DC Perspectives

AUG 2025

Alternatives in Defined Contribution Plans

On August 7, 2025, President Trump signed an executive order to expand alternative investment access in defined contribution retirement plans (e.g., 401(k) plans). This order instructs the Department of Labor (DOL) to reexamine its guidance to plan sponsors incorporating alternative investments into these types of retirement plans. According to the order, the six classes of alternative assets included are:

- Private markets investments, including private equity and private debt
- Real estate
- Actively managed vehicles investing in digital assets
- Commodities
- Infrastructure
- Lifetime income strategies, including longevity risk-sharing pools

Looking back, this is not the first time alternative assets have been discussed within defined contribution plans. The DOL originally issued an information letter in response to a request to provide guidance on the use of private equity within a defined contribution (DC) plan back in June 2020 under the first Trump administration. The guidance indicated plan fiduciaries would not violate their duties if using private equity as a component within professionally managed allocation funds, such as a target date fund. The guidance also noted that if a plan were to consider implementation, it must follow a prudent fiduciary process when evaluating such assets.

In December 2021, the DOL under the Biden Administration adjusted by issuing a supplemental statement on private equity in defined contribution plan designated investment alternatives. While the supplemental statement did not retract the original information letter, it made clear that the letter did not recommend the inclusion of alternative assets such as private equity either. As of August 12, 2025, the DOL has rescinded the 2021 supplemental statement.

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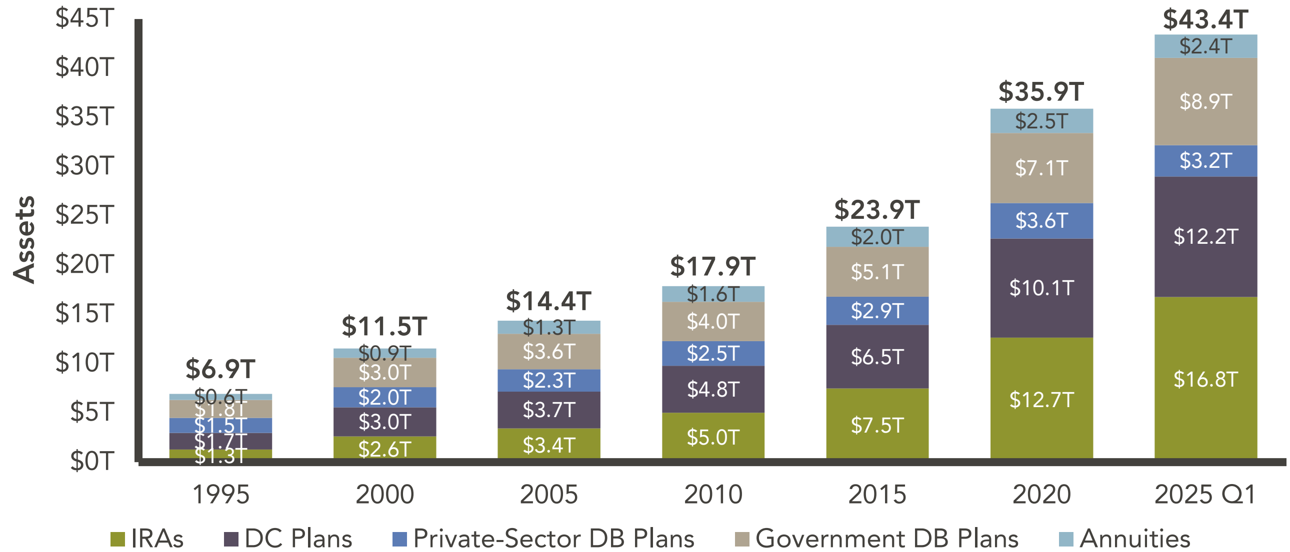
WHY THE FOCUS ON DC PLANS?

Exhibit 1: U.S. Total Retirement Market Assets



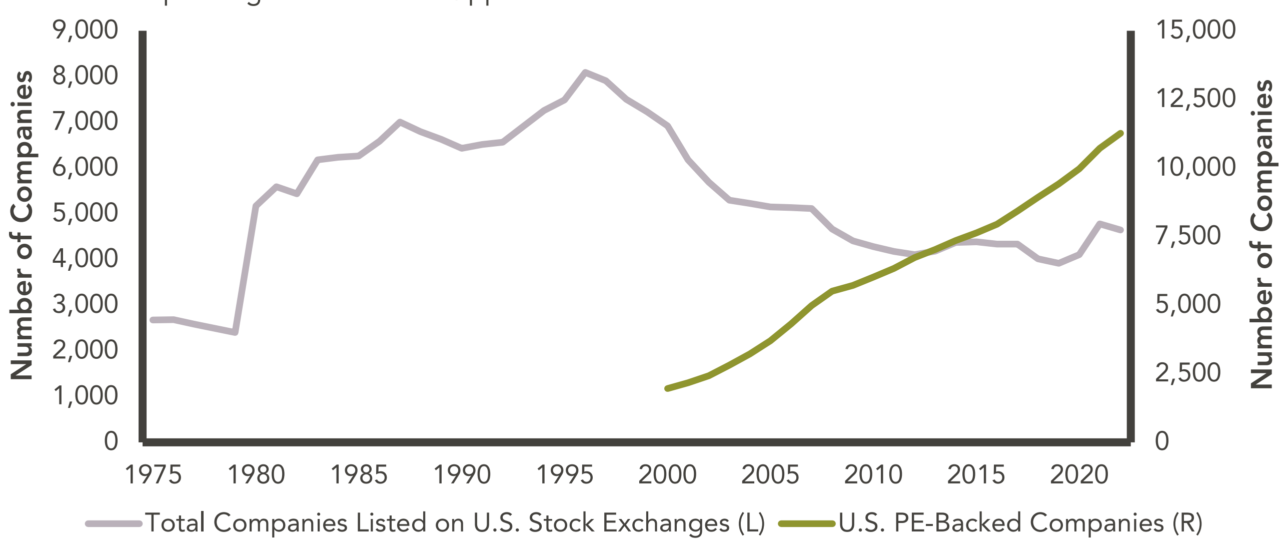
Source: Investment Company Institute, *The US Retirement Market*, First Quarter 2025

Exhibit 1 shows the estimated total U.S. retirement market assets as of March 31, 2025 were $43.4 trillion, with $12.2 trillion in defined contribution plans. DC plans continue to be the primary retirement vehicle for the U.S. workforce, specifically in the private sector. Private market investment managers have taken notice, as shown by the substantial launch of new strategies designed to serve as an underlying component in a multi-asset solution for DC plans, such as a target date fund or managed account offering.

WHY PRIVATE MARKETS?

Part of the appeal is that large institutional plans invest in alternative investments such as private equity (PE) to boost their returns and diversify their risk relative to public markets. Additionally, the inventory gap between public and private equity owned companies continues to expand as shown in Exhibit 2.

Exhibit 2: Expanding Number of PE Opportunities



Source: World Bank Group, Pitchbook; data for U.S. PE-backed companies available since 2000

Private markets can certainly boost returns and offer a variety of benefits to investors. However, investors should also be aware of the risks, particularly illiquidity, more complex underlying investments, and higher fees. Given the DC plan litigation trends seen over the past few years, private markets may have an uphill battle to overcome these concerns and prove the juice can be worth the squeeze.

CONCLUSION

It is important to note that the Executive Order instructs the DOL to "clarify the Department of Labor's position on alternative assets and the appropriate fiduciary process associated with offering asset allocation funds containing investments in alternative assets under ERISA." Plan fiduciaries will have to wait for further directions on final rulings and guidance to be issued.

While alternative investments within DC plans is still in the early stages, the potential benefits are sure to attract institutional investor interest. As legislation and market trends evolve, Marquette will continue to provide updates to clients. In the meantime, do not hesitate to reach out to your consultant to discuss these issues or other measures impacting the defined contribution space.

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