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Alternative Investments in 401(k)s:

What You Need to Know About the New Rules

Those saving for retirement may soon begin to see investment choices inside their workplace plans that were previously only available for larger institutional investors.

On Aug. 7, 2025, President Trump signed an executive order "Democratizing Access to Alternative Assets for 401(k) Investors." Just days later, on Aug. 12, the Department of Labor (DOL) rescinded a statement from 2021 that had cautioned plan sponsors on the use of private equity in retirement plans.

Together, these moves open the door for alternative investments to be included in 401(k)s and other defined contribution (DC) plans—unfamiliar territory for many investors. Here's what the changes mean, the potential benefits and risks, and what you should consider as part of your retirement planning.

What's Changed?

Alternative investments are investments beyond stocks and bonds—private equity, private credit, real estate, commodities, infrastructure and even cryptocurrencies.

Here's what's new:

- **The DOL's 2021 warning is gone:** In the past, the DOL discouraged plan sponsors from including private equity allocations in DC plans. That statement has now been rescinded, removing an official roadblock to considering alternatives.
- **But restrictions remain:** Alternative investments cannot be offered as stand-alone choices with a 401(k). Instead, they may only be included inside diversified, professionally managed funds such as target-date funds or advisor managed accounts.
- **No safety net—yet:** While the executive order allows for broader access, it doesn't create new legal protections. The order directs the DOL, Treasury and Securities and Exchange Commission to review rules, but no safe harbor protections currently exist. Fiduciary obligations under the Employee Retirement Income Security Act (ERISA) also haven't changed—plan sponsors are fully responsible for ensuring that alternative investments are in their participants' best interests.

The Potential Upsides: Diversification and Higher Returns

Alternative investments move differently than traditional markets, which means they can help smooth volatility and reduce reliance on conventional stock and bond allocations. For example, real estate may generate steady income for you when stocks are down, while private equity can provide you access to growing companies that aren't traded on the public market.

Up until now, alternative investments were mostly available to institutions or private investors who met minimum net-worth standards. By including them in retirement plans, more investors have the chance to benefit from growth opportunities that were once out of reach—however these investments do come with additional risks. For younger, risk-tolerant investors, even modest exposure could potentially enhance returns over the long term.

The Concerns You Shouldn't Ignore

As with any new opportunity, there are also some important tradeoffs to keep in mind:

- **Higher fees that can erode returns:** Alternative investments almost always carry higher and more complex fee structures. Without strong performance, those costs can eat into your net returns, potentially leaving you worse off than with lower-cost options.
- **Liquidity and valuation challenges:** Unlike stocks and mutual funds, many alternatives are illiquid and can be locked up for years. Their pricing often relies on valuation models rather than transparent public markets, making it harder to know what they're worth day-to-day.
- **Fiduciary and legal risk:** Because there are no special protections in place, plan sponsors remain subject to ERISA's prudence standard. This means that plan sponsors must carefully evaluate every investment option to ensure that it's sensible and in the best interest of participants—not just trendy.

  Intel faced a lawsuit after including alternatives in its 401(k) funds; while the courts ultimately sided with Intel, the case highlights how including alternatives can open the door to litigation, even if fiduciaries believe they've acted prudently.

For now, rules require that alternatives be included only as part of diversified funds—not offered as stand-alone choices. If that ever changes, these additional issues could become especially relevant:

- **Volatility and suitability concerns:** Not every alternative asset is appropriate for retirement investing. Cryptocurrencies, for example, can be volatile and speculative, which runs counter to the stability that you expect from long-term retirement savings.
- **Operational hurdles for plans:** Adding alternative investments isn't easy; daily valuation, recordkeeping, portability and compliance are all more complex, which may slow adoption within 401(k) plans.
- **The risk of lower-quality managers:** Top-tier alternative investment managers often prefer working with large institutions that can commit billions. The firms willing to offer products small enough to fit into 401(k)s may not always be the top performers, which could leave you with lower-quality options in your plan.

What This All Means for You

You may eventually see alternative investments show up within your 401(k) plan. But remember, their inclusion doesn't automatically make them a better choice. Fiduciaries still need to demonstrate that alternatives improve outcomes after accounting for cost, risk and liquidity limits.

And just because a new type of investment is offered doesn't mean it fits your personal goals. They're not one-size-fits-all, and your retirement strategy should reflect your time horizon, risk tolerance and financial picture.

Younger savers with time to weather volatility may benefit from modest investments, while those closer to retirement—or anyone risk averse—may find alternatives aren't a good fit for them. Your wealth advisor can help you evaluate whether alternatives belong in your retirement strategy.

The Bottom Line

As rules evolve, alternative investments may become a more common feature in retirement plans, but they bring with them added complexity and risk. Talk to your wealth advisor; together, you can decide if alternatives add value to your retirement plan—or if traditional investments remain the stronger path to help you reach your retirement goals.

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