

Trump administration gives private equity firms access to 401(k) retirement funds

Gabriel Black
4 July 2020

In June, the US Labor Department announced that it would allow 401(k) retirement funds to invest in private equity firms.

Private equity companies are financial firms, in many cases tied to a parent bank or other larger financial institution, that are unregulated. They serve as vehicles for speculative activities, often high-risk bets that promise a high return. They are a part of the so-called shadow banking system that has seen an explosive growth over the last 20 years.

Unlike pensions—so-called “defined benefit” plans that guarantee a set monthly income for retirees—401(k)s, “defined contribution” plans, are subject to the vagaries of the stock and bond markets, as are the benefits they yield to workers who pay into them. Opening up the \$7.9 trillion in 401(k) assets to private equity funds increases the risk to workers that their retirement savings will be gutted or wiped out by a new financial crisis.

Private equity firms are heavily engaged in takeovers of companies, usually employing borrowed money and often carried out in opposition to the management of the targeted firms. Having acquired a company, the private equity firm as a rule loads it up with debt, extracts huge fees for the private equity owners, slashes jobs and wages, and then resells the zombie firm for a profit.

One example is Bain Capital, previously run by Republican senator and 2012 presidential candidate Mitt Romney. Bain has relied on leveraged buyouts to amass its \$105 billion portfolio. Bain, however, is only the fifth largest private equity firm. Other examples include the Brazilian-American firm 3G Capital, which took over Burger King in 2010 and Tim Hortons in 2014, restructuring and merging both.

Private equity firms are heavily invested in start-up

firms. SoftBank, the massive Japanese investment bank, has a private equity wing called the SoftBank Vision Fund, with over \$100 billion of capital. SoftBank has invested in major tech-related start-ups such as Uber and WeWork.

The Labor Department’s decision to allow 401(k)s to invest in these markets was the result of an executive order, the “Regulatory Relief to Support Economic Recovery Executive Order 13924,” issued by Trump on May 19.

Trump’s order essentially instructed federal agencies, including the Labor Department, the Department of Health and Human Services and the Environmental Protection Agency, to loosen regulatory standards so as to promote “economic growth,” i.e., corporate profits.

According to Lexology, a leading corporate legal news processor, the executive order “calls on agencies to provide or extend regulatory flexibilities that promote job creation and economic growth, and provide regulatory relief to businesses as they work to recover from the impact of the coronavirus.”

Lexology continues: “[T]hese directives provide important opportunities for businesses to engage with the regulatory agencies and help shape deregulatory activity and enforcement policy for the near future.”

Up to now, 401(k)s have been prohibited from investing in private equity firms and their activities because of the risk to the workers whose retirement will depend on their 401(k) benefits.

Among other things, Trump’s executive order allows federal agencies to engage in so-called “pre-enforcement rulings” in relation to corporate offenders. That is, if a company or financial institution is caught violating a federal regulation, it can negotiate a deal with the government before legal action is initiated. According to Lexology, this greatly reduces

“enforcement risk,” i.e., it reduces or eliminates penalties for violations of labor and environmental regulations.

Investopedia reports that several financial advisors have expressed their opposition to the opening up of private equity firms to 401(k)s. They cite Robert Johnson, a professor of finance at Creighton University, who says that “it’s a mistake to give 401(k) investors access to private equity through their plans.” He adds, “Private equity structures are complex and opaque to the average investor.”

The Labor Department’s decision is a huge boon to private equity firms, which will now have access to the massive pool of assets held by 401(k) funds, which are overseen by asset management firms such as Vanguard and Fidelity.

The timing is no accident. Last year, before the pandemic, the *Financial Times* titled an article “The private equity bubble is bound to burst.” McKinsey estimated the same year that the private equity markets, pumped up with cheap credit and filled with money from investors seeking the highest returns, had ballooned to \$5.8 trillion, more than the gross domestic product of Japan, the third largest economy in the world. *Forbes* published an article headlined “Private Equity Will Lead the Next Meltdown,” which called attention to the massive and unsustainable buildup of debt in these markets.

Now, amidst the most severe economic downturn since the Great Depression, the Trump administration is opening up private equity to retirement investments as a means of keeping these financial markets filled with cash. This should be viewed in conjunction with the CARES Act bailout of Wall Street, which handed trillions of dollars to major American corporations, as well as the unprecedented injection of trillions of dollars into the bond markets through the Federal Reserve.

The loosening of regulatory restrictions on financial players and investors, including allowing private equity firms access to 401(k)s, will open the door to even greater financial trickery and crime.

Who will pay when the highly indebted private equity world of start-ups goes bust? The answer is the workers who are invested in 401(k)s that are tied into these parasitic speculative operations.

Already, before the pandemic, a survey by Bankrate

of American adults found that one in five people had nothing saved for retirement or emergencies. Less than a third of Americans have saved 11 percent or more of their annual income.

A 2018 article by the *Wall Street Journal*, “A Generation of Americans is Entering Old Age the Least Prepared in Decades,” found that high average debt in things like children’s education, unpaid mortgages and parents’ old age meant that Americans reaching retirement age were less prepared than they had been since the 1940s.

In 1979, 38 percent of private employees had a traditional pension. In 2016, just 13 percent of these workers had one. The average household in 2013, whose head was 55 to 64 years old, had a retirement fund of just \$14,500, according to the *Journal*. That is barely enough to live for a few months in most major cities.

It is amid this disastrous situation facing retirees that the Trump administration has further eroded their economic security by plugging their 401(k)s into private equity, which will plunder workers’ already inadequate savings to increase profits and stave off insolvency.



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