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Don't wait for alternative investments to come to your 401(k)

24 October 2025, 18:21 UTC, written by Daniel Scansaroli, Justin Waring, Sean Sanborn, Jennifer Liu, UBS GWM CIO Global Investment Management

President Trump recently signed an executive order directing the Department of Labor and Securities and Exchange Commission to pave the way for private investments in defined-contribution plans, such as 401(k) accounts.¹

Institutional investors—including insurance companies, endowments, and pension funds—have long allocated to private investments. By contrast, 401(k) accounts have generally limited investment choices to funds that give exposure to publicly traded stocks and bonds; only about 2.2% of plans currently offer alternative investments.²

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This executive order has sparked hope that alternatives—such as private equity, private credit, and hedge funds—may soon become accessible to millions of Americans saving for retirement. However, it will likely take some time for the regulatory process to unfold, and for plan sponsors to overcome operational hurdles. For example, they will need to update their recordkeeping systems to account for valuation and reporting differences, create a system for rigorous fiduciary oversight, and facilitate participant education on the new offerings (for more information, see the UBS Workplace Wealth Solutions team's article, [Private investments in 401\(k\) plans](#), published 7 August 2025).

The result could be a seismic shift in Americans' ability to access alternative investments. With over \$12.2 trillion of assets in defined contribution plans, 401(k)s are where many Americans hold the bulk of their investment assets.² In fact, according to the US Census 2022 *Wealth of Households* report, the average household holds about 37% of its net worth in employer-based defined-contribution plans, such as 401(k)s and Thrift Savings Plans.³

Lawsuits are another potential challenge. As noted in a recent Wall Street Journal article, [Trump Wants to Open Up 401\(k\)s. Legal Threats Stand in the Way](#) (published 16 September 2025), "the fear of being sued encourages employers to stick to plain-vanilla investments with low fees rather than options like private equity, which cost more but have the potential for higher returns over the long term." The article further notes that legal experts say that "the administration won't be able to give employers total immunity... casting doubt on how quickly companies might feel comfortable including higher-price assets like private equity in 401(k) retirement plans."

Even when the aforementioned operational hurdles are overcome, 401(k) plans offer a limited menu of investment options, which means that even plans that do adopt alternative investments will only offer a selection of managers and strategies. Some alternative managers are currently seeking to be included primarily as a sleeve within target date funds and/or asset allocation funds, rather than as standalone investment options, which may help them to better accommodate plan sponsors' concerns over issues such as liquidity and valuations.⁴

Because of these inherent limitations, many options for accessing alternative investments may only exist outside retirement plans. Moreover, there is no need for investors to wait for retirement plans to adopt alternative investment options; many investors can already access these strategies in other accounts, including in Traditional, Roth, and Rollover Individual Retirement Accounts (IRAs).

In this short article, we will discuss some of the potential benefits of allocating to alternative investments—especially in tax-advantaged accounts—and cover some potential drawbacks and considerations.

Why consider alternatives?

Alternative investments—including private equity, private credit, hedge funds, real estate, and infrastructure—are widely used by institutions, including defined benefit plans that are used to fund employee pensions. As President Trump noted in his executive order, these asset classes may "offer competitive returns and diversification benefits."¹

Why should investors consider alternative investments as a component in a diversified portfolio? According to CIO research reports, "adding alternatives has historically improved a portfolio's risk/return profile" and "private markets have generated stronger risk-adjusted returns than global equities, global bonds and other asset classes".⁵ The same CIO research reports also note that "an allocation to hedge funds improves risk-adjusted returns of similar portfolios," and that "hedge funds can be an effective tool in increasing diversification, reducing losses, and increasing risk-adjusted returns at the portfolio level."⁵

Helping to reinforce this observation, a recent Blackrock report—[The power of private markets: Unlocking the benefits of private assets in defined contribution plans](#) (published June 2025)—notes that "Pension plans have held private assets as a core part of their portfolios for years... We believe this is one reason pensions typically outperform 401(k)s by about 50bps each year."

Alternative investments' potential benefits seem especially valuable in the current environment. As CIO research reports note, "Not investing in private markets means missing out opportunities: More than 99% of all US companies are privately held. Private markets give access to a broader investment universe: access to early stage and middle market companies, new technologies, opportunistic and niche credit strategies unavailable through traditional asset classes, to name a few...

Better access to information, active management, inefficient markets, value creation initiatives for portfolio companies, and leverage can enhance returns over public markets.”⁵

Key considerations

While alternatives offer many potential benefits, investors should also bear in mind potential risks and drawbacks. For example, compared to traditional asset classes, alternatives often come with higher investment minimums, less valuation transparency, less liquidity (many require multi-year commitments), higher fees, and greater variation in manager returns.⁵ Moreover, investments involve risk of loss, and past performance is not indicative of future results.

Due diligence and ongoing monitoring are essential for any investors looking to add alternative investments to the portfolio. The [Private markets asset allocation guide](#) and [Hedge fund asset allocation guide](#) reports—written by the UBS CIO research team and published 21 May 2025 and 18 June 2025, respectively—provide some guidance on how an advisor may help clients build and manage a diversified portfolio including alternative investments.

Tax complexity can be another key challenge for alternative investments. Many—but not all—alternative investments generate significant taxable income and capital gains, which are often taxed at higher ordinary income tax rates. When tax-inefficient alternatives are held in an after-tax account, they can create a significant tax burden for investors that eats away at these investments' potential benefits.

The case for tax-advantaged accounts

Potential tax costs are one factor in evaluating an investment—one part of an investment's after-tax growth potential. Therefore, as a general principle, it is not wise to avoid investments only because of their potential tax costs.

Some alternative investment strategies—such as private equity funds and certain hedge funds—tend to have more attractive income tax characteristics, making them relatively attractive to own in a taxable account. For other alternative investment strategies—those with a higher potential tax drag—investors may opt to hold these funds in tax-advantaged accounts, such as Traditional IRAs, Roth IRAs, or private placement life insurance and annuities:

- **Traditional IRAs** allow the growth and income from alternatives to compound on tax-deferred basis, allowing investors to reinvest without an annual tax drag.⁶ Growth in these accounts will still be taxed as ordinary income upon distribution.
- **Roth IRAs** also allow growth and income to compound without an annual tax drag.⁶ Moreover, qualified withdrawals from Roth IRAs are also tax-free, making them an attractive vehicle for investment options with high growth potential.
- **Private placement structures**—such as Private Placement Life Insurance (PPLI) and Private Placement Variable Annuity (PPVA) policies—may allow wealthy families to create a tax-deferred structure that can own alternatives such as hedge funds and private credit strategies.⁷ When structured correctly, these policies will not face a tax on the dividends, interest, and capital gains generated by their investments; may facilitate tax-free policy loans; and will pay an income tax-free death benefit to the policy beneficiaries. To learn more about the potential costs and benefits—including considerations regarding costs and limited liquidity—see the CIO research team's report, [Private placement strategies: Tax-efficiency for alternative investments](#), published 30 June 2025.

These structures' characteristics help to make them particularly attractive homes for alternatives with high growth potential, including those that would—if held in a taxable account—generate a significant level of taxes due to capital gains and income.

However, not all funds are offered in IRAs, as fund offerings will vary based on the custodian and platform. Moreover, private placement strategies often have high minimum investment thresholds and are only available to high-net-worth individuals (i.e., meeting the requirements of being a Qualified Purchaser and an Accredited Investor) and are only suitable for those who are comfortable with complex financial instruments and their associate risks.⁷

Tax-advantaged accounts do come with limited access to funds (for example, early withdrawal penalties in the case of IRAs, and surrender charges, lock-up periods, and restrictions on accessing cash value in the case of annuities or life insurance policies). Therefore, these solutions are more appropriate for funds that are not earmarked for short-term spending.

Other considerations

In addition to higher potential fees and tax costs, alternative investments may also delay or complicate estate administration because these funds are often illiquid and may take months or years to liquidate. Families should perform careful due diligence and consult with a financial advisor to verify that an allocation to alternative investments is likely to improve the net after-tax return potential of the portfolio, and align with the family's overall financial and estate planning goals.

Bottom line

The recent executive order is a promising step toward expanding access to alternatives in 401(k) plans, but this expansion is likely to take time. Even after these hurdles are overcome, 401(k) plans may continue to offer limited investment options.

Fortunately, there is no need for investors to wait to access alternative investments. Investors seeking diversification, enhanced return potential, and portfolio risk management may want to consider opportunities to add an allocation outside 401(k) accounts, especially in tax-advantaged accounts such as Traditional IRAs, Roth IRAs, and Rollover IRAs (IRAs that have received funds transferred from a former employer's retirement plan). Investors with significant wealth held in taxable accounts may wish to consider using private placement structures to access alternatives on a tax-advantaged basis.

For those interested in learning more, here are some next steps to consider:

- Review current retirement accounts to see what alternative investments are available. For assets held in a former employer's 401(k) plan, read this report and speak with a financial advisor to weigh different options: [How to manage a 401\(k\) left at a former employer](#), published 24 July 2025.⁸
- Read the [CIO Private markets asset allocation guide](#), published 21 May 2025, and [Hedge fund asset allocation guide](#), published 18 June 2025, to learn more about how alternative investments may fit into a well-diversified portfolio.
- Consult with a financial advisor to assess whether an allocation to alternatives would be suitable given goals, risk tolerance, and liquidity needs, and which accounts and strategies might be best for accessing these investments.

End notes

¹ [White House Fact Sheet - Executive Order August 7, 2025](#)

² James Van Bramer. Plan Sponsor. "Ahead of Executive Order, What to Know About Private Equity in 401(k) Plans". [plansponsor.com/ahead-of-executive-order-what-to-know-about-private-equity-in-401k-plans](#). Accessed July 2025.

³ US Census Bureau. "The Wealth of Households: 2022," P70BR-202, Current Population Reports, 2024.

⁴ [UBS Workplace Wealth Solutions: Private investments in 401\(k\) plans](#)

⁵ CIO Research: [Private markets asset allocation guide](#), published 21 May 2025, and [Hedge fund asset allocation guide](#), published 18 June 2025. **Past performance is not indicative of future results.**

⁶ Dividends, realized capital gains, and interest income generated by investments in an IRA are generally not included in the owner's taxable income. However, some investments (for example, certain public and master limited partnerships and alternative investments) may generate Unrelated Business Taxable Income ("UBTI"), which can require the IRA to owe tax if the UBTI is over \$1,000 in a given year.

⁷ **Accredited investor:** An individual with income over \$200,000 per year, or a married couple with income over \$300,000, with a net worth (excluding primary residence) exceeding \$1,000,000. Alternatively, an entity with total assets of more than \$5,000,000. **Qualified purchaser:** An individual with at least \$5,000,000 in investable assets or an entity with more than \$25 million.

⁸ Please be aware that this report discusses only a few of the considerations that are associated with retirement plan rollovers. For instance, at a certain age, some retirement accounts are subject to mandatory distributions each year which have certain tax implications that must be considered. What's more, retirement plan provisions and details vary drastically from one plan to the next, so it is imperative that the details that are specific to your plan and situation are seriously considered before determining what you will do with a previous employer's retirement plan. For further considerations not discussed in this report including the special tax treatment if your plan holds appreciated employer stock, please see UBS's [IRA rollover guide](#). And to make sure your actions are aligned with your overall financial situation, please work with your financial advisor throughout the decision-making process.

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Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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