

Background on Mutual Fund Services and Fees in 401(k) Plans

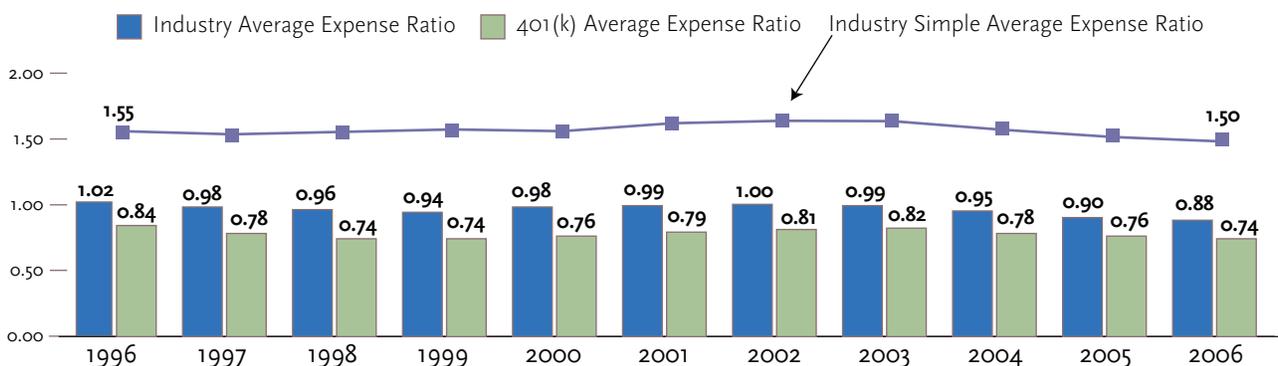
About half of the \$2.7 trillion in 401(k) assets at year-end 2006 was invested in mutual funds, primarily in stock funds. Investors in mutual funds can incur two types of fees and expenses when purchasing and holding mutual funds: sales loads and mutual fund expenses. Mutual funds are required by law to disclose a large amount of information, including information on fees and expenses, in their prospectuses. Mutual fund fee arrangements are highly transparent.

401(k) investors tend to hold low-cost mutual funds. The bulk of mutual fund assets held in 401(k) plans are no-load funds or load-waived. The average asset-weighted total expense ratio incurred by 401(k) investors in stock mutual funds was 0.74 percent in 2006, about half the 1.50 percent simple average for all stock funds and lower than the industrywide asset-weighted average of 0.88 percent.

401(k) Mutual Fund Investors Tend to Pay Lower-Than-Average Expenses

(percent of assets, 1996–2006)

Stock Mutual Funds



Note: The industry average expense ratio is measured as an asset-weighted average. The 401(k) average expense ratio is measured as a 401(k) asset-weighted average. Figures exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute; Lipper; Value Line Publishing, Inc.; CDA/Wiesenerger Investment Companies Service; ©CRSP University of Chicago, used with permission, all rights reserved (312.263.6400/ www.crsp.com); Primary datasource; and Strategic Insight Simfund (See Investment Company Institute, "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2006," Fundamentals, September 2007)



The Investment Company Institute (ICI) is the national association of U.S. investment companies, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts. ICI member firms manage about half of 401(k) and IRA assets. ICI advocates policies to make retirement savings more effective and secure.

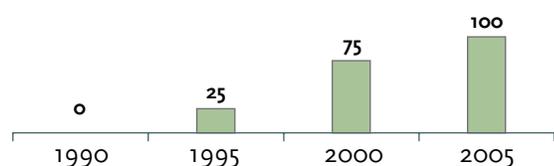
In a “bundled” 401(k) service arrangement, the costs of administering a 401(k) plan often are paid entirely through payments made by investment products to the plan’s administrator or recordkeeper. Any payments made by mutual funds to third parties are reflected in the performance of the fund. The fund’s performance consists of its market returns minus the costs associated with the fund’s trading and its fees and expenses. The fees and expenses reflect both operating expenses—including portfolio management, fund administration, shareholder servicing costs—and distribution expenses, including 12b-1 fees.

At the same time that fees and expenses have decreased, services have increased. It is now a matter of course that the wide range of services, including daily transactions, call centers, online calculators, and online account servicing, are available to 401(k) plan participants and other mutual fund shareholders.

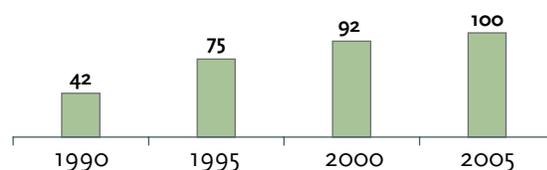
Mutual Funds Broaden Scope of Services

(percent of services available in 2005 that were offered in previous years, selected years)

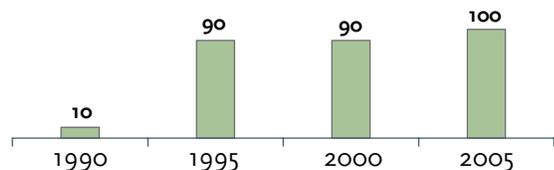
Web-Based Services



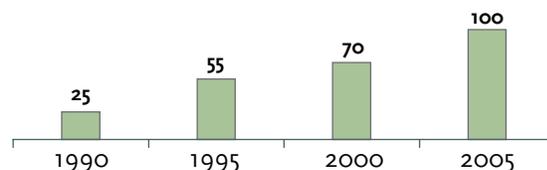
Phone Representative Services



Automated Phone Services



Investor Statements



Note: The percentages shown represent the scope of services available from leading mutual fund companies for the indicated period. The scope of services each year is in relation to the services offered in 2005, which is shown as 100 percent.

Source: DALBAR (See Investment Company Institute, “Competition in the Mutual Fund Business,” Research Commentary, January 2006)



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