

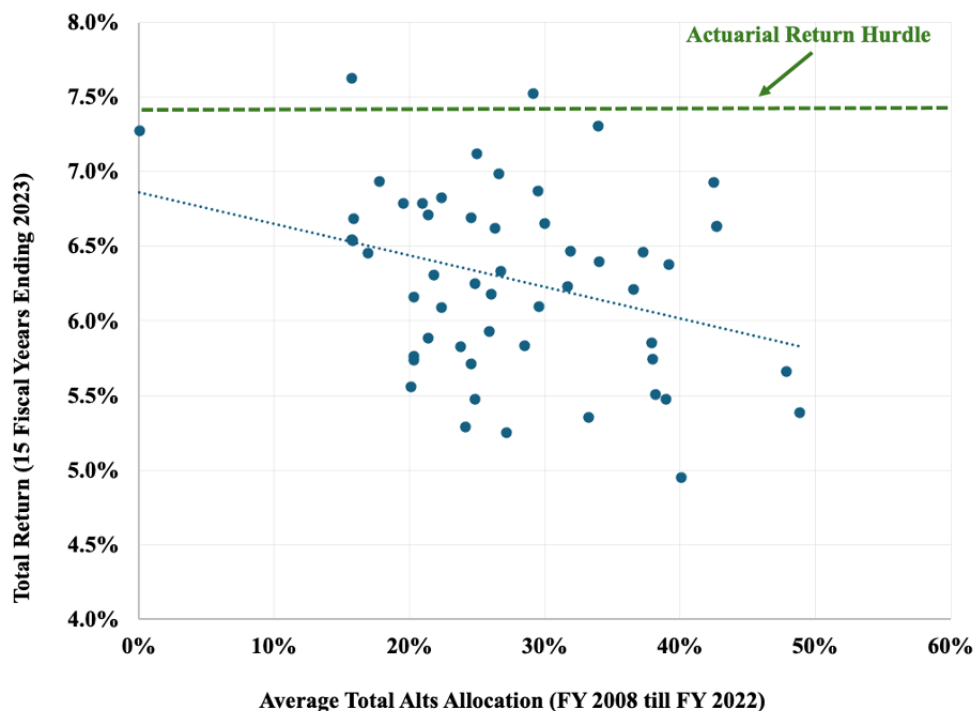
# Private Market Assets Do Not Belong in 401(k)s

By Benjamin Schiffrin | *Director of Securities Policy*  
 June 4, 2025

## Introduction

Everything we’ve been told about pension fund investments in the private markets is wrong. That is the inescapable conclusion from recent research analyzing how pension funds have fared by increasing their exposure to the private markets. The dominant narrative is that pension funds invest in private equity and private credit because those investments [will do better than anything else](#). But new studies show that increasing exposure to the private markets has “[had the effect of depressing realized rates of return](#).”

**Total Return vs. Allocation to Alts**  
**(2009-2023)**



A [comparison](#) of the returns of pension funds exposed to the private markets with a portfolio invested in stocks and bonds is no more favorable to the private markets.

‘The top pensions in the country returned a 7.4% return average over the past decade.’ That’s what the 50 largest pension funds in the U.S. earned over a 10-year period ending June 30, 2024. And how did a plain vanilla portfolio of 60% stocks and 40% bonds do over the same period? It returned 8.1%, handily beating these large pension funds.

This [means](#) that a “diversified portfolio that includes large allocations to private equity has not boosted the retirement savings of workers in these pension funds.”

These findings should inform how we think about burgeoning efforts to expose retail investors to the private markets. And the SEC is on the front lines of that debate.

On June 5, 2025, the SEC will host a [Conference on Emerging Trends in Asset Management](#). The last panel of the day will focus on retail investors and the private markets. One trend that deserves special attention is the push to open 401(k)s to private market investments.

Similar to pension funds and the private markets, [the dominant narrative](#) with respect to the private markets and 401(k)s is that retail investors should not miss out on the supposedly high returns that the private markets offer to accredited investors. But the foregoing discussion illustrates that the benefits of the private markets are overblown. And the risks in the private markets mean that retail investors would likely fare even [worse](#).

Having private investments in 401(k)s and other defined-contribution plans would require greater education for plan participants and put a greater burden on plan sponsors to provide such training, said Rob Burnette, financial adviser and CEO of Wellness Investment Advisers. ‘The private equity industry is looking for more customers—I get that. But less than, say 2% of participants would even understand what private equity was. The returns on some of these things can be such that if the average investor lost that kind of money, it would be like WorldCom- or Enron-level catastrophic,’ Burnette said.

## The Risks of the Private Markets for 401(k) Plan Participants

The retirement fund managers who administer 401(k) plans have long resisted offering private market assets to plan participants for fear that doing so would [violate their fiduciary duty](#)—the obligation to act in the [best interest](#) of the plan participants. There is good reason for this fear. That’s because there is little reason to endanger the retirement savings of millions of Americans by exposing their 401(k)s to [expensive and risky private assets](#).

In the US, 401k plans are among the most popular ways working Americans save for retirement, allowing them to invest a portion of their salaries in publicly traded securities tax free. Americans have little exposure to private capital funds through these plans, which tend to focus on stocks, bonds, and mutual funds. . . . The push

to plough savings plans into less liquid private assets carries risks such as higher fees and overall leverage, in addition to less transparency on the valuation of fund assets.

There is no serious dispute that private market assets are more opaque, more illiquid, and more expensive than publicly traded stocks and bonds. So the biggest obstacles to including private market assets in 401(k) plans [are](#) “fees, liquidity, and transparency.” “A high fee, illiquid black box isn’t going to make its way past [the fiduciary standards](#) that plan sponsors are held to.” These features are why the private markets are usually limited to accredited investors—institutional investors and high net worth individuals who are deemed to be able to [fend for themselves](#). Indeed, the lack of transparency in private market assets, the difficulty in trading private market assets, and the fees associated with private market assets all make private market assets [particularly risky for 401\(k\) plans](#).

[T]he law requires companies to act in retirees’ best interest when selecting investments to offer in their 401(k) plans. That’s made companies wary of investments that are expensive, hard to price, or difficult to sell. Private equity is all three.

### Transparency and Valuation

One key difference between publicly-traded stocks and bonds and private market assets is that basic information about private market assets is [not readily available](#).

Private equity involves a [different set of risks than do stocks and bonds](#). For one, it’s an opaque, illiquid world. Private-equity firms frequently invest in companies that are too small or risky to issue publicly traded shares. Those businesses don’t necessarily issue quarterly earnings reports, and their values can be murky. Similar dynamics apply to private credit, real estate, and other private assets, often referred to under the broad ‘private equity’ umbrella.

This means that [even institutional investors](#) have trouble getting information about the books and records of the private market assets in which they seek to invest, and that even large institutional investors [complain](#) that they lack the information needed to properly understand a private fund’s performance and risks.

It also means that private assets are hard to value. The lack of transparency can leave retail investors [in the dark](#) about the true performance of their investments. Indeed, firms are often [accused](#) of massaging the valuation of their holdings to flatter returns.

### Illiquidity

A second key difference is that private market assets [are largely illiquid](#): stocks and bonds are traded all day long, but stakes in private funds change hands only rarely.

[Moreover](#), private funds typically lock up investors’ money for years, only periodically valuing their holdings or giving investors a chance to cash out. That has made them

ill-suited for retail investors, relative to mutual funds and exchange-traded funds, which offer daily pricing and liquidity.

In other words, retail investors cannot get [in and out](#) of private market assets at will, as they can with other parts of their portfolio. And although 401(k) investors don't need their portfolio to be liquid all the time, they need liquidity as they approach [retirement](#).

'It's typically not easy to cash out the assets in a hurry,' said Olivia Mitchell, a professor of business economics and public policy at the University of Pennsylvania, and executive director of the Pension Research Council. 'This could be [a big challenge](#) for 401(k) plan participants who either simply want to access their money or want to readjust their portfolio as they near and enter retirement.

Even some in the industry [acknowledge](#) that the illiquidity of private market assets is more of a problem than some would like to admit. Still, proponents of opening 401(k)s to private assets say the time horizon of retirement savers is [a good match](#) for illiquid investments. The problem is that at some point 401(k) plan participants will need access [to their money](#).

In theory, retirement plans are long-term propositions, so investors do not need to worry about being unable to sell out quickly. In reality, early 'hardship' withdrawals from 401k plans have doubled in five years to 4.8 per cent.

And what happens if a retail investor "needs to liquidate their position during a market downturn? The options are limited, and the consequences can be [severe](#)."

## Fees

Fees are perhaps the biggest reason for 401(k) plans to avoid private market assets. Sponsors of 401(k) plans are [famously fee sensitive](#), and private assets aren't cheap.

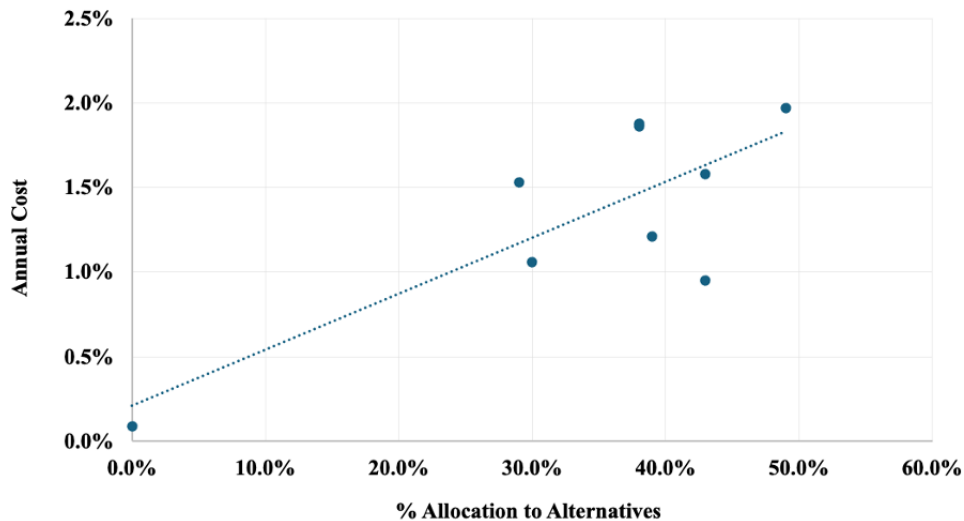
At the end of 2024, the asset-weighted fee for target-date mutual funds was just 0.29%, not even counting the cheaper CIT versions. Most private funds charge more than 1.00% in management fees plus incentive fees as high as 20%.

A comparison of target-date mutual funds with interval funds is similarly [damning](#).

Then there are the fees. It's unclear what 401(k) investors would pay, but a look at interval funds isn't encouraging. The average interval fund has an expense ratio of 2.5%, according to Morningstar. That's almost 10 times higher than the 0.3% average for target-date funds holding mainly stocks and bonds.

Understanding the fees for private assets is essential to understanding the risks of the market. The private funds industry touts its supposedly higher returns compared to public markets, but [many studies suggest](#) that once fees are taken into account, private market investments underperform their publicly traded counterparts. Indeed, [the one thing](#) to understand about the private markets is "the cost and its consequences."

### Relationship of Cost and Allocation to Alts, 2009-2023



## The Push to Get Private Market Assets into 401(k)s

So why the push to open up the private markets to 401(k)s? It's not because workers want more options in their 401(k)s, and certainly not [less liquid and hard-to-value assets](#). And it's not motivated by plan sponsors, who [worry](#) that anything seen as expensive, complex, or risky could lead to lawsuits. Instead, it's because private equity firms are finding it [harder now to raise money](#). The "private capital industry has [struggled](#) to raise new money in recent years from institutional investors such as pensions and endowments."


As a result, private market firms [eye](#) America's vast retirement system. The industry now [wants a slice](#) of the \$12 trillion pie that comprises America's retirement accounts.

Seeking new investment amid a global slowdown in fund-raising, the industry is looking beyond its traditional world of wealthy individuals and institutional funds. The firms see a vast pool of potential fund investors in 401(k)s and other retirement accounts owned by 70 million Americans through their workplaces.

This vast pool of individual retirement accounts and 401(k) plans may well represent [the holy grail](#) for private market firms, but it is not clear why they should obtain what they seek.

For instance, the Department of Labor must reassure pension-plan managers that private-market assets meet their fiduciary standards. At present, they fear being sued if they invest in them owing to the higher fees such companies charge.

Those fees are another reason behind the push to open up 401(k)s to the private markets. Unsurprisingly, because financial intermediaries get paid a lot more for managing private assets than they do for managing public assets, they [prefer](#) private assets. But the fact that private market



firms now want or need access to retail investors’ 401(k)s should have no impact on whether private market assets meet [the fiduciary standard](#).

‘Some plan sponsors are very much against this initiative to make direct investments to private equity available through the defined contribution plan,’ said Bridget Bearden, research and development strategist at the Employee Benefit Research Institute. ‘They think that it’s pretty illiquid and very risky, and they don’t really see the return for it.’

It’s not surprising that the industry looks at retail investors and sees dollar signs, but the fact that the industry [covets](#) access to millions of Americans’ 401(k)s is no reason to expose the retirement savings of those Americans to the private markets. The question shouldn’t be what is good for the private funds industry. The question should be what is good for investors and their 401(k)s, and the answer is not private market assets.

## The Performance of Private Market Investments

Obviously, the industry’s pitch to introduce private market assets into 401(k) plans does not center on the risks of the private markets or the fact that the industry needs to find a new cadre of investors willing to buy its assets. Instead, the industry says that the returns in the private markets outpace the returns in the public markets and that investors in 401(k) plans should have the opportunity to participate in these greater returns. But as discussed earlier, the evidence to support this idea is growing [weaker and weaker](#).

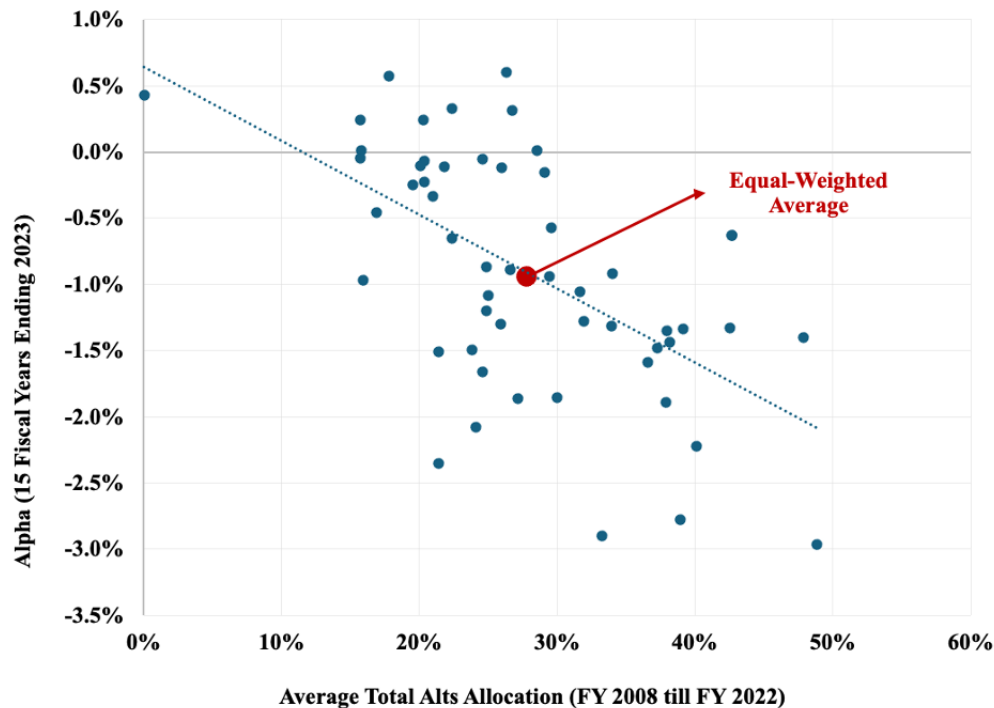
But studies from Morningstar and the Center for Retirement Research at Boston College have found mixed to negative results. A 2024 Boston College study found that long-term returns for pension funds, which own alternatives, was almost identical to a simple 60/40 portfolio of stocks and bonds.

Research also [suggests](#) that less sophisticated investors get the worst returns in the private markets—“a dynamic that doesn’t bode well for the 401(k) crowd.”

The evidence is even [worse](#) when considering whether investments in the private markets offer what is called “alpha,” or a return in excess of a market-related benchmark.

Exhibit 3 shows the relationship of alpha and the percentage allocation to alts for . . . 54 individual funds. . . . It would be fair to say that alternative investments have been an alpha killer of major proportions. . . .

### Alpha vs. Alts Allocation Percentage (2009-2023)



So by “[this objective standard](#), public pension funds have performed poorly as active investors, and the main reason is their allocation to alternative investments.”

As these studies show, the promise that pension funds could solve their underfunding problem through higher returns in private market assets has not come to fruition. Instead, pension fund private equity investors are often stuck [in so-called zombie funds](#)—private equity funds that did not pay out on the expected timetable, leaving investors in limbo.

California’s worker pension, the nation’s largest, will be paying more money into its private-equity portfolio than it receives from those investments for eight years in a row. The engine maker Cummins took a 4.4% loss in its U.K. pension last year, in large part because it sold private assets at a discount. It is the latest cash crunch to befall retirement funds that have piled into hard-to-sell investments in search of high returns, and spotlights the risks as Wall Street is trying to sell those investments to wealthy households.

If these are the problems institutional investors have in the private markets, what chance do retail investors have? And why is now the time to open up 401(k)s to the private markets? It’s [troubling](#) that the “recent enthusiasm for putting ordinary US retirement money into private assets comes at a time when institutional investors are falling out of love with the sector and are looking to cut back.”

The data showing that private markets do not offer better returns than public markets is not limited to public pension funds. Mutual funds tell [the same story](#).

The investment world is abuzz with plans for mixing public and private assets in single vehicles that the masses can buy. Private assets, fund companies say, have been out of everyday investors' grasp for too long, and they are eager to extend their hand. Mutual funds, though, have been mixing public and private equities for years, though the SEC limits them to holding a maximum of 15% in such illiquid holdings in open-end funds. . . . So, has private company ownership, in aggregate, helped or hurt investors in mutual funds? . . . The result are not encouraging. Collectively, mutual funds would have been better off allocating their private stakes to public markets over the last 10 years.

All this research [supports the view](#) that we've now "learned that private assets aren't a magic bullet for better performance or investor outcomes."

## Conclusion


There are good reasons why 401(k) plans have traditionally been considered off limits to the private markets. Those reasons—the lack of transparency, illiquidity, and high fees—have not changed. The only thing that has changed is that private market firms now want access to 401(k) plans because their traditional sources of funding have evaporated. But that is no reason to give them such access. The promise of high returns from private market assets is likely to be illusory. And retail investors may do worse in the private markets than the traditional institutional investors in that space.

The potential for trouble is [huge](#). The fear is that, rather than retail investors receiving the same opportunities as accredited investors, retail investors will get [saddled](#) with the worst private market offerings. Even those in the private market industry [acknowledge](#) that "retail investors might not be as sophisticated" as accredited investors and that there "might be more risk of them not understanding what they're involved in and this could create all sorts of problems." For example, retail private equity funds could become a [dumping ground](#) for unwanted private offerings and "end up saving these companies that people cannot sell." Indeed, retail investors are often seen as a [source of capital](#) for private equity firms, providing capital that more sophisticated institutional investors may shun.

Are retail investors adequately prepared to take on the complexities and risks that come with investing in private equity? Do they understand that they may simply be targeted to fill capacity, often receiving fewer desirable opportunities compared to institutional players? . . .

While institutional investors typically have the resources to conduct thorough due diligence and the ability to negotiate favorable terms, retail investors often rely on intermediaries who may not have their best interests at heart. This dynamic can result in retail investors being offered lower-tier opportunities . . . which may not





deliver the same returns as direct investments in top-tier private equity funds. Further, the lack of regulatory oversight in private equity means retail investors must rely on their own judgment and the credibility of the firms they invest in. This can be a tall order for individuals without deep expertise or experience in what has historically shown itself to be a complex and opaque industry.

Retail investors investing in the private markets through their 401(k)s are unlikely to be in a better position than those investing in the private markets directly. Although pension plans and other institutions often hire third-party consultants to conduct due diligence on potential private equity investments, this due diligence “is usually [cursory](#).” The consultants largely take fund managers at their word when it comes to historical results and the value of assets that haven’t been sold, so fund managers are able to attract capital “without a [track record of true performance](#).”

The bottom line is that private market investments [have](#) “less liquidity, higher fees and harder-to-understand disclosures and performance metrics than traditional 401(k) investments such as mutual funds.” There is also [almost no regulation](#). So allowing 401(k)s to have greater access to the private markets would create “[significant dangers for mainstream investors](#) who might not understand these opaque, high-risk, and expensive investments.” This is why most employers have [historically shied away](#) from offering investments beyond stocks and bonds in their 401(k)s. All this means that, despite the push from the industry, it is “[hard to see](#) why private assets belong in the tax-advantaged accounts intended to ensure a comfortable old age for millions of Americans.”



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