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Retirement: Key Facts and Positions
401(k)s and Fees

Critics frequently exaggerate 401(k) fees.

- Critics of the 401(k) system often allege that 401(k) fees are high, opaque ("hidden"), and harmful to savers.
- In fact, fees for mutual funds in 401(k) plans have been falling—even as plans offer more and better services to participants—and the fund industry has strongly supported greater transparency for plan fees.
- Deloitte and ICI conducted a study to determine the average annual fees for 401(k) plans in 2011. Totaling all administrative, recordkeeping, and investment fees, the median participant-weighted "all-in" fee for plans was 0.78 percent of assets—or approximately $248 for the year per participant.

Fees pay for services that are valuable to investors.

- All savings and investment products incur costs, which savers and investors incur through fees, spreads, or reduced returns.
- Similarly, all retirement savings systems—defined contribution, defined benefit pension, or hybrid approaches—involve the payment of fees and expenses for the costs of necessary services.
- Among other things, fees cover the cost of investment management and associated administrative services—including custodial, legal, transfer agent, and recordkeeping services—that are essential to operating retirement plans and safeguarding assets.
- Plans provide educational materials to participants through mailings, brochures, website information, and tools and calculators.
    - This information is important and valuable. Nine in 10 households that own defined contribution retirement plans (such as 401(k) plans) indicate that having an employer-sponsored retirement account helps them think about the long-term, not just their current needs.

Research shows that investors are sensitive to fees in a very competitive 401(k) market.

- Mutual fund shareholders and plan participants have shown themselves to be sensitive to fund fees and expenses. ICI research finds 401(k) investors in mutual funds tend to hold lower-cost funds with below-average portfolio turnover.

- For example, the average total expense ratio incurred by 401(k) investors in equity funds was 0.63 percent in 2012, less than half of the simple average of 1.40 percent for all equity funds and lower than the industrywide asset-weighted average of 0.77 percent.

- Employers and participants can seek out lower-cost funds because the 401(k) market is highly competitive, with many types of providers vying for market share.

- Employers and employees often share the costs of operating 401(k) plans. As with any employee benefit, the employer typically determines how the costs will be shared.

    - Fees for mutual funds have fallen substantially over the past two decades, and mutual funds account for about half of 401(k) assets. (See ICI's press release, "Average Expense Ratios Paid by Mutual Fund Investors Continued to Decline in 2012.")

Plan characteristics influence plan fees.

- Smaller plans—those with fewer participants or fewer assets—tend to have higher-than-average fees per participant or per dollar invested because of certain fixed costs that smaller plans spread over fewer participants.

    - For example, the Deloitte/ICI study of 401(k) fees found that median participant-weighted fees range from 1.41 percent for plans with less than $1 million in assets to 0.38 percent for plans with more than $1 billion in assets.

    - Similarly, median participant-weighted fees range from 1.29 percent for plans with fewer than 100 employees to 0.43 percent for plans with 10,000 or more employees.

- Expense ratios of funds within a given plan can vary widely depending on, among other things, investment objective, such as whether a fund has a mandate to invest in domestic equity, foreign equity, domestic fixed, emerging markets fixed income, and so forth. Even within a particular investment category, fund expense ratios can vary widely. For example, fixed income funds that invest primarily in Treasury securities tend to have lower expense ratios than funds that also invest in corporate bonds.

- Finally, the range of services plan participants receive varies across plans with respect to the various components of customer service, such as educational materials, employee meetings, and the range of planning and guidance tools available to the plan sponsor and participants.

The mutual fund industry has long supported improving transparency of fees.

- The mutual fund industry strongly supported the rules on participant disclosure from the U.S. Department of Labor (DOL)—including detailed fee disclosure—which went into effect in 2012.

- The 2012 rules require that all 401(k) investments feature the same level of transparency for fees that has long been required of mutual funds through the prospectus requirement.
    - For example, other investment vehicles must now disclose information already provided by mutual funds, such as expense ratios, management and other fees, and performance data. This disclosure will help both plan sponsors and participants understand what they are getting for the fees they pay.
- About half of all 401(k) assets are invested through mutual funds; the other half are invested through vehicles such as separately managed accounts, collective investment funds, insurance products, and company stock.
- DOL also requires disclosure of risks, returns, investment objectives, and identity of investment provider—all of which should be considered in addition to the absolute level of the fees.
- With comparable information on all investment options, both plan sponsors and participants should find it easier to make the comparisons needed for better informed investment choices.

For more key facts and positions on retirement, please visit www.ici.org/retirement.