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Cryptocurrency and Retirement Plans

Earlier this year, Fidelity Investments made news with the announcement that they would make investing in the digital currency Bitcoin one of the investment choices available to 401(k) plan participants. Bitcoin has been classified as property, not money, by the IRS. As such, there is no legal restriction on investing retirement funds in it.

At least that is true at the moment. Three U.S. Senators wrote to Fidelity's President last July, asking that the offering be rescinded, because such an investment was thought to be too risky. They followed up with a November letter renewing the request.

The most important recent development causing concern was the collapse of FTX, a digital currency exchange, with losses to millions of clients that may reach billions of dollars. The Senators also noted in their letter that the value of Bitcoin had fallen from $21,239 when the first letter was written to a two-year low of $16,884.

The letter concluded: "In light of these risks and continuous warning signs, we again strongly urge Fidelity Investments to do what is best for plan sponsors and plan participants—seriously reconsider its decision to allow plan sponsors to offer Bitcoin exposure to plan participants. By many measures, we are already in a retirement security crisis, and it should not be made worse by exposing retirement savings to unnecessary risk. Any investment strategy based on catching lightning in a bottle, or motivated by the fear of missing out, is doomed to fail. "

Greater government regulation of the digital currency market now is expected by many, in view of recent developments. Such regulation could extend to limits on such investments in qualified retirement plans.