

The Double-Edged Sword: Private Markets in Defined Contribution Plans



Seth Estevis
Vassar College



Elias Ferreira
Providence College



Darian Flores
University of Richmond



Alan Guachichulca
University of
Pennsylvania



Kiera Pohan
Davidson College

Introduction:

“When our most exciting young companies raise private capital rather than go public, retail investors are left out of a significant part of the Nation’s economic growth.”

— Robert Jackson Jr., SEC Commissioner, 2018

The returns on one’s 401(k) have a direct impact on when and how one can retire, and those returns are influenced by the type of investments one makes. Therefore, it is important for people to pick the right investments to serve their retirement needs. When individuals think about saving for retirement, their minds may go to 401(k)s filled with stocks and bonds gathered together in mutual funds and target-date funds. These investment vehicles are transparent, regulated, and proven to help people save for retirement. From 2002 to 2022, individuals with 401(k)s invested in the S&P 500 would have realized an 8.14% annual return.¹ If someone started with \$100,000 in their 401(k) in 2002, by 2022 the balance would have increased to \$517,661.57, assuming dividends were reinvested. Over time and with some luck, this kind of return on investment has enabled countless individuals and families to maintain their standard of living after their work ends, all thanks

to their ability to engage with the public market.

But now, new opportunities are being created outside the public market. These opportunities present the prospect of even greater returns but come with unique risks and barriers to entry. Private markets, unlike public markets, are not accessible to everyone. Only the wealthiest investors, institutional investors, and high-net-worth individuals (HNWI) are able to participate. An easy way to understand the difference between private and public markets is by thinking of food. If someone wanted to own a share of McDonald’s (MCD), they could log into their investment account and buy a share of the company because it is publicly traded. However, if someone tried to buy a share of Chick-fil-A, they would be sorely disappointed, because Chick-fil-A is a private

“There are 17,200 private companies with revenue greater than \$100 million, whereas there are only 4,060 public companies of a similar size.”

Sapere Aude Consortium, Inc. was formed to serve first generation college students interested in financial services. Our goal is to provide a forum for students to research and learn about critical issues impacting wealth and investment management. The authors listed above were asked to express their own ideas in this Opinion Snapshot, whether or not the founders, board members, mentors or other industry professionals agreed with their opinions or proposals. This Opinion Snapshot is offered in that spirit – to hear the views of some of the next generation of professionals to enter wealth and investment management. Neither Sapere Aude Consortium, its board member, mentors, nor any of the authors received any financial support from any firm or person with any interest, financial or otherwise, in this article. Neither Sapere Aude Consortium nor the authors are currently affiliated with any organization mentioned in this paper.

company. As a result of this exclusivity, investors in private markets have historically earned higher returns. According to a 2024 CAIA article, private equity earned a 14.75% annual return from 2002 to 2022.² Using the same \$100,000 initial balance, an investor in private equity would have ended with \$1,566,945.47, assuming dividends were reinvested and they made no withdrawals. That's \$1,049,283.90 more than the same investment in the S&P 500 during that period. Although returns will always vary, this comparison shows why retail investors and institutions are increasingly interested in private markets.

As Robert Jackson Jr., the commissioner of the Securities and Exchange Commission (SEC) from 2018 to 2020, has said, public investors' inability to enter private markets equals missed economic opportunities. There are 17,200 private companies with revenue greater than \$100 million, whereas there are only 4,060 public companies of a similar size.³ A look at the data from 2000 through 2024 reveals a dramatic increase in the number of private companies and a decline in the number of public companies.⁴ The first part of 2025 experienced the slowest start in initial public offering (IPO) activity in five years.⁵ Simply put, private companies are

“To illustrate the difference: public markets are like food courts—accessible, transparent, and open to all—whereas private markets are like exclusive, invitation-only dinner parties with no posted menu or pricing.”

staying private for longer or not going public at all. Increased access to private capital, regulatory requirements, and the cost of going public are incentivizing companies to avoid the public domain. This trend raises questions about the relationship between private markets and public markets and what role these markets should play in an investor's defined contribution plan.

Things are changing for the retail investor. As the public market shrinks and retirement burdens grow, private investments are no longer just for institutions. They may be key to closing the retirement gap, but only if the industry prioritizes clear oversight, strong design, and investor readiness. It's not about saying yes or no to private markets. It's about making sure the way forward is safe, fair, and built to last. The challenge is figuring out how to implement these new investments in a way that is transparent and safe. In our opinion, the industry is moving forward without fully addressing these concerns. To help individuals understand this new trend, this paper aims to identify solutions to the primary concerns and to explore whether these solutions offer enough protection to the investor. Opportunities to invest in the private market are becoming available to retail investors whether they are prepared or not. Although the inclusion of private markets in defined contribution plans such as 401(k)s could extend the strong returns historically enjoyed by high-net-worth investors to retail savers, it also raises important considerations around fees, liquidity, and participant education that must be addressed to make this expansion viable.

Understanding Private Markets and 401(k)s

As private market investments begin to find a place in defined contribution (DC) plans like 401(k)s, it's crucial to step back and understand the fundamentals. What exactly are private markets, and how do they differ from the public markets that have long formed the core of retirement investing? Just as important, how have U.S. retirement plans evolved to this point—and why are they now opening the door to private capital? This section lays the groundwork for answering these questions, offering a foundational understanding of private markets, public markets, and the structure of 401(k)s. With this context, we can begin to evaluate how complex and traditionally exclusive private investment opportunities can be responsibly integrated into the retirement plans of everyday investors, especially the rising Gen Z workforce. Private markets refer to investments that are not traded on public exchanges. Broadly, they consist of

three primary asset classes: private equity, private credit (or debt), and real assets—each offering distinct opportunities and risk profiles.

Private equity involves investing in privately held companies to enhance their value over time. Strategies include buyouts, growth capital, and venture investments, with firms typically seeking long-term returns through operational improvement and eventual exits via sale or IPO.

Private credit (or private debt) refers to lending money directly to private companies instead of through banks. These loans are usually structured as direct loans or mezzanine financing (a hybrid of debt and equity).

Real assets include the investment in physical assets such as real estate, infrastructure, or natural resources. They are valued due to their potential to produce stable cash flows, long-term capital appreciation, and protection against inflation.⁶

To illustrate the difference: public markets are like food courts—accessible, transparent, and open to all—whereas private markets are like exclusive, invitation-only dinner parties with no posted menu or pricing.⁷ Public markets, which include stocks, exchange-traded funds (ETFs), and bonds, are governed by strict regulatory oversight and require companies to disclose financial information regularly. This transparency, combined with high liquidity and real-time pricing, allows investors to buy or sell with confidence and ease, making public markets broadly accessible to individual investors.

Private markets, by contrast, operate in a much more opaque and more long-term environment. Unlike public companies, private firms are not required to disclose regular financials, and transactions typically happen behind closed doors with negotiated terms. Private markets are less liquid and far less transparent than public markets. Prices are not updated in real time, and valuations often rely on infrequent appraisals or internal models, making it harder for investors to gauge current performance value.

Although this exclusivity may seem intimidating, it brings distinct advantages. One of the most

attractive features of private markets is the potential for higher returns over long periods, driven by an “illiquidity premium”—a reward for locking up capital for extended time frames. However, this benefit comes with trade-offs. Private investments require multiyear commitments and may not allow easy access to funds for five to ten years.⁸ In addition to usually carrying higher fees, complex structures, and high minimum investments that have historically kept everyday investors out, private equity’s limited transparency also poses challenges. Because private companies are not required to disclose financials like public ones, it becomes harder for investors to assess performance or risk in real time. These characteristics—especially illiquidity and transparency—raise important questions about whether, and how, private market investments could be responsibly integrated into long-term retirement plans like 401(k)s.

As interest grows in integrating private markets into retirement savings vehicles, it becomes important to evaluate whether the structure of these plans supports the long-term needs of investors. Understanding U.S. retirement plans is key to finding where private markets might fit. There are two primary types of retirement plans: defined benefit (DB) and defined contribution (DC) plans. DB plans, like pensions, promise a fixed payout in retirement based on an employee’s tenure, salary, and age. The employer bears the investment risk and is responsible for funding the plan. DB plans were more common in previous generations but have declined due to cost and regulatory complexity.⁹ In contrast, DC plans, such as 401(k)s, shift responsibility and risk to employees, who contribute a portion of their income to individual retirement accounts. The final retirement benefit depends entirely on investment performance and individual contributions.

The shift from DB to DC plans was catalyzed by several factors, including rising life expectancies and regulatory changes like the passage of the Employee Retirement Income Security Act (ERISA) in 1974. Although ERISA was designed to protect workers, it also introduced more expensive funding and fiduciary (someone who is legally required to act in the best interest of their clients) requirements that made DB plans costlier and riskier for employers to maintain. The introduction

of the 401(k) plan in 1980, following a provision in the Revenue Act of 1978, accelerated this shift.¹⁰ Originally intended as a supplemental savings vehicle, the 401(k) soon became the dominant form of retirement savings as companies moved away from pension plans.

With 401(k)s now the primary vehicle for retirement savings, the responsibility for investment decisions and outcomes has shifted to individual workers. This shift creates a challenge: generating sufficient long-term returns in a complex and volatile environment. The stakes are especially high for younger generations like Gen Z, who will need to build larger nest eggs to support longer life expectancy and rising costs in housing, health care, and education. Whether private market investments could help meet these needs is a question we will examine in greater detail later in the paper.

Understanding the mechanics and potential of private markets is only the first step. To grasp why these investments haven't yet been added to 401(k) plans, we need to consider how today's retirement system took shape. The dominance of public markets in retirement savings plans was no accident; therefore, to evaluate whether private markets can responsibly be integrated into retirement savings vehicles, we must look back in history.

The State of Private Markets in 401(k)s Today

Before we dig into the current trend of democratization of private markets and the implication for 401(k)s, we must explore why retirement accounts haven't incorporated private equities to date. To understand this, it is important to evaluate the evolution of private markets over the last few decades, including potential changes in regulatory frameworks, market structures, and investor sentiments. As previously noted, the 1970s and 1980s saw a marked shift from DB to DC plans, driven by numerous factors. This shift was facilitated by innovations like target-date funds and automatic enrollment. It was further accelerated by a bull market in the 1980s that rewarded retail investors with favorable returns on their 401(k)s.¹¹ However, today retail investors do not see those same returns in their

401(k)s compared to a few decades ago. What developments have led to this point?

In the early 1900s, only banking and railroad companies offered pensions. Meanwhile, private markets became more structured and formalized by wealthy families such as the Rockefellers and Vanderbilts. By the 1940s we saw labor unions pushing for pensions with better benefits, and by the 1960s 50% of private-sector workers had pensions.¹² However, defined benefit plans soon started to default. A clear catalyst was the 1963 Studebaker pension crisis, in which the Studebaker Corporation closed its Indiana car manufacturing plant, leading to a \$15 million shortfall in the company's pension plan. When Studebaker stopped making cars in 1966 and filed for bankruptcy, workers would soon find out that their pensions were gone, with no legal remedy. Soon after, in 1974, ERISA came into the picture to contribute to the rise of the 401(k).¹³

After the passage of ERISA, defined benefit plan costs almost quadrupled, according to the U.S. Bureau of Labor Statistics, primarily due to requirements such as the need for companies to get insurance for their defined benefit plans with the U.S. Pension Benefit Guaranty Corporation, an agency established under ERISA that protects retirees. In contrast, defined contribution plans never required additional expenditures such as insurance payments.¹⁴ Additionally, according to Lawrence A. Frolik of the University of Pittsburgh School of Law, "The Employee Retirement Income Security Act (ERISA), which was enacted to protect the retirement income of employees, was reasonably successful when defined benefit plans prevailed and when retirement plans paid retirees a lifetime pension."¹⁵ However, protection weakens when it comes to defined contribution plans, since ERISA doesn't mention specific guidelines or regulations for alternative investments. Other entities like the U.S. Department of Labor as of August 12, 2025, has rescinded a 2021 supplemental letter that expressed hesitation for adding alternative investments into 401(k)s. The U.S. Department of Labor goes on to state that they believe alternative investments could be a new opportunity for Americans and their retirement.

Cohen & Buckmann, a law firm that specializes and councils on employee benefits & ERISA services, notes that “adding alternative investments must be done in a way that fulfills ERISA fiduciary responsibilities and protects participants who may not understand how these complicated investments work from losses due to uninformed decisions.”¹⁶ In fact, private markets were not allowed in pension plans until 1979 by the U.S. Department of Labor because ERISA closely regulated these plans.¹⁷ The entry of private markets into defined benefit plans was made possible through the creation of the “prudent man rule,” which legally enforced the fiduciary duty requirement while keeping in mind diversification, liquidity, and projected returns that private markets could bring.¹⁸ xviii Although private markets have been developing since the early 1900s, their relative exclusivity to institutional investors has resulted in remaining largely unregulated, and by the 1960s private companies “raised over \$1 billion in capital through private markets, and private markets were an increasingly important part of the economy.”¹⁹

Today we are seeing unprecedented changes: individuals are living longer and need more money to retire, providing greater reasons to incorporate private markets in defined contribution plans. With companies staying private longer, individual participants may miss out on key investment opportunities for retirement that could be satisfied with private markets. In the past, public markets were leading returns for 401(k)s. Today, with increased volatility and worsening economic sentiment, investors are less sure of the ability of public markets to provide stable long-term returns. The World Economic Forum reports that around 46% of investors feel “somewhat bad” about the global economy and state that the sentiment overall feels “fraught.” However, there seems to be a growing appetite for alternative investments with 88% of overall investors taking part in a 2023 survey planning on new allocations in private markets.²⁰ In another survey by the firm Schroder’s, 36% of holders of 401(k)s said they would invest in private equity and private credit. Of those who would invest, 52% would allocate less than 10% to private markets. Even with this growing appetite, this data highlights the current hesitation of participants. This sentiment

is amplified since, according to this same Schroder’s survey, 51% are already unsure of how to effectively manage their 401(k)s even before adding private markets into the investment mix.²¹

Historically, there has also been hesitation on the part of policymakers, employers, and investors. These fears have proven to be justified. In the case *Anderson v. Intel Corporation Investment Policy Committee*, a former Intel employee argued that the company breached its duty of prudence and loyalty. Anderson, the employee, argued that the company was imprudent by investing in risky private markets that benefited the company’s interest, while being disloyal to his personal retirement plan. In the end, the court ruled that ERISA was about the process, not the outcome,²² alluding to the idea that it is hard to prove whether investing in certain private markets are in the best interests of the beneficiary. However, we have recently seen government entities step forward to settle some of these concerns. The SEC is looking into the idea of making private markets accessible to retail investors, and indirectly for their 401(k)s.²³ In the current 2025 Trump administration, a July 15, 2025, article in the Wall Street Journal predicts an upcoming executive order to make private markets readily available for U.S. retirement plans and would use the collaboration of the Department of Labor and the SEC to provide guidance to employers and 401(k) administrators in hopes of settling fears.²⁴

Investment professionals believe in the potential of alternative investments and bringing financial security for the average investor. In short, more than ever investment professionals possess the proper tools and circumstances, especially since investment professionals are having trouble attracting institutional investors to private markets as they once did a few decades back. Again according to the Wall Street Journal, institutional investors have “maxed out on private equity, and higher interest rates are making it harder to raise money and profitably sell companies that were purchased when rates were lower.”²⁵ Therefore, one opportunity for these firms is to reach out to individual investors (particularly retirement savers), help make alternative Investments more accessible, and democratize private markets.²⁶

Opportunities and Drawbacks of Private Markets

With a foundational understanding of the private markets and their history, it is important to examine the opportunities and drawbacks of their inclusion in 401(k) portfolios. Adding private markets into 401(k)s could provide a potential opportunity for retail investors to retire comfortably through diversification and high returns with stability. The performance of alternative investments tends to have a low correlation with the performance of other asset classes that rely on market conditions, such as stocks and bonds. This is what makes private markets stand out, since they present a compelling case for their role in future retirement planning. However, enjoying these benefits comes at a cost, because investors must bear the liquidity and transparency risks of private markets while also taking on high management fees. Not only does this condition impact investors, but firms must also balance the needs of investors with their fiduciary responsibility. Understanding both the upside potential and inherent limitations of private markets is critical to determining whether their implementation is a logical strategy for investors.

Opportunities

Higher returns and outperformance

One of the primary benefits of private markets, and what initially attracts many investors, is their potential for higher returns compared to traditional stocks and bonds. Especially in the context of defined-contribution plans with lengthy time horizons that allow these assets to compound, the inclusion of private market investments is expected to generate approximately 15% total return in their 401(k) accounts over 40 years.²⁷ For many years, pension plans have allocated 16% to private markets, allowing them to consistently outperform 401(k)s by 50 basis points each year.²⁸ This is largely due to the consistent outperformance of private markets compared to their public counterparts. The investment management firm Neuberger Berman ran a Monte Carlo simulation, constructing a 50% stock, 40% fixed income, and 10% private equity portfolio in a DC plan. With a 40-year time horizon and a 10% yearly salary contribution (5% from earnings, 5% from the

employer's match), this portfolio saw net returns increase from 5.81% to 6.75%. With the inclusion of private equity, the median retirement wealth went from \$552,000 to \$657,000, allowing participants to retire with additional income.²⁹ Historical data continues to show private markets' ability to beat the returns of public markets, making them more attractive to investors. As economic conditions change over time, many large asset managers see that private market investments are needed to achieve returns that historically could have been reached with a portfolio holding stocks and bonds.

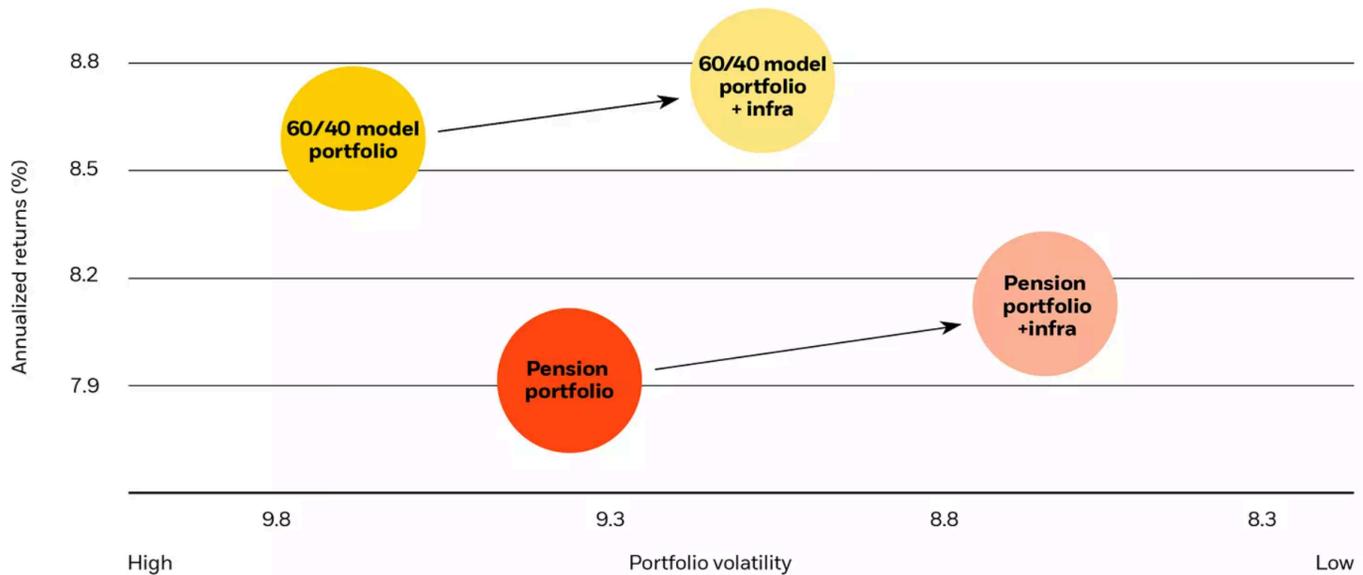
Diversification and reduced volatility

Private market investments are less susceptible to the same daily price fluctuations that affect public markets. Their low correlation to public markets can attract those investors who seek to stabilize their portfolio during times of market instability. Historically, private market assets have been used to hedge against rising inflation and interest rates, so their inclusion in retirement portfolios can ensure strong returns and less volatility even in times of economic downturn. For example, shifting from a traditional 60/40 stock- bond portfolio to a 50/30/20 allocation—with 20% in infrastructure (see Exhibit 1)—can enhance stability and provide inflation protection, as infrastructure revenues tend to rise with inflation and costs.³⁰

Private credit can allow for similar effects without the loss of additional returns, since a 10% investment in private credit can reduce portfolio volatility from 10.53% to 9.03%.³¹ In times when public markets have suffered significant losses, many private investments have avoided major declines. During the worst five-year periods, private credit and private infrastructure still managed to deliver positive returns despite the major losses posted by public equity indices.³² Excessive volatility in a retirement portfolio can cause intense anxiety in investors at any age, so it is extremely important to explore all strategies that can help manage total portfolio risk. Material drawdowns can take away from a portfolio's ability to positively compound, making the private market's ability to buffer downside events especially useful for 401(k)s. Private markets can play a vital role in mitigating downside risk in turbulent environments, ensuring that retirement goals remain within reach, even when traditional markets falter.

The infrastructure bump

Allocating infrastructure to a portfolio has meant less volatility and enhanced returns



Past performance is not indicative of current or future results

Exhibit 1: “The infrastructure bump” shows the relationship between returns and volatility of model portfolios before and after including infrastructure. With a 60/40 model + infrastructure portfolio, returns increased from 8.5% to 8.8% while reducing volatility from 9.8% to ~8.8%. Pension portfolios also increased returns to ~8.2% and reduced volatility to ~8.8% after the inclusion of infrastructure. Source: Larry Fink’s 2025 Chairman’s Letter to Shareholders.

Drawbacks

Valuation/Transparency

Public equity is heavily regulated, with companies required to release quarterly earnings reports and all information regarding the company’s operations made public. The bond market is also highly transparent, with yields being marked as they trade, and additional information made available at any time. Private markets, on the other hand, have opaque valuations and are less regulated, which raises concerns about transparency among investors and can be a massive downside when fund managers decide whether to include them in DC portfolios. Plan sponsors must meet ERISA standards for prudence and transparency, and the nature of private markets makes this harder to achieve. In July 2025 this has been a topic of debate between Senator Elizabeth Warren (D-MA) and the financial services company Empower.

Whereas Empower seeks to make private markets more accessible to DC plans, Warren raised concerns that the lack of transparency associated with private markets will put the money of many Americans at risk without their even knowing it.³³ Part of the reason that private markets can be extremely profitable is the risk you take from the limited information available for investors to evaluate. Transparency is a major concern, since how private markets are evaluated does not directly align with the process by which DC plans report on portfolio performance.

Liquidity

Another factor driving private markets investment’s high returns is the illiquidity premium that compensates investors for the inability to withdraw their capital from a fund at any given time. Unlike stocks and bonds, private markets are not sold through an exchange or over the counter, where they can be bought and sold

throughout the day. Private market investments often require longer holding periods, making it harder for investors to sell their stakes quickly, and their capital could be tied up for an extended period. Most private equity funds, for example, have what’s called a “lock-up period,” a time window during which investors are not allowed to redeem or sell shares of their investment. This is primarily because, for the first few years of private equity funds, owners of shares may experience negative returns due to factors such as high management fees and investment expenses. Fund managers have been using what’s called the “J-curve” (see Exhibit 2) to illustrate the investment cycle of private equity funds, where returns are typically negative for the first four years and only later start to become profitable.³⁴

Although most DC plans are intended for the long term, participants also expect the ability to rebalance or withdraw funds at any time, which the inclusion of private markets may restrict. Especially in times when an investor may need to withdraw funds for a crisis, a lock-up period can make it difficult for investors to meet their current needs. This fundamental misalignment brings significant concerns about the ability to include illiquid strategies alongside liquid public investments in DC plans.

Cost

The benefits that private markets bring to portfolios come at a cost to the investor that is generally higher than that of typical DC investments. Although they vary, 401(k) plans have fees that typically range from 0.5% to 2%.³⁵

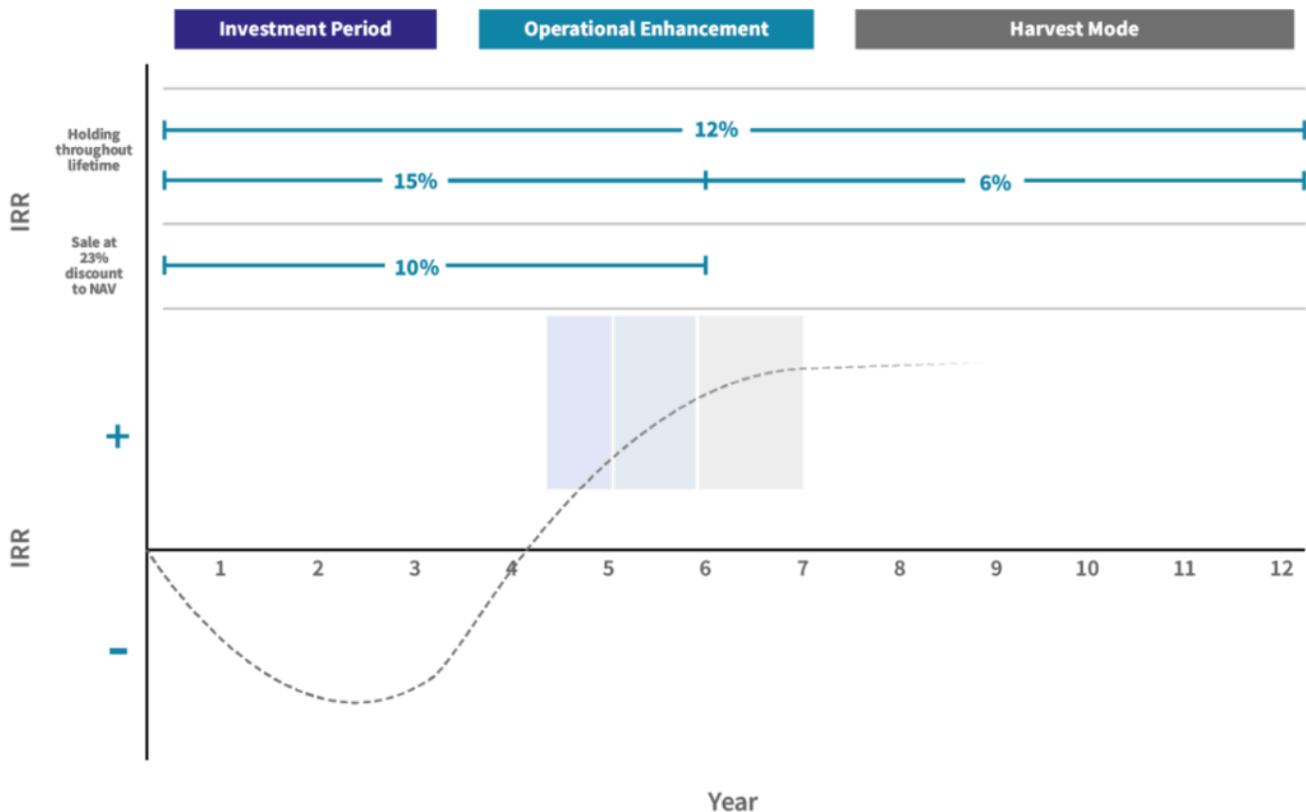


Exhibit 2: “J-curve” showing private equity returns as the fund matures. Source: “The Lock-up Period of the Typical Alternative Asset Explained,” Beneficent.

“Private markets have the power to transform retirement savings, but when it comes to their implementation, investors must approach with caution, and plan sponsors must align them with investors’ needs. ”

They achieve these low fees through investing in low-cost ETFs, stocks, and bonds, which are relatively inexpensive for the average retail investor. This typical low-cost strategy is what makes DC plans attractive to many, and by adding private markets to these portfolios, it may raise the cost to investors. Many private market funds are professionally managed and charge high fees to compensate for the added benefits that their service and performance can bring. Private credit, for example, offers great upsides, but investors must pay management fees averaging 1.5% per year and carried interest that can reach up to 15%.³⁶ Similarly, private equity can charge up to 2.5% in management and net invested capital fees, as well as up to 8% in carried interest.³⁷ This high-cost profile means participants in a 401(k) plan may see significant net return drag, especially over long time horizons. The high fees don’t just put stress on the investor but on sponsors and asset managers, since they have to follow ERISA and Department of Labor regulations. DC plans face practical hurdles like default charge caps and the difficulty of applying performance fees transparently to participants. This puts fiduciary risk on firms as DC plans continue to face legal and regulatory scrutiny over excessive fees.

So, What Does All This Mean?

Weighing the opportunities and drawbacks of private markets makes clear that their involvement in 401(k) plans can be a double-edged sword. On the one hand, they can provide additional upside returns, improve diversification, and reduce portfolio volatility against daily market reactions. These attributes are what make private markets an

attractive prospect for retirement savers as they seek to maximize their long-term wealth. On the other hand, these benefits come with the trade-offs of higher fees, illiquidity, and a lack of transparency, which all challenge the fundamental principles of defined-contribution plans. The drawbacks of private markets not only affect individual investors but also pose serious fiduciary and regulatory concerns for plan sponsors. Firms continue to find ways to make private markets more transparent, but then the question arises as to whether they can still maintain their higher returns. The higher returns compensate for the inherent risk of private markets. Private markets have the power to transform retirement savings, but when it comes to their implementation, investors must approach with caution, and plan sponsors must align them with investors’ needs. It may not make the most sense for someone nearing retirement in the next five to seven years to place private markets into their portfolio, since they bring greater concerns about liquidity than if that person planned to retire in 40 years. Private markets are not “one size fits all,” and both sponsors and participants must consider all factors and strategies to properly utilize their undeniable potential rewards while also mitigating their risk.

How to Integrate Private Markets Into 401(k) Plans

To properly incorporate private markets into DC plans, sponsors will need a reliable and properly structured fund that benefits investors by complying with operational, regulatory, and fiduciary standards. As noted above, private markets bring many complications such as illiquidity, infrequent valuation, and high fees, all of which conflict with standard DC plan requirements.³⁸ A well-structured fund will bridge the gap between the complexity of private markets and the transparency and oversight of DC plans required to maximize investor security. Although it is important to have high-performing private market strategies, there must be a responsible and effectively built framework that does not put investors at higher risk than private markets already do.

One of the most effective ways to provide that structure is through Target date funds (TDFs).

They offer myriad benefits, including the ability to rebalance and pool investments. Additionally, they have typically been the most common fund option in 401(k) plans, fostering familiarity and confidence in fund managers and investors.³⁹ When joining the fund, the investor selects a date

“A well-structured fund will bridge the gap between the complexity of private markets and the transparency and oversight of DC plans required to maximize investor security.”

for when they think they will retire. All investors in the same retirement year will buy shares for the specific TDF their DC plan offers, resulting in a pool of capital which managers use to purchase a variety of assets. Toward the beginning of a retirement plan, the TDF focuses on aggressive investing by placing an emphasis on equity and, as the target date nears, the strategy turns more conservative by selecting less risky investments such as bonds.⁴⁰ This strategy, known as the “glide path,” aims to reduce volatility and preserve capital as retirement approaches.

To efficiently introduce private markets into TDFs, private asset allocations would have to start conservatively in carefully structured diverse portfolios. According to BlackRock, during peak earning years (ages 25–50) an investor’s portfolio could hold 15%–20% in private assets, and then gradually reduce them to 5%–10% as investors near their target date.⁴¹ TDFs allow investors to access private funds that typically have high minimums through pooled investments while negotiating better fee terms.⁴² Additionally, having a lower weight on private assets helps investors manage their risks by relying on the liquidity of the public assets to offset illiquidity issues in the private ones.

Although this approach is theoretically cautious, we still see a potential danger for retail investors who may not have the capital to fall back on if they encounter financial crises. The high illiquidity levels of private assets may require liquidity buffers like cash or short-term bonds,

so investors can move in and out of the fund freely despite the greater weight on public assets. However, having these buffers can lead to a cash drag where uninvested capital lowers the portfolio’s overall performance. Therefore, while private markets in TDFs promise large returns, there are still structural issues that can lower these promises.⁴³ Additionally, a valuation problem infuses private markets. TDFs require daily net asset value (NAV) evaluations, which is nearly impossible considering private assets are typically valued only quarterly or monthly. As of right now the workaround would be for managers to rely on proxy pricing (estimates) based on prior valuations, which could lead to potential mismatches between reported and real values.⁴⁴ These structural issues regarding lower return promises and lack of transparency can prove troublesome for investors who generally have less access than wealthier participants to outside liquidity and alternative capital, thus making such an approach riskier than they might have thought.

Collective investment trusts (CITs) are another method to integrate private markets into DC plans. CITs are managed by banks or trust companies that focus specifically on retirement plans like 401(k) plans. This vehicle resembles TDFs in the sense that it also focuses on pooled investments. However, CITs pool money from multiple DC plans instead of investors buying shares like in mutual funds. They are also not SEC regulated, resulting in lower fees and more flexibility, yet still maintaining strict fiduciary standards due to required ERISA compliance.⁴⁵

CITs are already used as a practical way to bring private markets into DC plans. For example, Goldman Sachs recently introduced a CIT intended to offer retirement plans exposure to its private credit strategies.⁴⁶ One reason companies like Goldman Sachs promote CITs over mutual fund-based TDFs is their structural flexibility, particularly the ability to batch redemption requests periodically (e.g., monthly or quarterly) rather than daily.⁴⁷ This is a necessity given private markets’ illiquidity and valuation lags, where rapid exits can trigger hefty penalties or losses. By avoiding daily liquidity, CITs allow managers to reduce return drag and make more deliberate long-term investment decisions. In addition, they can pool assets from multiple DC

plans, helping plan managers reach high minimum investment thresholds. CITs can help protect portfolios from the impact of reactive or short-term investor behavior. In daily-priced funds, even modest withdrawals can force managers to sell illiquid private assets before they are ready, often on unfavorable terms. By limiting liquidity to set intervals, CITs reduce the risk of premature sales and preserve long-term value.

However, the same flexibility that makes CITs attractive also has a few drawbacks that plan sponsors must evaluate extremely carefully. Unlike mutual funds, CITs are not regulated by the SEC, which can create a lack of transparency. It may be harder to know what's in the fund, how the assets are valued, what the charges amount to, or what kinds of risks individuals are subjected to.⁴⁸ It gets even more complicated when there is market stress or when a plan switches administrators. Since CITs don't have daily withdrawals like mutual funds, accessing capital can be difficult, which is important considering the high illiquidity risk private markets already present.⁴⁹ Additionally, CITs do not have to provide daily NAV evaluations for their assets, meaning many of their assets are valued using estimated or synthetic numbers calculated from internal assessments or lagged data. Although CITs do a fair job at handling redemption requests by reviewing them only periodically, even when they do accept a request the investor is still at risk given that a CIT's valuation might not be fully accurate.⁵⁰ Since CITs are not required to make any of their valuation methods or reports public, there is a severe lack of transparency, raising questions as to whether every client is being treated fairly. To make these vehicles efficient, plan sponsors will most likely have to work harder behind the scenes by constantly reviewing fees, performances, and underlying investments.

If retirement plans are going to include private market investments, target date funds (TDFs) are probably the most realistic way to do so. Although both TDFs and CITs offer access to private assets, TDFs simply fit better with how most 401(k) plans already operate. As the most common default option in 401(k)s, with more than \$3.5 trillion in assets under management, TDFs are easier to manage and are built around the long-term goals

of everyday retirement savers.⁵¹ Their ability to manage risk by focusing on growth investments early on and safer assets as an investor's retirement date approaches is crucial. This kind of design makes it easier for average retirement investors to dip their toes in the unpredictable waters of private markets in a way that works with their risk tolerance over time.⁵²

TDFs also tend to be more liquid than CITs. Private investments can't be bought or sold easily, and most people expect to be able to move their money in and out of their 401(k) investments whenever they want. TDFs solve this problem by holding a mix of public investments that can be sold quickly if needed. Sometimes they even keep a small buffer in cash or short-term bonds. Those liquid holdings can drag on performance a bit, but they also keep the fund stable and avoid the need to sell private assets at the wrong time. CITs, on the other hand, often limit redemptions to once monthly or quarterly. That flexibility helps fund managers, but it can backfire if retail investors need their money unexpectedly or if the plan is going through big changes.

There's also growing interest in using evergreen private funds inside retirement vehicles. These funds don't have fixed end dates like traditional private equity funds and are built to recycle capital and manage inflows and outflows more smoothly. The data and analytics firm Prequin notes that evergreen funds can help smooth liquidity and valuation concerns by reinvesting proceeds and allowing consistent exposure to multiple private assets.⁵³ Although both TDFs and CITs could theoretically incorporate evergreen funds, they would probably work better inside TDFs. The glide path design already accommodates long-term investing and diversification, and the mix of liquid and illiquid assets in a TDF gives managers more tools to keep everything balanced.

“The structural limitations of traditional defined contribution strategies are becoming harder to ignore”

Overall, TDFs offer a more balanced, dependable way to bring private markets into 401(k)s. They're widely used, well understood, and subject to strict regulation. With thoughtful glide path adjustments and the use of tools like evergreen funds, TDFs can offer participants access to private investments without adding unnecessary risk. For most retirement plans—and the people depending on them—TDFs are the smarter, safer way forward.

Conclusion

The retirement system is quietly transforming. With rising life expectancies, increasingly volatile markets, and a shift toward personal responsibility for retirement outcomes, the structural limitations of traditional defined contribution strategies are becoming harder to ignore. In this evolving landscape, private market investments, once the exclusive domain of institutional investors and the ultra-wealthy, are being reconsidered as a tool to help address the mounting pressure on retirement income sustainability. Their potential for higher returns, portfolio diversification, and reduced correlation with public market volatility makes them an appealing addition to 401(k) plans. Yet these benefits come with trade-offs that cannot be overlooked. Illiquidity, limited transparency, and high fees raise serious questions about how private market investments fit within the framework of participant-driven plans. The challenge lies not just in performance, but also in access, understanding, and fiduciary

responsibility. Without clear implementation guidelines and safeguards, the inclusion of private assets could increase complexity and expose retirement investors to unintended risks. Vehicles such as target-date funds (TDFs) and collective investment trusts (CITs) offer promising delivery mechanisms. TDFs, in particular, are well-positioned due to their alignment with long-term investing horizons, familiar structure, and ability to adapt asset allocations over time. With tools like glide paths, evergreen funds, and liquidity buffers like the inclusion of cash or short-term bonds within the portfolio, TDFs provide a scalable approach to incorporating illiquid assets responsibly. However, even well-structured vehicles require rigorous oversight, ongoing participant education, and regulatory clarity. As private companies delay going public and capital formation shifts further into private hands, everyday investors risk being excluded from a growing share of economic opportunities. Expanding access to private markets through retirement plans could help close this gap, if done thoughtfully. Ultimately, the question is not whether private markets belong in 401(k) plans; rather, it is how to include them responsibly. With thoughtful design, enhanced regulatory clarity, and a renewed focus on participant education, we can mitigate the risks of reckless integration and instead unlock new pathways to retirement security for future generations. The promise of democratizing private markets is real, but it will only succeed if it is grounded in fiduciary prudence and built to serve the long-term interests of everyday investors.

Authors' Note

Our paper examines the opportunities and risks of adding private markets to defined contribution plans. With this very delicate topic we have found that it is not simple to just say yes or no to making these private assets available to retirement savers. This advancement requires careful plan design, regulatory clarity, and participant education. In this opinion snapshot we highlight the potential for higher returns and diversification but also concerns over fees, liquidity, and transparency. We outline practical methods being used today like target date funds and collective investment trusts that can help make private markets a responsible option for the average 401(k) participant.

We would also like to express our deep gratitude to those who supported us throughout this whole process specifically Chris Bendel, Drew Meyers, Samuel Ntim-Addae, Melissa Bowman, and Joseph Craven. This paper could not have been completed without their guidance and expertise.

Endnotes

- 1 Ian Webster, “S&P 500: \$100,000 in 2002 → \$517,661.15 in 2022,” Official Data Foundation [n.d.], accessed August 10, 2025, <https://www.officialdata.org/us/stocks/s-p-500/2002?amount=100000&endYear=2022>.
- 2 Ezoza Yakvalkhodjieva, “How Private Equity Markets Have Historically Weathered Storms,” Chartered Alternative Investment Analysts Association, August 8, 2024, <https://caia.org/blog/2024/08/08/how-private-equity-markets-have-historically-weathered-storms>.
- 3 Paul Jodice, “The Growing Opportunity in Private Markets,” Morgan Stanley, March 12, 2025, <https://www.morganstanley.com/articles/invest-in-private-companies>.
- 4 Scott Reeds, “The Public to Private Equity Pivot Continues,” Citizens Bank, December 2024, <https://www.citizensbank.com/corporate-finance/insights/private-equity-trends>.
- 5 “IPO Market Starts to Warm After Slow Start to 2025,” Charles Schwab, June 18, 2025, <https://www.schwab.com/learn/story/ipo-market-starts-to-warm-after-slow-start-to-2025>.
- 6 “Private Markets – A Growing, Alternative Asset Class,” S&P Global [n.d.], accessed August 10, 2025, <https://www.spglobal.com/en/research-insights/market-insights/private-markets>.
- 7 ChatGPT-5, “Prompt Name Is Missing,” OpenAI, accessed August 10, 2025, <https://chatgpt.com>
- 8 Lincoln Olsen, “Private Market Investing: A Complete Guide,” Stock Analysis, August 20, 2025, <https://stockanalysis.com/article/private-market-investing/>.
- 9 “Defined-Benefit vs. Defined-Contribution Plans: What’s the Difference?” Investopedia, June 5, 2025, <https://www.investopedia.com/ask/answers/032415/how-does-defined-benefit-pension-plan-differ-defined-contribution-plan.asp>.
- 10 Lawrence A. Frolik, “Rethinking ERISA’s Promise of Income Security in a World of 401(k) Plans,” Connecticut Insurance Law Journal 20, vol. 2 (2014): 371–403, https://scholarship.law.pitt.edu/cgi/viewcontent.cgi?article=1241&context=fac_articles.
- 11 Tom Petruno, “A Look Back at a Great Bull Market,” Los Angeles Times, August 13, 2002, <https://www.latimes.com/archives/la-xpm-2002-aug-13-fi-bull13-story.html>.
- 12 Melissa Phipps, “The History of Pension Plans in the U.S.,” The Balance, July 31, 2021, <https://www.thebalancemoney.com/the-history-of-the-pension-plan-2894374>.
- 13 Mark DeBofsky, “What Is ERISA?” DeBofsky Law, May 27, 2022, <https://www.debofsky.com/articles/what-is-erisa/>.
- 14 Patrick W. Seburn, “Evolution of Employer-Provided Defined Benefit Pensions,” Monthly Labor Review (December 1991): 16–23, Bureau of Labor Statistics, <https://www.bls.gov/mlr/1991/12/art3full.pdf>.
- 15 Frolik.
- 16 Carol Buckmann, “Alternative Investments and 401(k) Plans: How Fiduciaries Can Navigate ERISA’s Waters,” Cohen & Buckmann P.C., June 9, 2025, <https://cohenbuckmann.com/insights/2025/6/9/alternative-investments-and-401k-plans-how-fiduciaries-can-navigate-erisa-waters>.
- 17 Lenore Palladino and Harrison Karlewicz, “The Growth of Private Financial Markets,” Political Economy Research Institute, University of Massachusetts Amherst, May 2024, <https://peri.umass.edu/wp-content/uploads/joomla/images/publication/WP600.pdf>.
- 18 Eileen Appelbaum and Rosemary Batt, “A Primer on Private Equity at Work: Management, Employment, and Sustainability,” Challenge 55, no. 5, September 2012, <https://www.researchgate.net/publication/254410894>.
- 19 “Private Markets—A Growing Alternative Asset Class,” S&P Global [n.d.], accessed August 10, 2025, <https://www.spglobal.com/en/research-insights/market-insights/private-markets>.
- 20 Pavel Ermoline and Blazej Kupec, “Investors Are Increasingly Attracted to Private Markets. Why?” World Economic Forum, December 21, 2023, <https://www.weforum.org/stories/2023/12/private-markets-investors/>.
- 21 Amanda Umpierrez, “DC Participants Interested, But Skeptical, in Alternative Investments,” 401(k) Specialist Magazine, October 9, 2024, <https://401kspecialistmag.com/dc-participants-interested-but-skeptical-in-alternative-investments/>.
- 22 “Modernization of DC Plan Investments,” Groom Law Group, June 9, 2025, <https://www.groom.com/resources/modernization-of-dc-plan-investments/>.
- 23 Dylan Thomas, “SEC Opening Door for Private Equity in \$12 Trillion US Retirement Plans,” S&P Global, June 12, 2025, <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/6/sec-opening-door-for-private-equity-in-12-trillion-us-retirement-plans-90315436>.
- 24 Miriam Gottfried, Dylan Tokar, and Matt Wirz, “Trump Executive Order to Help Open Up 401(k)s to Private Markets,” Wall Street Journal, July 15, 2025, <https://www.wsj.com/finance/investing/trump-executive-order-to-help-open-up-401-k-s-to-private-markets-c90c6788?>
- 25 Miriam Gottfried, “The New Survival Guide for Private Equity: Go Big or Get Back to Basics,” Wall Street Journal, February 16, 2025, <https://www.wsj.com/finance/investing/private-equity-fundraising-struggles-408bfe14?>
- 26 Jason Zweig, “This New Investing Idea Isn’t Right for Your Retirement Plan,” Wall Street Journal, May 16, 2025, <https://www.wsj.com/finance/investing/this-new-investing-idea-isnt-right-for-your-retirement-plan-480582de?>
- 27 Robert Crothers, Jaime Magyera, Nick Nefouse, and Stacey Tovrov, “BlackRock: The Power of Private Markets,” June 2025, <https://www.blackrock.com/us/individual/literature/whitepaper/power-of-private-markets-dc-plans.pdf>.
- 28 Crothers, Magyera, Nefouse, and Tovrov.
- 29 Michelle Rappa and Stephen Smith, “Unlocked Potential: Enhancing DC Outcomes with Private Equity,” Neuberger Berman, January 28, 2025, <https://www.nb.com/en/us/insights/whitepaper-unlocked-potential-enhancing-dc-outcomes-with-private-equity>.
- 30 Larry Fink, 2025 Annual Chairman’s Letter to Investors, BlackRock [n.d.], accessed August 10, 2025, <https://www.blackrock.com/corporate/investor-relations/larry-fink-annual-chairmans-letter>.

- 31 Darren Spencer and Justin Owens, “Why Defined Benefit Pension Plans Should Consider Private Credit,” Russell Investments, September 22, 2021, <https://russellinvestments.com/us/blog/private-credit-for-db-plans?>
- 32 Darren Spencer, “New Private Markets Strategies to Support Your Total Portfolio,” Russell Investments, May 23, 2022, <https://russellinvestments.com/us/blog/private-markets-total-portfolio-strategies?>.
- 33 Jeanne Sahadi, “Elizabeth Warren Pushes Back on Plan to Get Private Equity Into 401(k)s,” CNN, July 16, 2025, <https://www.cnn.com/2025/07/12/business/elizabeth-warren-empower-private-equity-401k>.
- 34 “The Lock-up Period of the Typical Alternative Asset Explained,” Beneficent [n.d.], accessed August 10, 2025, <https://www.trustbeneficent.com/insights/the-lock-up-period-of-the-typical-alternative-asset-explained/>.
- 35 Troy Segal, “401(k) Fees: Everything You Need to Know,” Investopedia, August 25, 2025, <https://www.investopedia.com/articles/personal-finance/061913/hidden-fees-401ks.asp>.
- 36 “Our First Private Credit Fees and Terms Study: What We Found in 2023,” Callan [n.d.], accessed August 10, 2025, https://www.callan.com/blog-archive/private-credit-fees-2023/?utm_source=chatgpt.com.
- 37 “Evaluating Private Equity Fee Structures,” Hamilton Lane, November 28, 2023, <https://www.hamiltonlane.com/en-us/education/private-markets-education/pe-fees>,
- 38 “EDHEC: Open Letter to the House Financial Services Subcommittee on Capital Markets,” EDHEC Infrastructure and Private Assets Research Institute, March 31, 2025, <https://edhecinfraprivateassets.com/announcement/open-letter-house-financial-services-subcommittee-on-capital-markets/>.
- 39 “EDHEC: Open Letter.”
- 40 “Contribution Plans: DOL Should Improve Information on Investment Options,” U.S. Government Accountability Office, March 20, 2024, <https://www.gao.gov/assets/gao-24-105364.pdf>
- 41 Crothers, Magyera, Nefouse, and Tovrov.
- 42 David Hutchins, Henry Smith, Inigo Fraser-Jenkins, “Accessing Private Credit for UK Defined Contribution Savers,” Alliance Bernstein, June 2024, <https://www.alliancebernstein.com/content/dam/global/insights/insights-whitepapers/accessing-private-credit-for-uk-defined-contribution-savers.pdf>.
- 43 Crothers, Magyera, Nefouse, and Tovrov.
- 44 Robert L. Sichel, William P. Wade, and Ruth E. Delaney, “Private Equity in 401(k) Plans: A Trillion-Dollar Opportunity,” K&L Gates, June 17, 2020, <https://www.klgates.com/private-equity-in-401k-plans-a-trillion-dollar-opportunity-6-17-2020>.
- 45 “Collective Investment Trusts,” Nuveen [n.d.], <https://www.nuveen.com/en-us/investments/retirement/collective-investment-trust>.
- 46 Rebecca Ungarino, “Goldman Sachs Launches Private Credit Retirement Plan Option,” Barron’s, July 21, 2025, <https://www.barrons.com/articles/goldman-sachs-private-credit-retirement-plan-launch-db3ca8f5>.
- 47 Peter Winkler and Thomas J. Hagen, “Collective Investment Trusts: Demystifying a Retirement Solution,” Graystone Consulting, May 17, 2023, https://graystone.morganstanley.com/graystone-consulting-the-robertson-group/documents/field/g/gr/graystone-consulting--the-robertson-group/Collective_Investment_Trusts_-_Demystifying_a_Retirement_Solution.pdf.
- 48 Natalya Shnitser, “Overtaking Mutual Funds: The Hidden Rise and Risk of Collective Investment Trusts,” Yale Law Journal 134, no. 5, March 2025, <https://www.yalelawjournal.org/essay/overtaking-mutual-funds-the-hidden-rise-and-risk-of-collective-investment-trusts>.
- 49 “The Rise of Collective Investment Trusts (CITs),” Conrad Siegel, 2025, <https://conradsiegel.com/blog/the-rise-of-collective-investment-trusts-cits/>
- 50 “The Rise of Collective Investment Trusts (CITs).”
- 51 Noah Zuss, “Target-Date Assets Reach Record High \$3.5 Trillion in 2023,” PlanSponsor, February 14, 2024, <https://www.plansponsor.com/target-date-assets-reach-record-high-3-5-trillion-in-2023/>.
- 52 Jessica Hall, “As Private Equity Enters Retirement Plans, Is It Too Dangerous for Average Investors to Jump In?” Marketwatch, July 1, 2025, <https://www.marketwatch.com/story/as-private-equity-enters-retirement-plans-is-it-too-dangerous-for-average-investors-to-jump-in-8f5d6151?>.
- 53 “Evergreen Funds: liquidity for a growing private capital investor pool,” Preqin, 2025, <https://www.preqin.com/insights/research/evergreen-funds-liquidity-for-a-growing-private-capital-investor-pool>