0008-0001>