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Why Qualified Retirement Assets Should be Included in the “Accredited Investor” Definition

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For many decades, the U.S. financial system has imposed a set of qualifications on individuals that want to invest in un-registered, or private, investments, typically private funds such as hedge funds, private equity, private real estate and private credit vehicles. The lowest level of these qualifications is referred to as “accredited investor,” and was last updated in 2020.

Accredited investors are assumed to be financially sophisticated individuals and are therefore able to participate in more complex investment strategies. **The latest SEC [review](#) of the accredited investor definition questions whether qualified retirement assets, which would include Individual Retirement Accounts (“IRAs”) and 401(k)s, should be excluded from net worth when determining accredited investor status, given that “those individuals may have little, if any, prior investing experience and may not seek the assistance of professional advisors.”** Given the increasing prevalence of auto-enrollment, auto-escalation and default investments in 401(k) plans, there is an assumption that wealth in qualified retirement plans was accrued without engagement or knowledge and should therefore be excluded from these calculations.

Leveraging data from the Federal Reserve’s 2022 [Survey of Consumer Finances](#), we explore how financial literacy varies among different investors. We find that accredited households with significant qualified retirement savings (i.e., “401(k) Millionaires”) have higher levels of financial literacy, on average, than those who would otherwise meet the accredited investor definition with other types of assets. In other words, **qualified retirement savings are positively correlated to financial sophistication**, contrary to what’s suggested in the SEC report. 401(k) Millionaires also have notably higher education levels, a factor that is likely related to the higher levels of financial literacy.

Overall, this analysis suggests that failing to consider qualified retirement assets in net worth under the definition of accredited investor would result in the exclusion of more financially sophisticated investors, not less, which is likely counter to the intent of any kind of potential change to the definition.

Recalibrating our Assessment of DC Plan Participants

Defined contribution (DC) participants often face broad negative generalizations, largely due to behaviors that deviate from traditional concepts of rational economic decision-making. However, some assumptions— particularly about participants’ general level of financial literacy—fail to hold universally.

Take, for instance, the example of a participant owning every vintage in a target date fund (TDF) series. While this is not how TDFs were intended to be used, it’s flawed logic to cite this as blanket proof that *all* participants lack financial knowledge. A single TDF vintage can typically offer sufficient diversification, but holding multiple vintages is not necessarily harmful. Similarly, when assessing asset allocation by age—for example, late-career participants heavily weighted in equities or young participants leaning on cash or stable value funds—may appear inefficient in isolation. However, we don’t typically have complete context of a participant’s financial situation, including outside assets, spousal income, and retirement plans. Therefore, what may seem suboptimal at first glance, could actually be quite rational when viewed in a fuller context.

Another source of bias stems from the expertise of those working in the DC industry. DC professionals are often licensed and hold advanced financial knowledge, unlike the average DC participant. However, this expertise can sometimes foster misplaced assumptions. For example, equating a participant’s lack of deep financial acumen to total ignorance about investing is as flawed as saying someone incapable of performing surgery is clueless about their health. One doesn’t need to be an expert in something to make competent decisions in that domain.

Saying DC participants with accredited investor status are universally disengaged or unsophisticated is not only reductive but also unsupported by data, something we explore more in this piece.

Who Is Accredited?

All offers and sales of securities must be registered unless certain exclusions from registration are met. One potential exclusion is if the offer or sale is to “accredited investors.” Notwithstanding the qualification by financial sophistication, which is the subject of this paper, an individual may qualify as an accredited investor if he or she meets certain wealth and income criteria, such as those with a net worth exceeding \$1 million (excluding the value of the individual’s primary residence) and those with income exceeding \$200,000 (individually) or \$300,000 (jointly) over the prior two years. Historically, the [definition of accredited investors](#) was intended to “encompass those persons whose financial sophistication and ability to sustain the risk of loss of investment or ability to fend for themselves render the protections of the Securities Act’s registration process unnecessary.”

Section 413(b)(2)(A) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) requires the Securities and Exchange Commission (SEC) to review the definition of an accredited investor at least once every four years. Previous reviews happened in 2015 and 2019, while the most recent [review](#) was in a report dated December 14, 2023.

The definition of an accredited investor is constantly evolving. For example, in 2020, additional amendments were added to expand the ways in which an individual could qualify, such as by holding certain credentials or by demonstrating a given level of knowledge.

As noted in the SEC report, the number of U.S. households meeting the definition of an accredited investor has risen significantly over time. For example, if we were to focus on both income and asset thresholds, while only 1.8% of households would qualify as accredited investors in 1983 (leveraging data from the Survey of Consumer Finances), 18.5% (or 24.3 million) would qualify in 2022.

A key reason for the rise in the percentage of households meeting the accredited investor definition is the fact that income and asset thresholds have not been indexed to inflation. Had these been indexed to inflation, the individual income threshold criteria today would need to be approximately \$500,000, the joint income threshold approximately \$780,000, and/or the net worth threshold approximately \$2.5 million, whereby only 6.51% (8.5 million) of households would qualify.

There have also been notable changes in how individuals meet the accredited investor definition, especially with respect to net worth. Qualified retirement savings, such

as 401(k) plans and IRAs, have become an increasingly important component of household net worth. For example, the SEC report notes that the percentage of households that would meet the accredited investor definition according to net worth would fall from 12.5% (16.44 million) to 8.8% (11.6 million), if qualified plan assets were excluded.

The report notes that the shift away from defined benefit plans to defined contribution plans places an increasing burden on households, many of which may lack the necessary experience, leading to calls to potentially exclude qualified retirement assets from net worth when determining accredited investor status. That begs the question, though, how does financial sophistication vary among investors who would be deemed “accredited” based on those who have qualified retirement savings? This is addressed in the following section.

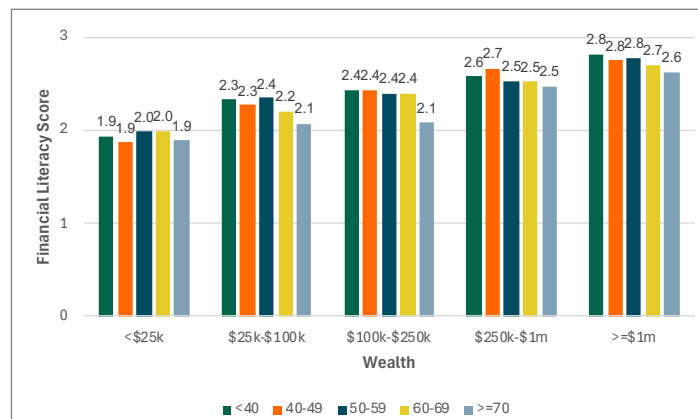
Are 401(k) Millionaires Financially Literate?

Data from the 2022 Survey of Consumer Finances (SCF) is reviewed to determine how the potential composition of wealth is related to financial literacy, which is used as a proxy for financial sophistication. The SCF includes three questions to gauge financial literacy, asking about the risk of company stock, compound growth, and inflation. Known as the “Big Three,” these questions (introduced by Lusardi and Mitchell, 2011)¹ are useful when assessing how people understand basic financial concepts. While not necessarily as robust as other financial sophistication assessments (e.g., FINRA includes a 10-question test of investor knowledge in its [Investors in the United States: The Changing Landscape report](#)), we can use the results to understand how financial literacy differs across different investor types, by looking at how many questions the respondent answers correctly using a numerical score ranging from zero (answering none correct) to three (answering all correct).

For the analysis, household wealth is defined as total financial assets plus business assets. Therefore, an accredited investor would be one where that respective value exceeds \$1 million. Note, income definitions to meet the accredited investor definition are ignored for this analysis. Exhibit 1 includes the average financial literacy score for five different respondent age and household wealth levels.

Exhibit 1:

Average Financial Literacy Scores by Respondent Age and Household Wealth



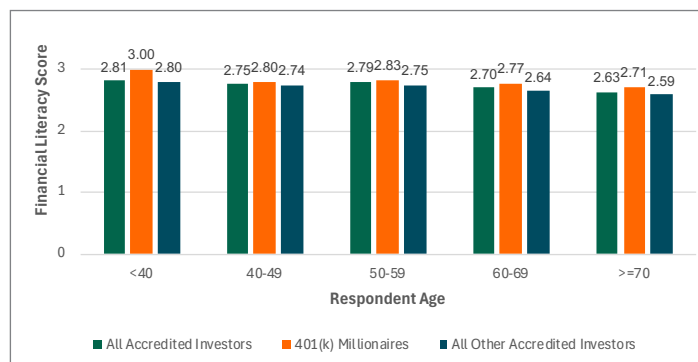
Source: 2022 Survey of Consumer Finances, Authors' Calculations, as of July 30, 2025.

We can see that while financial literacy scores tend to increase notably by household wealth levels, there is relatively little change across age cohorts (although there is a slight decline by age).

To the extent financial literacy is an accurate proxy for financial sophistication, wealth appears to be a good determinant for the accredited investor definition. What is less clear, though, is how financial literacy varies among households with significant qualified retirement savings. To determine this, we separate those households that would meet the accredited investor definition into those who have \$1 million or more in qualified savings, who we call “401(k) Millionaires,” and all other accredited investor households. We define qualified savings as those balances in IRAs and defined contribution account-type pension plans (which correspond to variables IRAKH and THRIFT in the [SCF Bulletin](#)). Exhibit 2 includes the averages across the different respondent age groups.

Exhibit 2:

Average Financial Literacy Scores Among Individuals Meeting the Accredited Investor Assets Threshold



Source: 2022 Survey of Consumer Finances, Authors' Calculations, as of July 30, 2025.

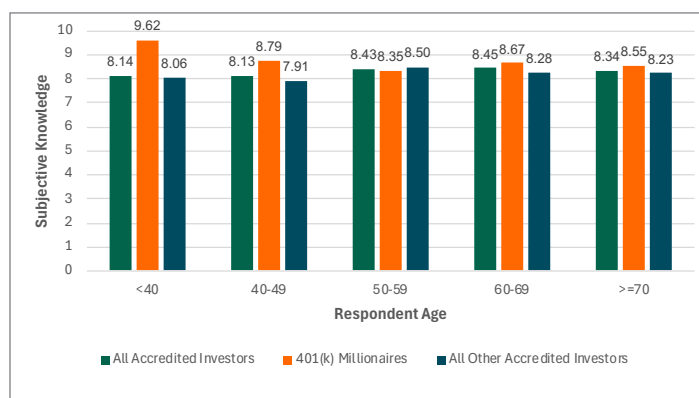
¹ Lusardi, Annamaria, and Olivia S. Mitchell (2011), “Financial Literacy around the World: An Overview.” *Journal of Pension Economics and Finance* October, vol. 10, no. 4: 497-508.

Consistent with the previous analysis, focused on all households, we do see a slight decline in financial literacy scores at older ages; however, **at every age, we see that average financial literacy scores are higher among “401(k) Millionaires” versus other households** who would also meet the accredited investor definition.

Not only do “401(k) Millionaire” accredited investors have a higher level of financial literacy than other accredited investors, but they also appear to be aware that they are in fact more knowledgeable. There is a question in SCF that asks the respondent to self-assess how knowledgeable he or she is on personal finance matters, on a scale that effectively ranges from 0 (least) to 10 (most). Exhibit 3 includes the average scores for the respective groups.

Exhibit 3:

Average Financial Knowledge Scores Among Individuals Meeting the Accredited Investor Assets Threshold



Source: 2022 Survey of Consumer Finances, Authors' Calculations, as of July 30, 2025.

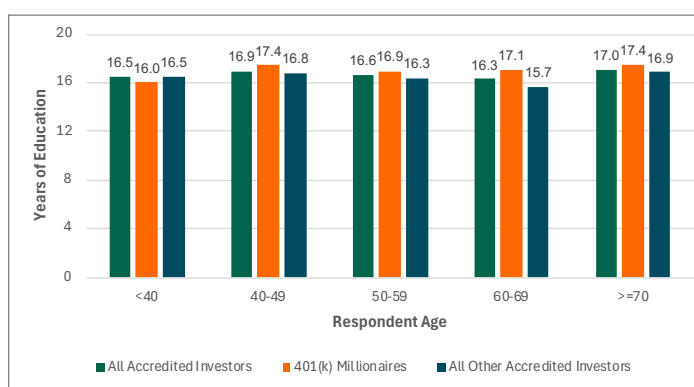
Aside from one age group, the average financial knowledge score for 401(k) Millionaire accredited investors is higher than other accredited investors.

So far, this analysis suggests that individuals who have accumulated significant qualified retirement savings are more financially sophisticated than accredited investors, more generally. While there are a variety of potential reasons for this, one notable difference in “401(k) Millionaire” accredited investors and all other accredited investors is that “401(k) Millionaire” accredited investors have notably higher education levels.

This effect is demonstrated in Exhibit 4, which includes an average estimate for the number of years of education completed by the respective groups.

Exhibit 4:

Average Years of Education Among Individuals Meeting the Accredited Investor Assets Threshold



Source: 2022 Survey of Consumer Finances, Authors' Calculations, as of July 30, 2025.

We can see that 401(k) Millionaire accredited investors have approximately 0.6 more years of education, on average, compared to all other accredited investors.

Conclusions

The definition of an accredited investor continues to evolve. As defined contribution plans become increasingly important ways for households to save for retirement, qualified retirement savings are likely to become a growing source of wealth for Americans. One potential question is whether these savings should be included in the net worth test to define who qualifies as an accredited investor.

This analysis, leveraging data from the 2022 Survey of Consumer Finances, suggests that **not only are investors with significant levels of qualified retirement savings more financially literate, but they are also aware that they are more financially knowledgeable and tend to have higher levels of education.**

One potential driver of the higher literacy levels noted among “401(k) Millionaires” is the way defined contribution plans encourage engagement (to varying levels) from investors at younger ages. Saving and investing for retirement early may provide educational opportunities that may happen less frequently than other routes to building financial wealth.

Therefore, contrary to suggestions that qualified retirement savings should be excluded from estimates of financial sophistication, there is evidence to suggest that they may actually be a better proxy for assertion than simply obtaining a given level of wealth, since it will typically take decades of good decision making to accumulate a sufficient level of qualified retirement savings.

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Full disclosures are available at icapital.com/insights.

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