

Expenses and Fees Paid on Mutual Funds in 401(k) Plans

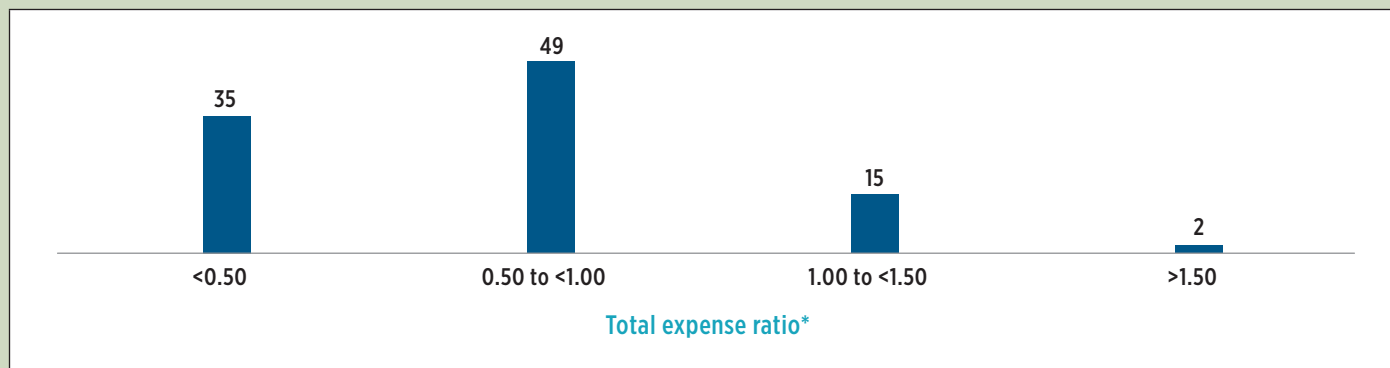
A 401(k) plan is one of potentially many benefits offered by an employer. As with any other employee benefit, the employer generally determines how the costs will be shared. A variety of investment options and services are provided through 401(k) plans. Sixty percent of the \$3.6 trillion in 401(k) assets at year-end 2012 was invested in mutual funds, primarily in equity funds. Although 401(k) investors as a group tend to hold lower-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 Expenses and Fees

A variety of factors affect the expenses and fees 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 as a percentage of assets or per dollar invested 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 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, international equity funds, which are more complicated to manage than domestic equity funds, tend to have higher fees but also may offer the potential for higher returns and additional diversification.

401(k) Equity Mutual Fund Assets Are Concentrated in Lower-Cost Funds

Percentage of 401(k) equity mutual fund assets, 2012



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

Note: The figure excludes mutual funds available as investment choices in variable annuities. Components do not add to 100 percent because of rounding.

Sources: Investment Company Institute and Lipper

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

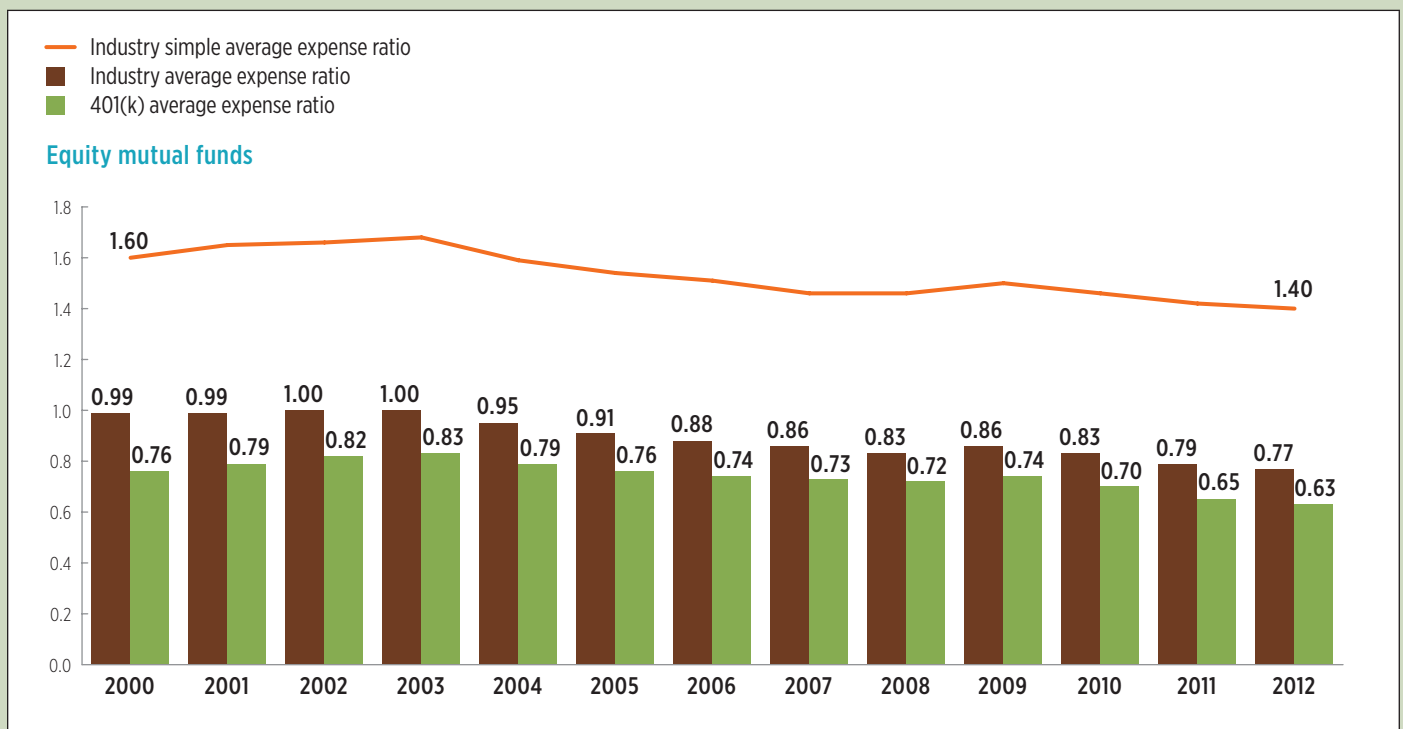
Plan participants have a broad range of mutual funds from which to choose, but they heavily favor lower-cost funds. For example, 84 percent of 401(k) plan assets in equity mutual funds were invested in funds with expense ratios of less than 1 percent at year-end 2012. Thirty-five percent of 401(k) equity 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 lower-cost funds the average asset-weighted expense ratio borne by 401(k) plan participants for investing in equity funds was 0.63 percent in 2012, less than half the 1.40 percent simple average for all equity funds. Thus, while some plan participants have incurred expense ratios of more and others less than the average for investing in equity mutual funds, 0.63 percent is what 401(k) plan participants paid on average.

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

Percent, 2000–2012



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. The figure excludes mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute and Lipper



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

Copyright © 2013 by the Investment Company Institute. All rights reserved.

The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.