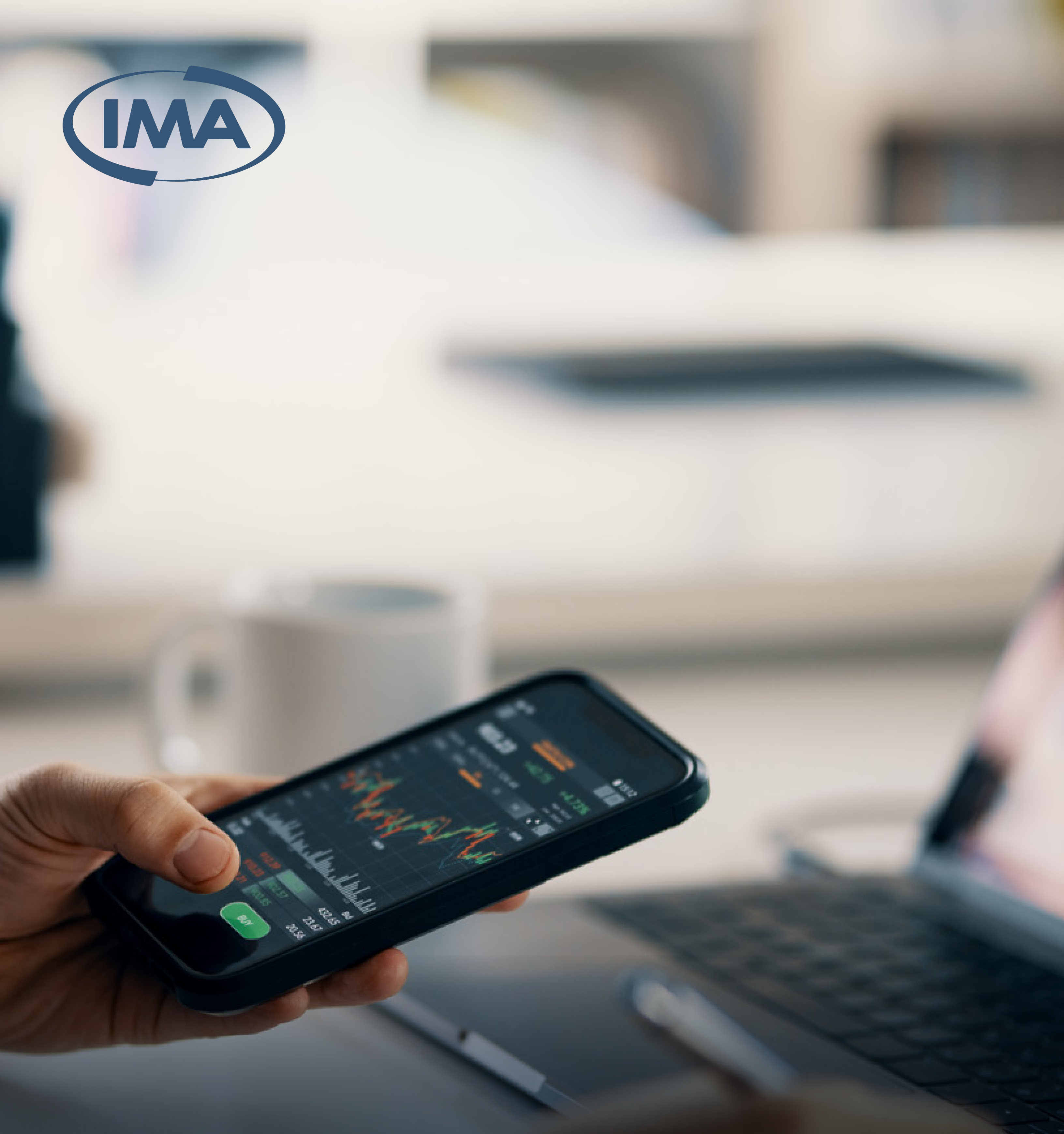



SHOULD EMPLOYERS OFFER

# Cryptocurrency in 401(k) Plans?

Cryptocurrency is that new shiny object that's getting a ton of buzz across industries. If you are unfamiliar with crypto, it is a type of digital money that is encrypted to be unalterable and publicly viewable. Unlike traditional currencies, cryptocurrencies are not backed by central banks, governments, or, for the most part, physical assets. Consequently, their value is determined largely via supply and demand, which can cause wild swings in their value.

While cryptocurrency can fall prey to market volatility, some companies are offering it as a way to attract young, digital-first talent.

**Before deciding if your organization should provide cryptocurrency options as part of your retirement offerings, here are some key factors to consider.**

## The Goal of a 401(k) Is To Provide Long-term, Stable Growth for Retirement

Let's consider the purpose of a 401(k). Whether someone invests in a Traditional or Roth retirement account, the desired outcome is stable, predictable growth that compounds over time.

Retirement accounts are designed to build value over the long term with consistent contributions, investments (stocks and mutual funds) increasing in value, and compounding interest. These accounts are structured to be aggressive in their early years, with the initial asset allocation primarily in large-cap stocks that can provide growth. As the investor closes in on retirement, the investment allocation shifts to bonds that provide stability and prevent large swings in value before someone plans to take distributions.

# The Regulatory Framework of Cryptocurrency Is Still in Flux

The U.S. Department of Labor has strict rules around automatic enrollment plans, such as employee-sponsored 401(k) accounts. There must be a range of investments for participants to choose from, and information on the plan's investments must be provided so participants can make informed decisions.

Typically, these choices are limited to ETFs and mutual funds and, sometimes, company stock. If employees do not provide any direction for how the money should be invested, the plan's fiduciary ultimately selects the investments.

Investopedia points out, "**Employers have a responsibility to offer 'prudent' investment options in their 401(k) accounts**, and at the moment, the Department of Labor has implicitly said that crypto doesn't meet this test."

The crypto landscape is constantly evolving, and a regulatory framework is still developing. Bitcoin is currently the most popular cryptocurrency system, while others include litecoin, dogecoin, and ethereum. However, the Financial Crimes Enforcement Network (FinCEN) **does not consider cryptocurrencies legal tender** in the United States and classifies cryptocurrency tokens as "other value that substitutes for currency."

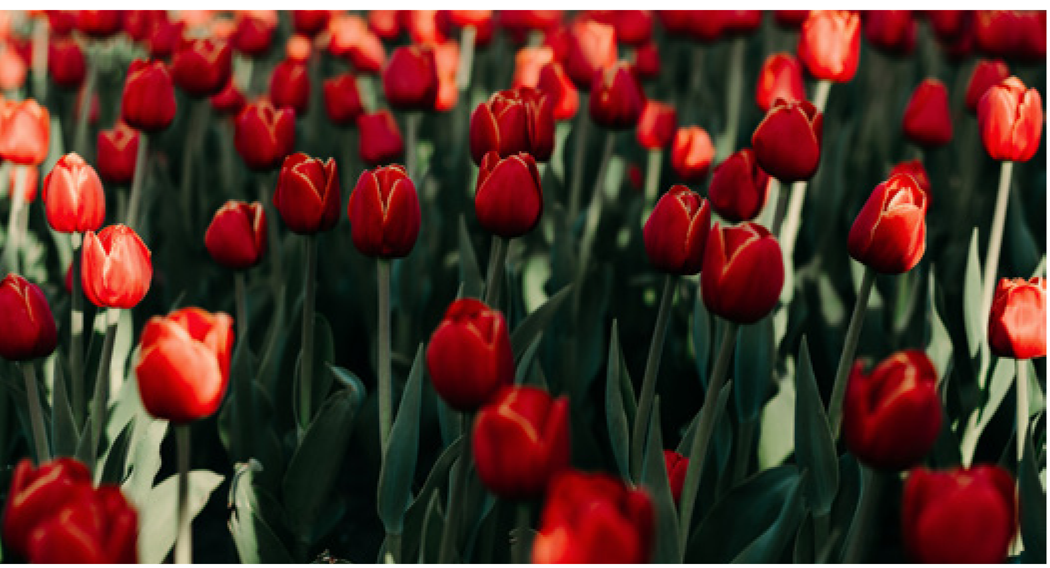
# Cryptocurrency Is Subject to Radical Value Fluctuations

According to SHRM, the value of the popular cryptocurrency, bitcoin, has fluctuated in value “from $10,000 in July 2020 to $63,000 in April 2021 to $41,000” in September 2021.

At the time of writing, the cryptocurrency exchange FTX has collapsed, filed for bankruptcy, owes nearly $3.1 billion to the top 50 creditors and an estimated 1 million customers, and, according to CNN Business, other investors face total losses in the billions of dollars.

While the excitement around cryptocurrency can offer investors large gains over short periods, risky investments in assets can create financial turbulence. For example, tulips were brought to Holland in 1593 via spice trading routes, and from 1634 to 1637, Tulipmania occurred. After frenzied demand drove the price upward, buyers suddenly could no longer pay the high price previously agreed upon for bulbs.

The value of tulips had no intrinsic value – only that which someone would pay for them. Speculation drove the value of tulip bulbs to extremes, and the market fell apart, leading to one of the most famous asset bubbles and crashes of all time.



# Companies Can Offer Employees Access to Cryptocurrency in Various Ways

All this being true, some companies are offering cryptocurrency in their company's retirement packages as a strategy for luring top talent.

However, employers looking to use crypto to lure young talent may want to consider benefit strategies outside retirement planning. For instance, one option is to offer a percentage of an employee's salary in crypto. This option is becoming increasingly popular as celebrities and superstar athletes endorse this idea.

But this idea is not without its own downside. As **Forbes** reported in their piece, "Bitcoin Bummer: Rodgers, Beckham Jr. And Other Sports Stars Hit Hard By Plummeting Cryptocurrencies," NFL quarterback Aaron Rodgers and other athletes took undisclosed portions of their salaries in the cryptocurrency.

Around the time **Rodgers tweeted his love of bitcoin**, the digital coin had a value of roughly $69,000. Since then, it's fallen below $38,000, a 39% decline from the time of his tweet and a 45% drop from the currency's peak. Your employees may not want to lose 45% of their salaries, and you may not want them bringing those concerns to your door.

One check in the pro column for cryptocurrency is the potential for a large upswing at just the right moment. Unfortunately, anything highly volatile with the potential for huge upswings has the potential for equally huge downswings. Investors should be prepared for these swings and willing to accept these risks.

However, it's possible that the **volatility in the market has settled**, as "digital currencies have fallen sharply since a scorching run in 2021, which saw bitcoin climb as high as $68,990. But for the past few months, bitcoin's price has bounced stubbornly around $20,000."

# 401(k) Accounts May Provide Tax Benefits for Crypto Investors

Another pro of having a digital coin in a 401(k) account is the tax protections retirement plans provide. Buying cryptocurrency in a traditional 401(k) means that employees could invest in crypto without dealing with the complexity of tracking cryptocurrency trades to calculate end-of-year taxes surrounding gains and losses.

The con would be you can't access the coin before you're 59½ without incurring tax penalties that would offset the benefit of having a cryptocurrency in a retirement account in the first place.

While there are a few traits of crypto that would appeal to bullish investors, several pitfalls exist in adding crypto to retirement savings: namely, lack of regulation and volatility. When asset values are based on current market prices and don't compound over time, it's hard to make informed investment decisions.

While it's wise for companies to offer a range of investment packages for employees to choose from, cryptocurrency is not without its risks. The world of crypto is also still very much evolving and in a state of shift. Substantive research, and evaluation, preferably with legal counsel, is recommended before adding crypto to your company's retirement dossier.