

WHITE PAPER

Expanding 401(k) Options with Cryptocurrency

How and why the new crypto investment option brings the 401(k) into the 21st century



TABLE OF CONTENTS

- The cryptocurrency market is forging ahead2
- Cryptocurrency is in high demand.....4
- Digital assets may increase retirement readiness for participants.....6
- Cryptocurrency access can benefit sponsors as well10
- Cryptocurrency is more closely monitored than ever 11
- How ForUsAll is bringing cryptocurrency to the 401(k).....12
- About ForUsAll.....14



ForUsAll is the first 401(k) provider to offer cryptocurrency access to participants. This paper provides detailed information about the demand for cryptocurrency and its unique market features. In addition, it demonstrates how cryptocurrency access in a 401(k) could enhance your business and help your employees save for retirement.



The cryptocurrency market is forging ahead¹

The global cryptocurrency market holds nearly \$2T in funds as of the time of this writing, which is up from \$119 billion in 2019, just three years prior.² Since cryptocurrency's inception in 2008, it has transformed from a relatively unknown phenomenon to a major player in the financial sector, and is now drawing significant institutional interest. Though cryptocurrency is certainly popular among retail investors, institutional investors have been increasingly allocating funds to this asset class, and have begun to occupy a noteworthy portion of its market. In fact, an entire industry of crypto-backed hedge funds has emerged and flourished in just over a decade.³

“**It's becoming increasingly clear that cryptocurrency is an important part of the contemporary economy.**”

Cryptocurrency has also been the subject of rigorous academic research. MIT, Yale, and Harvard all offer coursework in blockchain and digital currencies, and economists have produced numerous studies to suggest cryptocurrency's place in modern portfolio theory. It's becoming increasingly clear that cryptocurrency is an important part of the contemporary economy, and its potential in a diversified portfolio may be greater than many skeptics realize.⁴

The 401(k) has been lagging behind

Despite cryptocurrency's rise, this growing asset class has so far been unavailable in an important wealth-building vehicle in the United States: the 401(k). Mutual funds comprised of traditional assets, such as publicly traded stocks and bonds, have typically dominated the 401(k) investment menu. The industry is notoriously slow to change, and the fact that cryptocurrency hasn't been available in employer-backed retirement accounts points to an opportunity to modernize the 401(k).

It's not often that a 401(k) plan allows retirement savers to access many of the alternative asset classes that wealthy families, institutions, pensions, and endowments use to grow their wealth. Since the 401(k) is the primary way many Americans save for retirement, equal access to growth opportunities could transform the ability of everyday investors to grow their nest eggs. Everyday investors should have access to the same wealth building tools as institutional investors. On March 9, 2022, the White House issued an Executive Order regarding cryptocurrency (Executive Order on Ensuring Responsible Development of Digital Assets). The Executive Order lists six principal policy objectives of the United States with respect to digital assets, including promoting access to safe and affordable financial services. The Executive Order explains that the United States has an interest in ensuring the benefits of financial innovation are enjoyed equitably by all Americans and that any disparate impacts of financial innovation are mitigated. Enabling 401(k) participants to allocate a portion of their retirement savings to cryptocurrency helps address this policy objective.

Cryptocurrency is in high demand

Institutional investors are increasingly crypto-friendly

While cryptocurrency was at first met with caution by established financial professionals, institutional investors have been increasingly allocating funds to cryptocurrency in the past few years. In a 2021 study,⁵ researchers at Fidelity Digital Assets found that among United States institutional investors, 33% already hold some cryptocurrency. In addition to the 1/3 of these professionals who are already investing, the interest in cryptocurrency is increasing. 69% of institutional investors stated that they believed digital assets should be part of a balanced portfolio, a rise of 5 percentage points from the previous year.

“An estimated 27 million Americans own some amount of cryptocurrency, and in 2021, 1 in 10 invested in digital assets.”

Everyday investors have high interest in cryptocurrency

An estimated 27 million Americans own some amount of cryptocurrency,⁶ and in 2021 alone, 1 in 10 Americans invested in digital assets.⁷ Demand is likely to increase as more Americans state they plan to enter the world of digital assets. A recent study showed that over 50 million Americans were likely to invest in cryptocurrency in the next year.⁸

Young people are crypto's biggest adopters

By far, the most enthusiastic cryptocurrency investors in the United States are young people. Millennials lead the pack, with 49% of them holding some amount of cryptocurrency.⁹ These statistics are

significant across multiple income brackets as well. In fact, a survey by CNBC showed that almost half of millennial millionaires hold at least 25% of their wealth in cryptocurrency.¹⁰

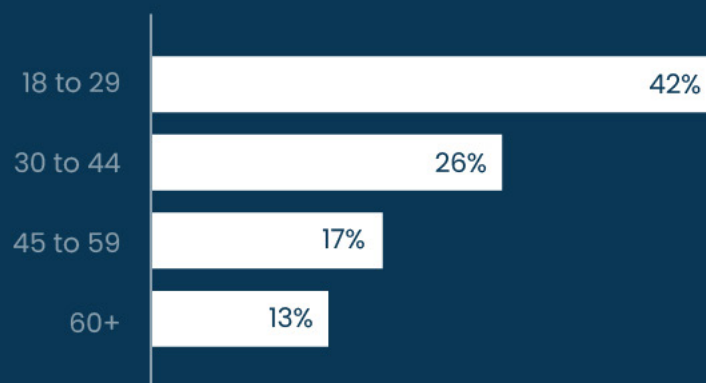
In addition to this, many young people are looking to incorporate cryptocurrency as part of a long-term savings plan. As much as 56% percent of generation Z, and 54% of millennials consider cryptocurrency investments to be part of their retirement strategies.¹¹ Thus, if 401(k)s do not provide access, plan participation rates may be adversely impacted, and 401(k) plans run the risk of becoming increasingly irrelevant for the next generation of investors.

Digital assets may increase retirement readiness for participants

The choices consumers have may directly impact their ability to take charge of their retirement savings. Current statistics on retirement planning are certainly a cause for concern. According to a report by PwC's Market Research Center, 1 in 4 Americans has not saved any money for retirement. Broken down by generation, these statistics become even more illuminating about the state of retirement readiness in the United States.¹²

Percentage of Americans with no retirement savings

Fig. 1: Percentage of Americans who have no retirement savings by age group¹³



Sources: PwC Market Research Centre, US Federal Reserve data

Younger generations have, on average, lower amounts saved in their retirement accounts as well. According to the same report, Americans under 35 have an average retirement savings balance of only \$12,300.

Cryptocurrency can act as a diversification tool

The funds that are available in traditional 401(k) plans are increasingly comprised of a smaller number of large cap stocks as overall public markets consolidate. Today, there are just 4,266 publicly traded companies to choose from, which is down from over 7,000 in the mid 1990's.¹⁴

Tech companies in particular are staying private longer and generating more value outside of public markets, which leaves average Americans watching from the sidelines.¹⁵ Institutional investors have taken notice of this, and are increasingly leveraging alternative investments, such as venture capital, private equity, real estate, and cryptocurrency.¹⁶ In addition, many companies are using blockchain to make traditional and alternative investments (like hedge-funds and venture capital) available in tokenized forms.¹⁷ These asset classes are largely missing from 401(k) plans, and thus there is limited data on the effects these alternative assets could have in these accounts. However, institutional adoption rates suggest that these investment types could enhance 401(k) diversification if used prudently. Cryptocurrency can also help provide access to early-stage blockchain technology firms, allowing everyone to benefit from early-stage tech investments.

The digital market has low correlation to stocks

Cryptocurrency is also a potential diversification tool because of its historically low market correlation with traditional asset classes. In fact, researchers have compelling findings about cryptocurrency's potential role in portfolio diversification. However, this area of research is still burgeoning, with many researchers acknowledging opportunities for further study.¹⁸ A research team at Yale University compared the market performance of Bitcoin to that of traditional assets, and found significant differences in market behaviors and volatility levels. The team found that Bitcoin's average weekly return of 3.79% had a weekly standard deviation of 16.64%. While Bitcoin's volatility was "an order of magnitude higher" than those of traditional asset classes, the weekly risk adjusted returns (Sharpe ratio) were about 75% higher compared to those of stocks.¹⁹ Overall, the researchers concluded that Bitcoin is not strongly correlated with traditional assets, and thus could act as a portfolio diversifier.

Other research supports these conclusions as well. A research team at Western Sydney University investigated cryptocurrency as a diversification tool, and their findings were largely in line with those at Yale. The team states that because of cryptocurrency's low correlation to traditional market behaviors, Bitcoin in particular, "could act as a diversifier in normal market conditions, and it might also have some borderline hedge to safe haven properties."²⁰

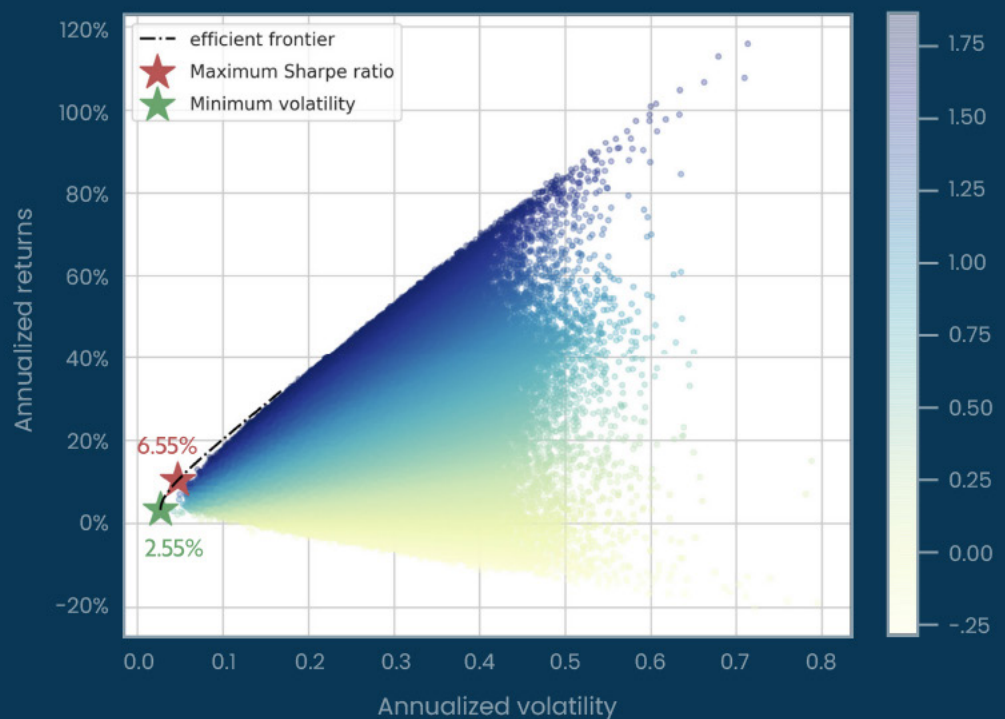
Cryptocurrency can expand the efficient frontier

The efficient frontier is a concept that describes a strategy for portfolio diversification. Put simply, a well-diversified portfolio will contain a broad mixture of investments that are relatively uncorrelated. Adding uncorrelated assets, even if they are more volatile than average, can increase a portfolio's expected return while potentially lowering overall portfolio risk. While cryptocurrency is a high-risk asset, its high risk-adjusted returns, combined with its historically low correlation, may make it an ideal candidate to act as a portfolio diversifier.

Fig. 2: Simulated portfolio optimization based on Efficient Frontier – no limit²¹

Source: Coin Metrics Market Data Feed.

This chart is presented for illustrative purposes only. Actual investment results may vary.



In a simulation by FTSE Russell,²² researchers found that portfolios that contained up to 5% of the total balance in cryptocurrency allocations performed better across the board than portfolios that contained no cryptocurrency. Given the strong returns for Bitcoin during this period, it is no surprise that including a 5% allocation to Bitcoin increased overall portfolio returns by 6.4%. What is surprising, however, is that adding these small allocations to Bitcoin (which is over three times as volatile as the S&P 500) did not increase portfolio risk, due to Bitcoin's low correlation with traditional assets.²³

Roth rules bring unique tax benefits to crypto investments

Though cryptocurrency is a decentralized asset, that doesn't mean that it is wholly separate from the rest of the United States financial sphere. As with other investments, cryptocurrency traded on an exchange is monitored, and gains are taxed. However, investors who place a portion of their 401(k) savings into cryptocurrency can avoid hefty capital gains taxes if they use Roth contributions and follow applicable guidelines.

This is in stark contrast to the current short-term capital gains tax of up to 37% for cryptocurrency held on a typical exchange.²⁴ Because no taxes are due after the initial Roth deferral, 401(k) investors can also trade cryptocurrency without fear of having to sell their assets at a loss to cover taxes levied on previous transactions. In retail cryptocurrency accounts, taxes are calculated based on set tax rates, which are applied to the value of the assets at the time of the transaction. This can lead to large losses in a tumultuous market, and could even mean that an investor owes more in transaction taxes than they currently hold if markets have significantly dropped since the time of the trade. But in a Roth 401(k), investors have no further tax liability after the initial contribution.

To be fully tax exempt and to withdraw without penalty under current tax rules, participants must meet the 5 year rule for the initial Roth deferral, and must be at least 59 1/2 years old to be fully tax exempt and subject to withdrawal without penalty. For traditional 401(k) accounts, capital gains taxes can still be avoided, but withdrawals are taxed at standard income tax rates.²⁵

Cryptocurrency access can benefit sponsors as well

A modernized 401(k) could be an attractive recruitment tool

Employers who want to attract top talent must differentiate themselves from their competitors. One way to do this is by offering a comprehensive benefits package that includes a modern 401(k). While many business owners realize the value of a benefits package as a recruitment tool, those who want to increase their workforce must offer something unique to compete with the glut of employment options available today. A recent survey by Ignites found that 3 out of 5 people would like access to digital assets in their 401(k)s, meaning that adding this option to plans may be a strong factor in attracting potential recruits.²⁶

“A recent survey by Ignites found that 3 out of 5 people would like access to digital assets in their 401(k)s.”

Increase plan participation

A major concern for employers who offer 401(k) plans is ensuring adequate participation among their staff. 401(k) plans are subject to strict regulatory requirements, some of which are harder to meet if fewer employees participate. Failure to meet certain standards, like those regarding plan participation by highly-compensated employees vs others, may result in fines and additional penalties. Thus, maintaining active plan participation from a large enough pool of employees is vital to a 401(k) plan's overall health.

If employers are willing to bring more non-traditional assets and updated tools to their 401(k) plans, this could serve to encourage employee participation, particularly among younger members of the workforce, and thus make it easier for sponsors to meet key requirements.

Cryptocurrency is more closely monitored than ever

In the early days of cryptocurrency exchanges, regulations were scarce and funding was less secure than it is today. Through a combination of institutional safeguards, regulations, and careful financial planning, many of the initial issues with safety and risk levels have been lessened in recent years.

“Cryptocurrency is subject to strict regulation from bodies like the SEC, the SFTC, and the IRS, to name a few.

Regulations are getting stricter

A common objection to cryptocurrency is based on an assumption that, because it's decentralized, this asset class is wholly unregulated. On the contrary, cryptocurrency is subject to strict regulation from bodies like the SEC, the CFTC, and the IRS, to name a few.

2021 saw increased legislative efforts to regulate cryptocurrency further. In 2021, 33 states introduced new legislation, much of which is still pending, to regulate or monitor cryptocurrency. Some notable examples are Arizona's decision to create a blockchain and cryptocurrency study committee, Maine's proposal to enable the creation of cryptocurrency-backed LLCs, and Nebraska's Transactions Digital Assets Act.²⁷

How ForUsAll is bringing cryptocurrency to the 401(k)

In order to meet the savings needs of a dynamic workforce and increase access to opportunities for growth to those who need it, we at ForUsAll have created the first-ever 401(k) package that includes direct investment in certain cryptocurrencies.²⁸ With our fully bundled product, plan sponsors can choose to allow plan participants to invest a portion of their account balance directly in certain cryptocurrencies, powered by Coinbase Institutional. Our upcoming standalone self-directed cryptocurrency window will be available to plug in to existing plans on any recordkeeper. Our solutions are part of ForUsAll's commitment to increase access to investment options for everyday people, and to assist all Americans in building a brighter financial future.

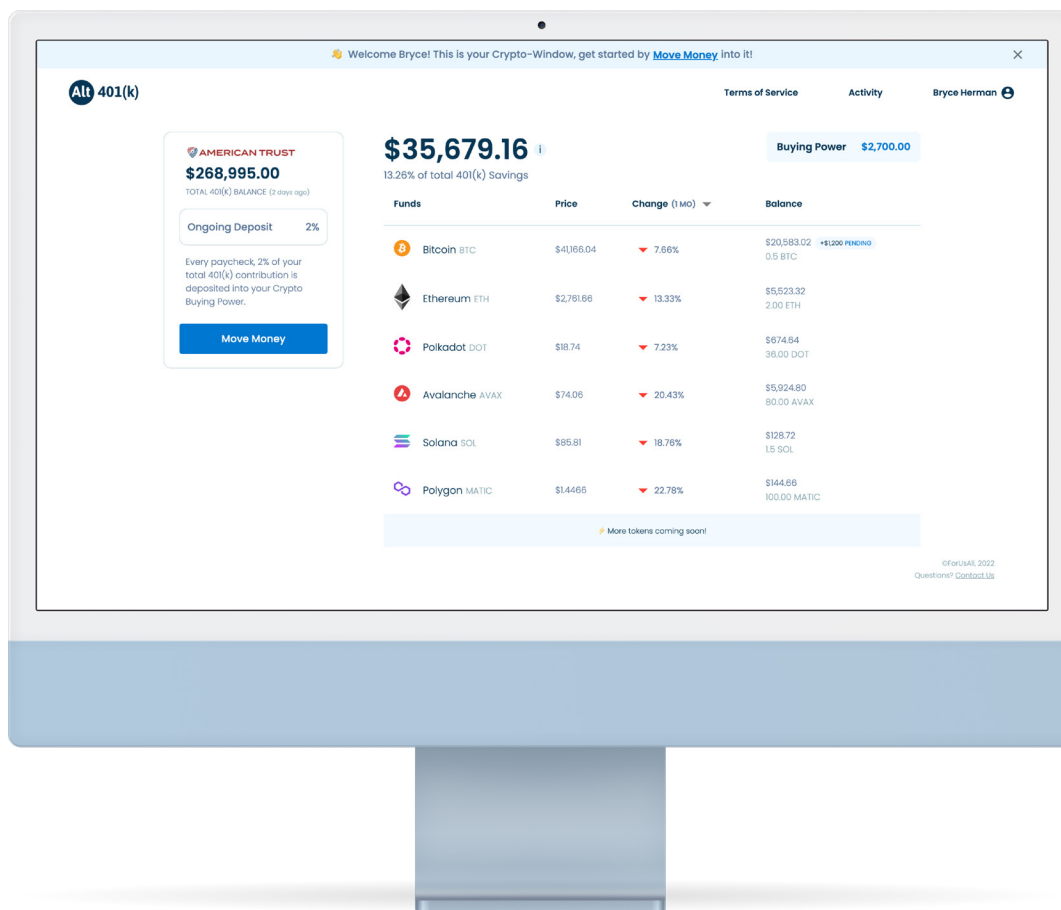


Fig. 3:
Product preview

The cryptocurrencies presented above are for illustrative purposes only and do not constitute a representative list of all cryptocurrencies available for purchase. Not all cryptocurrencies have been or will be profitable.

Get an all-in-one 401(k) with cryptocurrency

In addition to providing access to traditional funds and multiple cryptocurrencies, our fully-bundled 401(k) plan reduces the administrative burden and promotes compliance. Automated plan health and compliance checks help plans meet strict legal standards without the need for third-party management services. Our team of experts also provides high-touch support and financial education to participants so sponsors and advisors don't have to. This financial education even includes matters beyond retirement, such as saving for large purchases and debt management. We also offer financial support tailored to different generations, so our team can field questions about retirement savings that apply to participants of all ages.

“We've created the first 401(k) that includes direct investment in certain cryptocurrencies, powered by Coinbase Institutional.

Our careful approach

Our plans are designed by experienced 401(k) fiduciaries who take an ERISA-compliant approach to plan architecture. ForUsAll has assumed responsibility for the selection of the cryptocurrency platform provider, as well as ongoing monitoring. Our investment council conducts due diligence on all tokens available through the platform to meet minimum investability criteria.

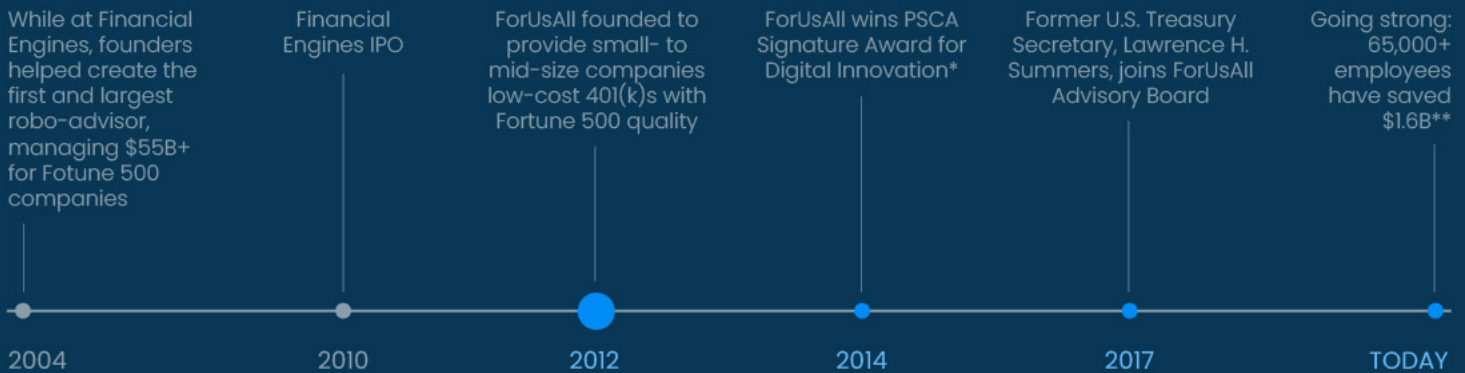
Built-in investment caps protect investors

For both our fully-bundled plan and our standalone window, we automatically cap cryptocurrency contributions at 5% of the portfolio's initial balance, plus 5% of ongoing contributions. This guardrail is guided by findings at Yale²⁹ and other institutions that list up to 6% as the ideal amount of cryptocurrency that a risk-tolerant investor should hold in their portfolio.

About ForUsAll

ForUsAll is an independent 401(k) technology company on a mission to help Americans grow their retirement savings. Founded in 2012 by the same team that helped build Financial Engines, the largest registered investment advisor in the country, ForUsAll makes it easy to provide your employees the investment choice they want – including access to traditional funds, cryptocurrencies, and more. Our world-class investment team is experienced in managing ERISA retirement plans for the largest companies in America, and we use this expertise to bring retirement solutions to small and mid-sized businesses across the nation.

Our pioneering roots trace back to 2004:



*PSCA Signature Award, Digital Innovations category with Highest Distinction, 2014.

**Based on ForUsAll client data as of February 2022.

Footnotes:

1 Cryptocurrencies are speculative investments and are not suitable for all investors, nor do they represent a complete investment program. Investors must be comfortable with the substantial risks associated with investing in cryptocurrencies. There can be no assurance that an investment in a cryptocurrency will be successful.

2 <https://www.statista.com/statistics/730876/cryptocurrency-maket-value/>

3 [https://www.pwc.com/gx/en/financial-services/pdf/3rd-annual-pwc-elwood-aima-crypto-hedge-fund-report-\(may-2021\).pdf](https://www.pwc.com/gx/en/financial-services/pdf/3rd-annual-pwc-elwood-aima-crypto-hedge-fund-report-(may-2021).pdf)

4 <https://www.institutionalinvestor.com/article/b1vz5w3q83m9jk/The-Case-for-Making-Bitcoin-5-Percent-of-Allocators-Portfolios>

5 https://www.fidelitydigitalassets.com/bin-public/060_www_fidelity_com/documents/FDAS/digital-asset-survey-2021.pdf

6 <https://triple-a.io/crypto-ownership/>

7 <https://www.marketwatch.com/story/more-than-1-in-10-americans-invested-in-crypto-this-year-heres-how-they-differ-from-stock-market-investors-11626980261>

8 <https://www.fool.com/the-ascent/research/study-americans-cryptocurrency/>

9 <https://piplsay.com/the-great-crypto-rush-how-are-americans-investing-in-it/>

10 <https://www.cnbc.com/2021/06/10/millennial-millionaires-have-large-share-of-wealth-in-crypto-cnbc-survey-.html>

11 <https://www.hicapitalize.com/resources/perceptions-of-retirement-survey/>

12 <https://www.pwc.com/us/en/industries/asset-wealth-management/library/retirement-in-america.html>

13 <https://www.pwc.com/us/en/industries/asset-wealth-management/library/retirement-in-america.html>

14 <https://www.wsj.com/articles/fewer-listed-companies-is-that-good-or-bad-for-stock-markets-1515100040>

15 <https://global.beyondbullsandbears.com/2019/05/24/fomo-investors-fear-missing-out-as-companies-stay-private-for-longer/>

16 <https://www.institutionalinvestor.com/article/b1lp93ql4fzhq2/Nothing-Can-Keep-Investors-From-Pouring-More-Money-Into-Alternative-Assets>

17 https://www.finyear.com/Tokenized-Venture-Capital_a41546.html

18 <https://www.emerald.com/insight/content/doi/10.1108/CFRI-06-2021-0123/full/pdf?title=cryptocurrencies-and-portfolio-diversification-in-an-emerging-market>

19 https://www.nber.org/system/files/working_papers/w24877/w24877.pdf

20 <https://www.mdpi.com/1911-8074/14/7/282>

21 <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/efficient-frontier/>

22 <https://www.ftserussell.com/blogs/taming-bitcoins-mood-swings>

23 Illustrations of model historical portfolio results have many inherent limitations. These include that there can be no assurance that a model historical portfolio, and any one or more of its component investment strategies or products, will achieve, or is likely to achieve, the historical profits or losses shown by the model. In fact, there are frequently sharp differences between model historical portfolio performance results and actual results subsequently achieved by a particular investment product and portfolio.

24 <https://www.nerdwallet.com/article/taxes/capital-gains-tax-rates>

25 The whitepaper is for informational purposes only and does not constitute investment, legal, tax or other advice nor should it be solely relied on in making an investment or other decision.

26 <https://www.ignites.com/c/3476874/444304>

27 <https://www.ncsl.org/research/financial-services-and-commerce/cryptocurrency-2021-legislation.aspx>

28 <https://www.cNBC.com/2021/06/22/bitcoin-could-be-coming-to-401k-plans-heres-how-long-it-could-take.html>

29 https://www.nber.org/system/files/working_papers/w24877/w24877.pdf

Disclaimer

This material is solely for informational purposes and should not be viewed as a current or past recommendation, or an offer to sell, or the solicitation to buy securities or any investment product. The opinions expressed herein represent the current, good faith views of ForUsAll at the time of publication. These opinions are provided for limited purposes, are not definitive investment advice, and should not be relied on as such. The information presented in this article has been developed internally and/or obtained from sources believed to be reliable; however, ForUsAll does not guarantee the accuracy, adequacy, or completeness of such information. Predictions, opinions, and other information contained in this article are subject to change continually and without notice of any kind, and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and ForUsAll assumes no duty to and does not undertake to update, forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

ForUsAll is the first 401(k) provider to offer cryptocurrency access to participants.

To learn more, visit www.forusall.com, or reach out to us at: inquire@forusall.com



www.forusall.com

©2022 ForUsAll, Inc. All rights reserved

