

Retirement: Key Facts and Positions

Trading Costs and 401(k)s

Buying and selling of investments necessarily leads to trading costs.

- The costs of buying and selling securities (“trading costs”) include brokerage commissions and bid-ask spreads, both of which are relatively straightforward to measure.
- Some, notably academics, often also include in trading costs “market impact,” the amount by which a security’s price changes in response to an investor’s orders to buy or sell that security.
 - The measurement of market impact is highly subjective. For example, market impact will vary widely depending on whether it is measured over the next few seconds, minutes, hours or even days.
- Regardless of how trading costs are defined, all investors—whether they are holding direct investments, commingled or collective trusts, separate accounts, or mutual funds or exchange-traded funds—incur trading costs either directly or indirectly.
- 401(k) participants are no exception.

Industry and regulators agree that the level of trading is a factor for retirement plan fiduciaries to consider.

- The level of trading (how frequently a pooled investment buys or sells securities) is a factor fiduciaries should consider in selecting investments.
 - [Department of Labor \(DOL\) guidance on fees](#) makes this clear.
 - ICI agrees that, in considering the appropriateness of a pooled product, the fiduciary should consider the potential costs associated with the potential trading activity in a pooled investment product.

Trading costs associated with 401(k) plan investments in mutual funds are limited.

- 401(k) plan assets tend to be invested in funds that have lower-than-median levels of securities trading, and thus are likely to bear lower-than-median trading costs.
- [One-quarter of the assets in 401\(k\) plans](#) are invested in some type of fixed-income product, such as guaranteed investment contracts and money market funds. These funds tend to rely heavily on liquid cash instruments and other investment strategies, rather than on trading securities, to meet investor flows.

- Within the domestic equity category, 401(k) investments are concentrated in large-cap funds. It is generally acknowledged to be less costly to trade large-cap stocks than other stocks, such as small-cap, mid-cap, or emerging market stocks.

For more key facts and positions on retirement, please see <http://www.ici.org/retirement>.