Americans’ Investment Options in Capital Markets for Retirement

One of the main ways Americans prepare for retirement is to invest in various financial assets. Their investment options include investing directly in stocks, bonds, and investment funds through individual brokerage accounts and investing indirectly through pension funds that invest on behalf of employees. This In Focus examines certain investment options related to retirement preparedness and provides CRS resources on investment management and regulation. CRS does not take a position on the relative merits of particular investments and does not offer or endorse specific investment advice.

Direct and Indirect Investments

According to the Federal Reserve’s 2022 Survey of Consumer Finances, close to all American families own some form of financial assets, such as bank accounts, certificates of deposit, stocks, bonds, investment funds, cash value life insurance, retirement accounts, savings bonds, and other financial assets. This In Focus covers investments in capital markets and securities, such as stocks, bonds, mutual funds, exchange-traded funds (ETFs), and digital assets. The investments in these types of instruments could be direct—meaning held in accounts and controlled generally without restriction by the individuals themselves (e.g., in individual brokerage accounts)—or indirect—meaning through a claim to a pension fund that invests on behalf of individuals or certain retirement accounts with access restrictions and investment options selected by plan sponsors, such as 401(k) plans. While defined contribution retirement plans, including 401(k) plans, normally provide some investment choices for individual decisionmaking, pension funds generally have their fund sponsors act as institutional investors in selecting investment instruments and conducting transactions on behalf of plan participants.

An investment’s classification in securities regulations as public or private plays a significant role in how accessible an investment is for direct ownership. Federal securities regulation requires offers and sales of securities, such as stocks and bonds, to be either registered with the Securities and Exchange Commission (SEC) or undertaken pursuant to specific exemptions. Registered offerings, often called public offerings, are available to all types of investors. By contrast, securities offerings that are exempt from certain registration requirements are referred to as private offerings and are generally available only to accredited investors—individuals or institutional investors who meet certain net worth, income, or technical expertise thresholds. Thus, while non-accredited individual investors can take direct ownership of public securities, they can generally gain only indirect exposure to private securities markets through certain institutional investors, such as pension funds.

Investment Options

Americans’ investment options in capital markets and securities that would generally be available both directly or indirectly include the following instruments if they are publicly traded pursuant to related SEC regulatory requirements: (a) stocks, also called equities or shares, referring to ownership of a firm; (b) bonds, also called fixed income or debt securities, referring to the debt of a firm or a government entity (e.g., corporate bonds and U.S. Treasury securities); (c) mutual funds, also called open-ended funds, referring to a type of public fund that provides continual offering of shares and daily redemptions; (d) closed-end funds, which are publicly traded investment funds that sell a limited number of shares rather than continually offering them; (e) exchange-traded funds, which are investment funds that combine features of both mutual funds and closed-end funds, allowing investors to pool their money into funds with continual share offerings that can also trade on exchanges like a stock; and (f) digital assets, such as cryptocurrencies, referring to digital representations of value.

Investments that are generally available only indirectly to non-accredited investors through institutional investors such as pension funds and certain insurance products include (a) private equity, referring to pooled investment vehicles that typically concentrate on investments not offered to the public, such as ownership stakes in privately held companies; (b) private credit, including direct lending, referring to lending undertaken by nonbank financial institutions and made to small and medium-size private companies that are not publicly traded; (c) venture capital, referring to startup financing for early stage, high-potential firms, such as high-tech startups; and (d) hedge funds, referring to asset management vehicles that generally pool accredited investors’ money and invest it on their behalf for a fee and are often identified by their complex investment strategies relative to other conventional funds. See “CRS Resources on Investments” section for more details on the investment options mentioned above.

Investment Risks and Returns

The various investment instruments contain different levels of risks and returns. In well-functioning capital markets, the higher the risks, the higher the expected returns for investors. Typical investment risks include the safety of assets, possibilities of issuer defaults, market volatility, interest rate fluctuation, and liquidity (i.e., how readily and quickly investors could get their money back without affecting the price). For example, Figure 1 illustrates...
medium-term historical returns for multiple public and private market investments using data consolidated by an asset manager.

Figure 1. Annualized Returns of Different Investments During the Past Five Years Ending December 5, 2023

Risk versus return considerations apply to retirement investment in particular ways because of the long-term nature of a retirement timeline. Even small differences in returns can lead to large differences in accumulated assets over the long run. In addition, volatility over short time periods is less important when retirement assets are not going to be liquidated for many years or even decades. Arguably, then, retirement investment would be more attracted to high-return investment options. However, some of the higher-return investment opportunities available are private investments. That means that (1) if individuals could gain access directly to certain private investments, it may help their retirement readiness, but they may also face higher risks; and (2) pension fund sponsors may gravitate to the higher-risk, higher-volatility, higher-return options. For example, CalPERS, the largest U.S. public pension plan with around $500 billion in assets under management, announced in March 2024 that it plans to increase its total private market allocation from 33% of plan assets to 40% to “maximize returns from the highest performing asset classes.”

Policy Issues Concerning Investments
To prepare for retirement, Americans could save more or seek better investment returns. Policy considerations from an investment and capital markets regulation perspective (regulation of retirement savings account operations is beyond the scope of this In Focus) include:

Investors’ access to potentially higher-return investment opportunities. While broadened investment options, such as increased access to private equity, may provide higher returns and diversification benefits, it also comes with potential risk exposure and financial risk management challenges.

Financial stability concerns. With the increased investment flow into the less-transparent private securities markets, the markets’ increased size and complexity have drawn financial stability concerns. Relative to the more transparent public securities markets, private markets pose more challenges for market-wide risk assessments and systemic risk monitoring.

Financial education and financial literacy. As complex investment options become available to individual investors, increased financial education may be necessary to enable sophisticated investment decisionmaking.

Availability of regulated financial advice intermediaries. Given the challenges facing financial education, increased access to investment intermediaries who could help individuals to navigate complex investment decisions (e.g., SEC-regulated investment advisers and broker-dealers) may benefit those individuals’ retirement savings outcome.

Financial readiness for retirement. Retirement readiness does not have a standardized measure. Each family or individual may perceive their savings goals and retirement financial needs differently. Surveys from investment management firms (e.g., Fidelity, Goldman Sachs, and Northwestern Mutual) uniformly convey the existence of retirement savings gaps. Investment options and asset allocation could affect retirement preparedness. See CRS Reports R46617 and R47341, coordinated by Zhe Li, for more on income for older Americans.

CRS Resources on Investments
CRS has multiple product series to address investment regulation and investment instruments.

Investment Regulation Overview
CRS In Focus IF11062, Introduction to Financial Services: Capital Markets
CRS In Focus IF11714, Introduction to Financial Services: The Securities and Exchange Commission (SEC)
CRS Report R45957, Capital Markets: Asset Management and Related Policy Issues
CRS Report R47431, Capital Markets: Overview and Selected Policy Issues in the 118th Congress
CRS Report R45221, Capital Markets, Securities Offerings, and Related Policy Issues
CRS In Focus IF11278, Accredited Investor Definition and Private Securities Markets
CRS In Focus IF10747, Private Securities Offerings: Background and Legislation

Investment Instruments
CRS Report R47309, Money Market Mutual Funds: Policy Concerns and Reform Options
CRS Report R45318, Exchange-Traded Funds (ETFs): Issues for Congress
CRS Report R47053, Private Equity and Capital Markets Policy
CRS In Focus IF12642, Private Credit: Trends and Policy Issues
CRS In Focus IF12511, Hedge Funds: Background and Policy Issues
CRS In Focus IF12412, Venture Capital Operations and Regulation
CRS Report R46208, Digital Assets and SEC Regulation

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