Retirement Investment Options – Should 401(k)s and other retirement vehicles have greater access to private markets, and what safeguards would be necessary?

March 26, 2025
Comments to House Committee on Financial Services
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Overview

Defined contribution retirement plans, particularly 401(k)s, are the central vehicle for American retirement savings. Yet the investment options available to plan participants remain disproportionately concentrated in public markets. Institutional investors – including pensions, endowments, and insurance funds – have long diversified into private equity, private credit, and other alternative assets. Individual savers, by contrast, are largely locked out of these higher-performing, long-horizon strategies.

Expanding access to private market investments within retirement accounts is a necessary and timely modernization of the retirement system. It is supported by strong public opinion data, justified by long-term historical returns, and consistent with the structure of retirement saving as a multi-decade investment strategy. With appropriate policy design, such access would give American workers the same opportunity to build retirement wealth that institutional investors have exercised for years.

Public Support for Democratizing Investment Access

Recent polling commissioned by the Pinpoint Policy Institute shows that Americans overwhelmingly support expanding the investment menu within 401(k) plans. Seventy percent of voters favor allowing access to private equity and other private market options, including majorities of both Democrats and Republicans. Support is particularly strong among younger workers, with more than 80 percent of voters under age 35 in favor of expanded access.[1]

This is not a niche technical issue. It is a policy reform that meets Americans where they are – aware that the current system limits investment opportunities, and interested in greater control within their retirement plans. In an era of economic uncertainty and underfunded retirement expectations, expanding choice resonates as both practical and fair.

Performance Justification

[1] Pinpoint Policy Institute. “New Pinpoint Poll: Americans Overwhelmingly Support Expanding Investment Options in 401(k) Plans.” February 2024. https://pinpointpolicyinstitute.org/the-point/new-pinpoint-poll-americans-overwhelmingly-support-expanding-investment-options-in-401k-plans/

Private market investments have consistently outperformed public equities over the long run. As detailed in Pinpoint's recent analysis, U.S. private equity funds have delivered an average net internal rate of return (IRR) of 11.8 percent over the past 20 years. Over the same period, the S&P 500 returned just 6.9 percent.[2]

This level of outperformance is not incidental. Private market strategies typically target long-term value creation, often through active management and strategic capital deployment. For retirement accounts – which operate over multi-decade horizons – these return advantages are especially relevant. They offer a pathway to closing retirement savings gaps and reducing long-term portfolio risk through diversification.

Policy and Regulatory Context

The Department of Labor has already recognized the potential role of private markets in defined contribution plans. In June 2020, under the first Trump Administration, the DOL issued an Information Letter clarifying that private equity could be included as a component of a professionally managed investment option – such as a target date fund or balanced fund – within a 401(k) plan, provided the plan fiduciary satisfies core ERISA obligations.[3] The letter emphasized that while private equity may not be appropriate as a standalone option, it could serve as part of a diversified strategy designed to improve retirement outcomes over time.

This guidance marked a meaningful shift. It acknowledged that defined contribution participants, through professional management and appropriate oversight, could prudently access the same long-horizon asset classes that defined benefit plans had relied on for decades. It did not open the door to unregulated risk-taking – it reaffirmed that the key to access was fiduciary discipline.

Modernization, Not Deregulation

Large institutional portfolios now allocate between 20 and 40 percent of their assets to private markets.[4] Public retirement plans have relied on private equity and other alternatives to meet return targets in a low-rate environment. The defined contribution system, by contrast, remains constrained by legacy rules and market structure, limiting participants to a menu that often underperforms the needs of modern retirement planning.

Expanding access to private market investments is a practical reform that aligns individual retirement accounts with the practices already used by the largest, most sophisticated investors.

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[2] Pinpoint Policy Institute. "Assessing an Attack on Alternative Investments." March 2024. https://pinpointpolicyinstitute.org/the-point/assessing-an-attack-on-alternative-investments/

[3] U.S. Department of Labor, Employee Benefits Security Administration. "Information Letter on Private Equity Investments in Defined Contribution Plans." June 3, 2020. https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/information-letters/06-03-2020

[4] American Investment Council. "Public Pension Study: 2023." https://www.investmentcouncil.org/public-pension-study-2023/

It gives workers a fairer chance to meet their retirement goals without requiring new federal spending or mandates. This is a policy change that is both good economics and good politics. Savers want more choice, and policymakers have a ready opportunity to deliver it.[5]

Safeguards and Implementation

Opening access to private markets within 401(k)s requires appropriate safeguards, but these are already well-understood and largely in place. The central principle must be fiduciary responsibility. Plan sponsors should be required to demonstrate that any private market exposure is in the best interest of plan participants and forms part of a diversified investment strategy.

Transparency is critical. Participants must have access to clear, plain-language disclosures regarding the fees, liquidity constraints, and risk profile of any private investment component. Importantly, these investments may not serve retirement plans as standalone products, but rather as part of managed options – such as target date funds or balanced portfolios – designed with appropriate diversification and professional oversight.

Plan design can also incorporate suitability guardrails, ensuring that access aligns with participant characteristics such as age, income, and investment horizon. Long-dated investments are most appropriate for younger workers or those with sufficient portfolio size to absorb illiquidity. None of these conditions requires legislative reinvention; they require clarifying guidance and responsible implementation.

Conclusion

Americans deserve access to the same long-term investment tools that institutional investors have relied on for decades. Expanding private market access within 401(k) plans is a measured, popular, and performance-backed reform that strengthens the defined contribution system. With strong fiduciary standards and responsible plan design, policymakers can open this access without compromising participant protection.

This is not about chasing risk. It is about offering opportunity—an opportunity that millions of Americans are asking for, and that the retirement system urgently needs.

[5] Gray, Gordon. “Expanding 401(k) Investment Choices Is a Winning Issue.” DC Journal, March 2024. https://dcjournal.com/expanding-401k-investment-choices-is-a-winning-issue/