

## 401(k) Participants Invested In Low-Cost, Low-Turnover Mutual Funds

# 401(k) Participants Invested In Low-Cost, Low-Turnover Mutual Funds

**Washington, DC August 6, 2009** - Low-cost mutual funds with below-average turnover continued to attract 401(k) investors' assets, according to an annual report by the Investment Company Institute. At year-end 2008, nearly half of the \$2.3 trillion in 401(k) assets was invested in mutual funds. The bulk (78 percent) of mutual funds held in 401(k) accounts was invested in stock funds.

*The Economics of Providing 401(k) Plans: Services, Fees and Expenses, 2008* finds that in 2008, 79 percent of 401(k) assets held in mutual funds were in "no-load" funds—funds that do not have any sales charges. The remainder of those assets was in load funds, but such funds typically waive their loads for retirement plan participants. Thus, for most 401(k) investors, the total expense ratio is the only investment charge they bear in mutual funds.

In addition, 401(k) plan participants tended to own stock mutual funds with relatively low turnover rates. The average asset-weighted turnover rate industrywide in stock funds was 59 percent in 2008. The average turnover rate experienced in stock funds selected by 401(k) plan participants was slightly lower at 50 percent.

On fees, the report finds that although expense ratios vary among mutual funds, 77 percent of 401(k) plan stock fund assets were invested in funds with expense ratios of less than 1 percent at year-end 2008. Twenty-eight percent of 401(k) stock fund assets were in funds with expense ratios of less than 0.50 percent.

"Investing in mutual funds through a 401(k) plan at work represents one of the very best and most cost-effective ways to save for retirement," said Sarah Holden, ICI senior director of retirement and investor research and report co-author. "A number of factors contribute to the relatively low fees paid by 401(k) plan participants, including intense competition among mutual funds, other investment providers, and service providers; plan sponsors' decisions to cover some plan costs; and economies of scale."

The study also details the many services that 401(k) plan sponsors and participants receive. It notes that 401(k) plans are complex to maintain and administer, and that they are subject to a myriad of rules and regulations that govern their operation. Plan fiduciaries who oversee a 401(k) plan must ensure that costs for plan services are reasonable.

"While many factors contribute to the relatively low mutual fund fees we observe in these plans, this study is also evidence that employers take seriously their role as plan fiduciaries, making decisions with cost and performance in mind," said Michael Hadley, ICI associate counsel of pension regulation and report co-author.