
Holy satoshi! Fidelity blesses bitcoin for 401(k)s

By Editorial Staff Fri, Apr 29, 2022

But "plan sponsors are overwhelmingly not considering, and will not consider, cryptocurrency a prudent investment option in a retirement plan," a Plan Sponsor Council of America survey shows.



Though the ~\$39,000 price of a single bitcoin is almost double the annual limit on individual, under-age-50 contributions to 401(k) plans, Fidelity Investments will soon enable its thousands of plan sponsors to offer the crypto-currency to their participants.

The Boston-based privately held retirement giant said Tuesday that, through its "Digital Assets Accounts" (DAAs), participants will be able—if sponsors allow it—to allocate part of their retirement savings to bitcoin through the core 401(k) plan investment lineup.

The service will start later this year, apparently despite warnings from the Department of Labor about the speculative nature of bitcoin (see below). Bitcoin's smallest unit is the [satoshi](#), which represents one hundred millionths of a Bitcoin or 0.00000001 BTC.

In 2020, Fidelity launched a private bitcoin fund, currently available to accredited investors. In 2018, the company introduced Fidelity Digital Assets, which offers custody and trade execution for digital assets to institutional investors. Fidelity manages employee benefits for almost 23,000 businesses with more than 32 million participants.

Fidelity appears to be acceding to popular demand. Americans have "an appetite to incorporate cryptocurrencies into their long-term investment strategies," said Dave Gray, head of Workplace Retirement Offerings and Platforms at Fidelity, in a release.

Thirty percent of US institutional investors surveyed would prefer to buy an investment product containing digital assets, according to the Fidelity Digital Assets 2021 Institutional Investor Digital Assets Study. Roughly 80 million US individual investors currently own or have invested in digital currencies, Fidelity said.

But when the Plan Sponsor Council of America recently asked its members if they are or are considering adding crypto to their menu of investment choices, only about 2% said yes.

“Plan sponsors are overwhelmingly not considering, and will not consider, cryptocurrency a prudent investment option in a retirement plan,” the organization said.

The Department of Labor, which is still awaiting the confirmation of Lisa Gomez as chief of the Employee Benefit Security Administration, frowns on the move. “We have grave concerns with what Fidelity has done,” Ali Khawar, acting assistant secretary of EBSA, told *The Wall Street Journal*.

How ‘Workplace Digital Assets Accounts’ will work

The DAA is a custom plan account that holds bitcoin and short-term money market investments to provide the liquidity needed for the account to facilitate daily transactions on behalf of the investor, Fidelity said. Bitcoin in the DAA will be held on the Fidelity Digital Assets custody platform, which has “institutional-grade security.”

Plan sponsors that offer the DAA will establish their own employee contribution and exchange limits into the account. Employees will benefit from a fully integrated retirement plan, digital experience and education to help them make informed decisions.

“Fidelity’s move comes a month after the Labor Department expressed concerns about including cryptocurrencies in retirement plans. It is also an uneasy time for the stock market, with the S&P 500 down almost 10% this year in part due to rising interest rates. Bitcoin is notoriously volatile and has lost more than 40% of its value since its November high,” the *Wall Street Journal* reported this week.

Under the plan, the *Journal* said, Fidelity would let savers allocate as much as 20% of their nest eggs to bitcoin, though that threshold could be lowered by plan sponsors. Mr. Gray said it would be limited to bitcoin initially, but he expects other digital assets to be made available in the future.

News reports did not mention any possibility of cryptocurrency mutual funds in 401(k) plans. According to a recent [report](#) at Motleyfool.com, there is one cryptocurrency mutual fund available to US investors. Bitcoin Strategy ProFund (NASDAQMUTFUND:BTCF.X) was launched in July 2021 to follow the results of Bitcoin (CRYPTO:BTC). The fund, which invests in Bitcoin futures contracts, requires a minimum investment of \$1,000 and charges a 1.15% annual expense ratio.

Regulatory headwind?

On March 10, the DOL's Employee Benefits Security Administration (EBSA) published Compliance Assistance Release No. 2022-01, which said, "EBSA expects to conduct an investigative program aimed at plans that offer participant investments in cryptocurrencies and related products, and to take appropriate action to protect the interests of plan participants and beneficiaries with respect to these investments.

"The plan fiduciaries responsible for overseeing such investment options or allowing such investments through brokerage windows should expect to be questioned about how they can square their actions with their duties of prudence and loyalty in light of the risks described above."

Under US tax law, bitcoin is classified as property, not currency. Distribution of the proceeds of the sale of bitcoin held in 401(k) accounts (or rollover IRAs) would be taxable as ordinary income when withdrawn, typically during retirement. Federal income taxes would be payable in dollars, not bitcoin.

MicroStrategy, a major bitcoin buyer, said it plans to be the first employer to offer Fidelity DAA in its own retirement plan. According to the crypto trade publication [Coindesk](#), MicroStrategy is known in the "cryptosphere" for its aggressive bitcoin acquisition strategy. Earlier this month, it purchased 4,157 BTC for about \$190.5 million, bringing its holdings to 129,218 bitcoins, or \$5.1 billion.

A small player in the 401(k) provider universe — [ForUsAll](#) — said it will be launching a cryptocurrency investment option for clients in the second quarter of this year.

According to an April 1 report by CNN, ForUsAll, which primarily services small-to-mid size employers, said that over 120 of its 400 clients have signed up for the new option, which participants can access through a self-directed account on Coinbase.

ForUSAll participants may only invest 5% of their current 401(k) balance and 5% of their contributions going forward (as well as 5% of their employer matches) to their crypto account. Participants will get automatic notices whenever the value of their crypto investments exceeds 5% of their total 401(k) portfolio. But it will be up to them to decide whether to reallocate.

Before opening an account, participants must go through ForUsAll's educational materials about crypto investing and take an interactive quiz to demonstrate that they understand its risks and the importance of not taking excessive bets on crypto with their retirement savings, ForUsAll Chief Investment Officer David Ramirez said in an interview.

