

ICI VIEWPOINTS

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## Featured Chart: 401(k) Participants Hold Lower-Cost Mutual Funds

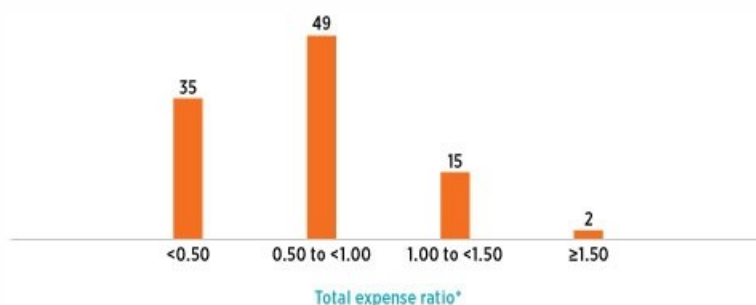
By Sarah Holden

One key takeaway from ICI's recent paper, *The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2012* is that 401(k) investors in mutual funds tend to hold lower-cost funds with below-average portfolio turnover.

Consider equity funds, in which one-third of 401(k) plan assets are invested. Eighty-four percent of 401(k) plan equity fund assets were invested in mutual funds with expense ratios less than 1.00 percent (or \$1.00 for every \$100 in assets) at year-end 2012. Indeed, 35 percent of 401(k) equity fund assets were in mutual funds with expense ratios less than 0.50 percent.

### 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: Figures exclude 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

What are the factors that contribute to 401(k) investors holding funds with relatively low average expense ratios?

1. **Competition:** Both inside and outside the 401(k) plan market, mutual funds compete among themselves and with other financial products to offer shareholders service and performance.
2. **Price-sensitive investors:** Shareholders are sensitive to the fees and expenses that funds charge. Indeed, assets tend to be concentrated in lower-cost funds, providing a market incentive for funds to offer their services at competitive prices.
3. **Price-sensitive plan sponsors:** In the 401(k) plan market, performance- and cost-conscious plan sponsors also impose market discipline. Plan sponsors regularly evaluate the performance and fees of the plans' investments.

The [full paper](#) has many more insights into the services and costs of 401(k) plans. For more retirement-related research, please visit the [Research](#) section of our website, as well as our [401\(k\) Resource Center](#).

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