

No Alternative Assets in Tax-Advantaged Retirement Accounts

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Executive Summary

- American retirement accounts hold more than \$30 trillion, representing one of the world’s largest pools of savings. Alternative asset managers and cryptocurrency advocates, among others, have pushed aggressively to expand allowable investments for these accounts to include their riskier assets.
- These assets are not appropriate for tax-advantaged retirement accounts, pose substantial risks for unsophisticated investors, and have tended to deliver poor returns. Granting the asset managers access to this enormous new pool of capital will encourage further financialization of the economy and distortion of financial markets.
- Both Congress and the Department of Labor should reject proposals to expand allowable investments and instead establish clear restrictions that limit tax-advantaged accounts to publicly traded equities, bonds, and low-fee managed funds.

The Policy Question

The legal framework authorizing individual retirement accounts (IRAs)¹ and 401(k)² accounts establishes few limitations on the kinds of assets that can be held. For IRAs, the only substantive prohibitions are on life insurance contracts³ and most kinds of collectibles.⁴ For 401(k)s, ERISA imposes fiduciary duties on plan administrators, who must exhibit “care, skill, prudence, and diligence” in administering the fund, in part by “diversifying the investments of the plan.”⁵

Should individual savers have access to alternative assets like private equity funds and cryptocurrency in tax-advantaged retirement accounts?

1 26 U.S.C. 408

2 26 U.S.C. 401

3 26 U.S.C. 408(a)(3)

4 26 U.S.C. 408(m)

5 29 U.S.C. 1104(a)



Why It Matters

Americans hold more than \$30 trillion in defined contribution (e.g., 401(k)) and individual retirement (e.g., IRA) accounts,⁶ representing one of the largest pools of investable assets in the world. By comparison, the 100 largest sovereign wealth funds control \$15 trillion.⁷ Single-family offices, representing the world's wealthiest individuals, manage less than \$5 trillion in wealth.⁸

Whether that pool of assets can be directed toward alternative investments has enormous implications for the individuals attempting to save for retirement and for the investment managers and asset holders hoping to profit from the relationship.

State of Play

A range of proposals have been advanced to ensure that retirement plans can offer alternative assets including private equity, venture capital, and cryptocurrency.⁹ While the Department of Labor (DOL) under President Biden issued regulatory guidance cautioning funds against offering alternative assets¹⁰ and urging fiduciaries to exercise “extreme care” before providing access to cryptocurrency,¹¹ the Trump administration’s DOL has rescinded that guidance¹² and President Trump has issued an Executive Order supporting such investments and instructing the Securities and Exchange Commission to “facilitate access.”¹³

Analysis

Speculators rely on ever-larger amounts of capital chasing a limited supply of assets to drive asset values higher, especially when their strategies do not create real value themselves.

- Cryptocurrencies like Bitcoin, for instance, rise in value when more people want to hold them and can dedicate more money to their purchase.
- Private equity firms have struggled to achieve returns equivalent to basic public market indices¹⁴ and to find buyers for their portfolio companies, increasingly relying on “secondary buyouts”¹⁵ that sell a holding from one firm to another, or “continuation funds”

6 “Retirement Assets Total \$45.8 Trillion in Second Quarter 2025,” [Investment Company Institute](#), Sept. 18, 2025.

7 “Top 100 Largest Sovereign Wealth Fund Rankings by Total Assets,” [Sovereign Wealth Fund Institute](#), accessed Dec. 5, 2025.

8 “Single Family Office Asset Pools 2025,” [S&P Global](#), May 28, 2025.

9 Retirement Savings Modernization Act, [S.4973 \(117th Congress\)](#), 2022; Financial Freedom Act, [S.1222 \(119th Congress\)](#), 2025.

10 U.S. Department of Labor Supplement Statement on Private Equity in Defined Contribution Plan Designated Investment Alternatives,” [U.S. Department of Labor](#), Dec. 21, 2021.

11 “401(k) Plan Investments in ‘Cryptocurrencies,’” [U.S. Department of Labor](#), Mar. 10, 2022.

12 “US Department of Labor rescinds 2021 supplemental statement on alternative assets in 401(k) plans,” [U.S. Department of Labor](#), Aug. 12, 2025; “401(k) Plan Investments in ‘Cryptocurrencies,’” [U.S. Department of Labor](#), May 28, 2025.

13 “Democratizing Access to Alternative Assets for 401(k) Investors,” [Executive Office of the President](#), Aug. 7, 2025.

14 Alexandra Heal, “Private market funds lag US stocks over short and long term,” [Financial Times](#), Jun. 11, 2025.

15 Janelle Bradley, “Secondary deals grow as share of PE exits,” [PitchBook](#), May 2, 2024.



where the same firm creates a new fund to buy assets from an old one.¹⁶ Current investors desperately need new ones on to whom they can offload their holdings.

- Hedge funds consistently, badly underperform simple public market indices while collecting enormous management fees regardless of performance.¹⁷ Every new dollar invested into the industry boosts profits for the managers while reducing long-term savings for the investor.
- Unsurprisingly, these speculators are extraordinarily eager to market their assets to retail retirement investors through tax-advantaged savings accounts. Those retail investors lack the sophistication to evaluate the offerings and make informed asset allocations, and as individuals they have insufficient wealth to include one-by-one as limited partners in large funds. Indeed, they would generally be prohibited from participating, under the Securities and Exchange Commission’s “accredited investor” standard.¹⁸ But if their savings can be channeled through major retirement plans into these alternative asset markets, the payoff to those selling and managing the assets would be enormous.

Encouraging, or even permitting, tax-advantaged retirement savings to flow into alternative assets is thus damaging in two respects. First, for the individual saver, it substantially increases risks and lowers expected returns. Even if those risks were to come with comparably larger returns, the purpose of a retirement account is not to maximize potential returns at the risk of substantial downside. Playing poker at a casino might boost returns for some people as well, at least for a time, but that does not make it a retirement strategy deserving of tax benefits. In this case, the track record of the alternative assets gives no reason to believe that the savers would benefit.

Certainly, individuals remain free to take the full range of risks in financial markets with their own savings, but the policy question here is whether they should be subsidized in doing so. Tax-advantaged retirement accounts receive that advantage because they are intended to function as a form of quasi-public pension, which necessarily limits the appropriate scope of activities. As Michael Lind has argued at *Commonplace*:

...ordinary Americans today are already perfectly free to try to get rich by investing any “mad money” they are willing to lose in speculative investments. If you want to put all of the money in your ordinary, taxable savings account into a Bored Ape Yacht Club or Pudgy Penguin Non-Fungible Token (NFT), in the hope that it will appreciate and make you a millionaire or billionaire, you can do that already.

16 Stephen Deane and Ken Robinson, “Continuation Funds: Ethics in Private Markets, Part I,” [CFA Institute](#), Sep. 15, 2025.

17 Richard M. Ennis, “Hedge Funds: A Poor Choice for Most Long-Term Investors?,” [CFA Institute](#), Jun. 26, 2024.

18 “Accredited Investors,” [U.S. Securities and Exchange Commission](#), accessed Dec. 5, 2025.



But the taxpayer does not subsidize your speculation. That is the difference between ordinary savings accounts and tax-favored retirement savings accounts like 401(k)s and IRAs. ... There is no plausible case for high-risk, high-reward investments in taxpayer-favored retirement accounts of any kind, including IRAs as well as 401(k)s. Why am I, the taxpayer, subsidizing the gambling of my fellow employee? As Graham, Buffett, and Bogle all recognized, the vast majority of would-be enterprising investors will fail to beat the market if they try on their own.¹⁹

The second form of damage comes in the financial sector itself, which has already metastasized to capture a disproportionate share of top business talent and economy-wide profits, even as productive investment continues a long-term slide.²⁰ The United States does not need yet more private equity and hedge funds spinning piles of assets around in ever faster and less useful circles, or more entrepreneurs trying to find ways to get rich quick on some cryptocurrency scheme or—as often ends up the case—scam. Offering up an additional \$30 trillion in investable assets will ensure that result.

Recommendations

Policymakers should prevent access to alternative assets in tax-advantaged retirement accounts.

- Congress should reject legislation like the Retirement Savings Modernization Act²¹ and the Financial Freedom Act²² that would codify access to a broader scope of alternative assets in retirement accounts. Instead, Congress should pass legislation amending the Internal Revenue Code (26 U.S.C. § 401 and 26 U.S. Code § 408) to define explicitly the appropriate assets for all tax-advantaged accounts, limited to publicly traded equities and bonds as well as managed funds composed of such assets with caps below 1% on management fees.
- The White House should rescind its “facilitate access” [Executive Order 14330](#) (August 7, 2025), which prompted the Department of Labor (DOL) to rescind its prior caution on private equity and cryptocurrency investments. The Department of Labor (DOL) should offer updated guidance expressing extreme skepticism of any decision by fiduciaries operating investment plans to include alternative assets as investment options.

19 Michael Lind, “No Mad Money on the Taxpayer Dime,” *Commonplace*, Sep. 3, 2025.

20 Oren Cass, “Confronting Coin-Flip Capitalism,” *American Compass*, Jul. 14, 2021.

21 [S.4973 \(117th Congress\)](#), 2022.

22 [S.1222 \(119th Congress\)](#), 2025.



Further Reading

- Oren Cass, “Confronting Coin-Flip Capitalism,” [American Compass](#), July 2021
- Alicia H. Munnell, “3 Reasons Why Bitcoin in Your 401(k) Is Still a Terrible Idea,” [Center for Retirement Research at Boston College](#), June 2025
- Alicia H. Munnell, “Workers Do Not Need Private Equity in their 401(k) Plans,” [Center for Retirement Research at Boston College](#), August 2025
- Michael Lind, “No Mad Money on the Taxpayer Dime,” [Commonplace](#), September 2025