

Variety of Arrangements in 401(k) Plans

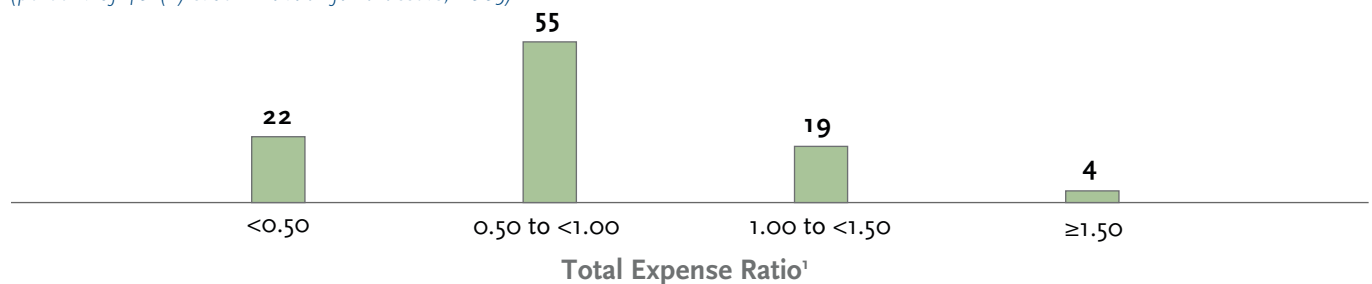
A 401(k) plan is one of potentially many benefits offered by an employer. As with any other employee benefit, the employer generally determines how the costs will be shared. A variety of investment options and services are provided through 401(k) plans. About half of the \$2.4 trillion in 401(k) assets at year-end 2005 was invested in mutual funds, primarily in stock funds. Although 401(k) investors as a group tend to hold low-cost mutual funds, some participants pay more than the average and some pay less. Thus, the average fee does not necessarily reflect the reasonableness of the fees for any particular plan.

Many Factors Affect Fees and Expenses

A variety of factors affect the fees and expenses paid by the participants in any particular 401(k) plan. The investment options' fees can often cover plan services. Participants who work for employers that do not heavily subsidize their plans will tend to incur higher fees. Participants in plans with a small amount of assets will typically pay higher fees than plans with greater assets because of the relatively fixed costs that all plans, large or small, must incur. Similarly, participants in plans that have many small accounts will typically pay higher fees per dollar invested than plans with fewer and larger accounts. Plans with more service features will tend to be more costly than more streamlined plans with fewer services for plan participants. In addition, the investment objective of a participant's 401(k) investments also influences fees. For example, foreign equity funds, which are more complicated to manage than domestic equity funds, tend to be more costly but also may offer the potential for higher returns and additional diversification.

401(k) Stock Mutual Fund Assets Are Concentrated in Low-Cost Funds

(percent of 401(k) stock mutual fund assets, 2005)



¹The total expense ratio, which is reported as a percentage of fund assets, includes fund operating expenses and 12b-1 fees.

Note: Figures exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute and Lipper (See Investment Company Institute, "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses," Fundamentals, November 2006)

401(k) Plan Participants Invest in Low-Cost Mutual Funds

Plan participants have a broad range of mutual funds from which to choose, but they heavily favor low-cost funds. For example, more than three-quarters of 401(k) plan assets in stock mutual funds were invested in funds with expense ratios of less than 1 percent at year-end 2005. Nearly a quarter of 401(k) stock mutual fund assets were in funds with expense ratios less than 0.50 percent.

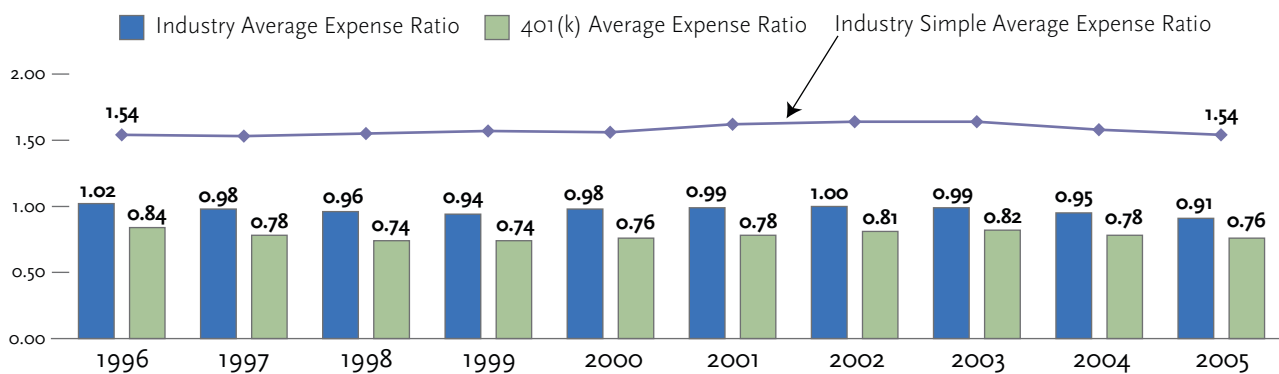
The Fees That 401(k) Plan Participants Incur for Investing in Mutual Funds

Although fees and expenses can vary widely among mutual funds, because 401(k) plan participants are offered and favor low-cost funds the average asset-weighted expense ratio borne by 401(k) plan participants for investing in stock funds was 0.76 percent in 2005, about half the 1.54 percent simple average for all stock funds. Thus, while some plan participants have incurred expense ratios of more and others less than the average for investing in stock mutual funds, 0.76 percent is what 401(k) plan participants paid on average.

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

(percent of assets, 1996–2005)

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/Wiesnerberger 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," Fundamentals, November 2006)



1401 H Street, NW
Washington, DC 20005
202/326-5800
www.ici.org