SUCCESSFUL WOMEN

TIMELY FINANCIAL AND INVESTMENT PLANNING TOPICS

FALL 2026

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Could private equity strengthen your retirement plan?

New legislation has expanded access to alternative investments in retirement accounts.

HERE'S WHAT YOU SHOULD KNOW

Alternative investments like private equity, private credit, hedge funds and real estate can be valuable tools for investors seeking specific goals with their portfolios. Long seen as the purview of institutional investors, alternative investment strategies have become more accessible in recent years with lower minimum investments and greater support from wealth management platforms. Adding to this shift, new rules have created pathways for tax-advantaged retirement plans to incorporate alternative investments alongside their traditional offerings.

Alternative investments, especially as part of a retirement strategy, might not be the right fit for every investor. While they can offer attractive opportunities for growth and diversification, they also come with unique risks and complexities. Incorporating alternative investments into your retirement strategy should be considered carefully and with your broader financial goals in mind.

SHIFTS IN PLAY

Pension plans have used alternative investments alongside stocks and bonds to provide secure retirement to essential workers, like teachers, police officers, firefighters and nurses. But traditional pensions account for a shrinking share of retirement plans these days.

Most Americans now save for retirement through defined contribution plans like 401(k)s. But investment selection in most 401(k)s has been limited to publicly traded stocks and bonds. This difference in the money managers' preferences has created a gap between investors with pensions and individual retirement savers.

This shift is happening at the same time private markets have grown significantly. Over the past few decades, companies have skewed toward staying private longer, and economic activity outside of the public market has increased.

HOW IT WORKS

Expanding 401(k) access to private markets may help diversify portfolios and improve long-term outcomes. The potential benefit comes from diversifying a portfolio with assets that navigate market cycles away from public

Could private equity strengthen your retirement plan? (cont.)

markets to help reduce volatility. For example, if the public market experienced a broad decline – during a recession or market shock, for example – certain alternative or private market strategies may be insulated from the public market fluctuation.

Advocates argue that you can create a stronger, more resilient portfolio by mixing traditional and alternative asset classes that behave differently, just as one may mix stocks and bonds. If one segment lags, others can offset the shortfall, producing a more stable long-term result.

But they should be implemented with care. Some concerns are the potential for higher fees, lack of transparency and the complexity of manager selection. Another inherent risk of private markets is their limited liquidity. When it comes to retirement funds, this requires careful planning because distributions may become mandatory.

Thoughtful plan design and how these alternative investments are incorporated into the options is key. Professionally managed vehicles, multi-manager funds and target-date structures may be able to mitigate the risks associated with the complexity of alternative investments.

In adding alternative investments to defined contribution plans, such as 401(k)s, there is inherent oversight. Plan sponsors and investment managers are required to act in the best interests of participants and follow established fiduciary standards when selecting and monitoring investments. And this will be no different in the case of alternative investments.

IS PRIVATE EQUITY RIGHT FOR YOU?

Whether private equity should be part of your retirement strategy depends on a variety of factors, including your risk tolerance, investment time horizon and overall financial situation. Investors with a longer time horizon may decide to weather market fluctuations and allow investments time to mature, while those nearing retirement may want to place a greater emphasis on liquidity and capital preservation. This is an asset allocation consideration. Retirement strategies aren't a one-size-fits-all solution, and that includes the place private equity investments have in your 401(k). This should be a conversation like every other aspect of your financial plan. ■

Preparing for retirement as a family

Three conversations to help parents and children plan for the future

As parents approach retirement, it's natural for children to wonder what sort of support they will need in the years ahead. Starting these conversations early can help everyone feel more prepared. Here are some important topics to discuss.

FINANCIAL SECURITY

Cover whether the parents feel financially secure and confident about their income in retirement.

IMPORTANT DOCUMENTS

Understand whether the parents' personal affairs are in place and where documents are kept. It's important to know where to find wills and trust documents, powers of attorney, healthcare proxy, financial statements, deeds and titles, and insurance policies, for example.

CARE

Discuss the plan for long-term care, even if it's never needed. It's important for children to understand parents' wishes, since children will likely be responsible for carrying them out.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. You should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. You should only invest in hedge funds, managed futures or other similar strategies if you do not require a liquid investment and can bear the risk of substantial losses. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided. Diversification does not guarantee a profit nor protect against loss.

The strategic side of debt

Why debt reduction should support – not define – your wealth strategy

Reducing or eliminating debt might feel like the ultimate financial milestone, but paying off debt early – or avoiding it entirely – can limit future opportunities for building or preserving wealth. During periods of volatility, it may be tempting to get rid of debt for short-term relief, but this could compromise your long-term plan. Staying the course may be crucial to your goals – no matter the market.

That's because sold stocks can't grow – and neither can uninvested discretionary income. An approach that looks at the whole picture – interest from debt, cash on hand and investments – considers your near-term needs and wishes along with your long-term goals.

THE TRADEOFF

If the interest on your debt is low, finding the right balance of debt, cash and investments may seem more straightforward. With low interest rates – like those available to qualified mortgagees in the 2010s – it's easier to feel confident that investing excess income is the right move. The investments will likely yield more than the cost of borrowing, so the money is working in your favor.

But, generally, deciding whether it makes sense to pay off or incur debt can be complicated. It's not as simple as comparing interest rates. You'll want to consider factors like investment growth potential, taxes, liquidity needs, market conditions and your overall financial goals.

A central principal in these decisions is called the time value of money – the hypothetical value of an investment over a long period of time compared to its current value. In other words, a dollar today can be worth more than a dollar tomorrow because today's dollar has the opportunity to grow. For example, if you use $10,000 to pay down debt, that money is no longer available to invest and potentially compound over time.

THE NUMBERS

The principles of long-term investing encourage investors not to try to "time" the market for maximum gain. Generally, when one invests, one invests over a period of time, smoothing out the daily fluctuations of an investment's value. When one withdraws, long-term wealth building strategies suggest it's a good idea to do that over time, too.

If you were to sell investments suddenly to pay off a debt, you would be trying to time the market whether you mean to or not.

The growth of a theoretical stock portfolio across a 20-year period dropped by almost half without the 10 best-performing days in the market. It dropped almost three times after missing the top 20 days.* That's why staying invested can be so important. The market historically has had a tendency toward growth over time, but it often relies on specific strong-performance days to do so. It's difficult to predict when those top trading days will occur, and missing only one can diminish the potential performance of a long-term investment.

THE STRATEGY

Adopting a strategic approach to managing debt may provide greater confidence compared to simply aiming to eliminate debt. By carefully managing your debt and understanding its role in your financial plan, you can help achieve a more balanced and less stressful life.

Some general guidelines to consider:

- High-interest debt (over 10%) like credit cards and personal loans should be eliminated first.
- Low-interest debt (typically below 5%) can be a valuable financial tool. For example, a low-cost mortgage at 3% might be better retained for tax and liquidity benefits.
- For debt with interest rates between 5% and 10%, plan carefully based on your net worth and financial goals. Consider seeking help to determine a strategic plan for striking a balance you're comfortable with.

The most effective financial plans don't revolve around one metric, like debt reduction. They're designed to align every financial decision to what matters most to you. By considering your entire financial position, priorities and timeline, you'll be able to make decisions that support both your current and long-term goals. ■