

ICI VIEWPOINTS

JULY 30, 2020

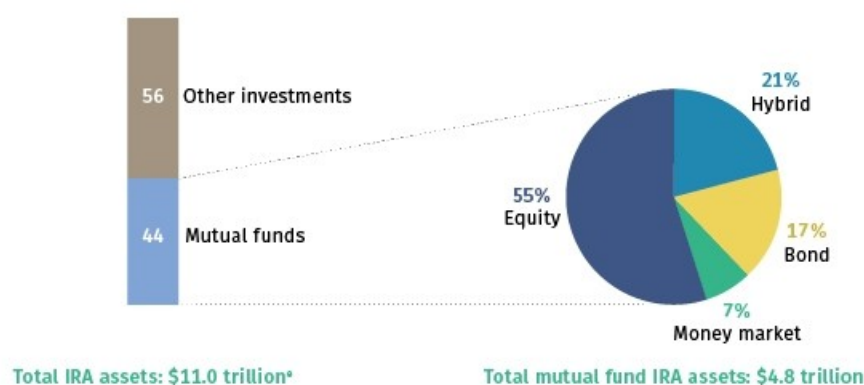
IRA Investors Are Concentrated in Lower-Cost Mutual Funds

By James Duvall

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Individual retirement accounts (IRAs) represent the largest share of assets in the [US retirement market](#), with assets totaling \$11.0 trillion at year-end 2019 (Figure 1). Forty-four percent of this total is held in mutual funds, with IRA mutual fund investors primarily invested in equity funds.

Figure 1
44 Percent of IRA Assets Are Invested in Mutual Funds
Percentage of assets, 2019



* Data are estimated

Sources: Investment Company Institute and Federal Reserve Board

As part of an ongoing effort to [shed light on important insights into IRA investing](#), ICI is updating its analysis of expense ratios that investors pay on mutual funds in their IRAs.

[Like other mutual fund investors](#), IRA mutual fund investors incur expenses and fees that cover the costs of investing in mutual funds. ICI uses asset-weighted average expense ratios to measure the expense ratios that mutual fund investors actually incur for investing in mutual funds. A fund's expense ratio is the fund's total annual expenses expressed as a percentage of its total net assets. In 2019, average expense ratios for IRA investors continued similar trends from the past few years, which include:

- average expense ratios paid by IRA mutual fund investors continue to trend downward,
- IRA mutual fund investors pay average expense ratios similar to those paid by all mutual fund investors (i.e., industrywide), and

- IRA investors, like those in 401(k) plans and industrywide, concentrate their assets in lower-cost mutual funds.

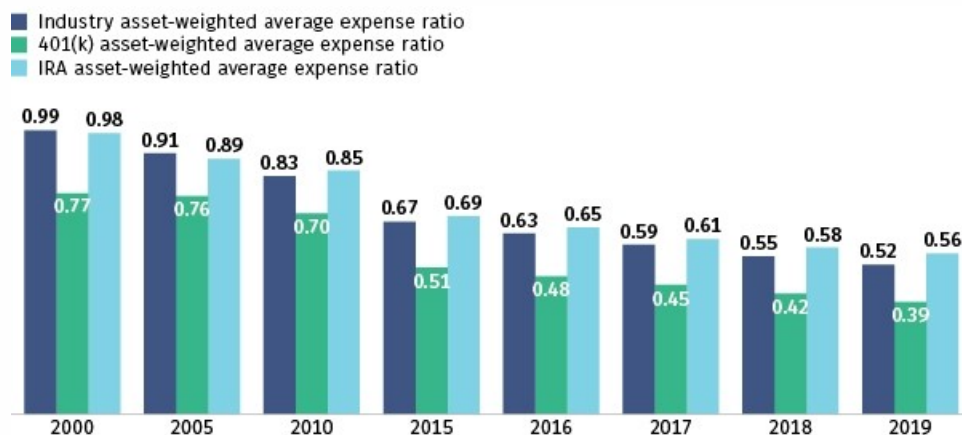
And although [401\(k\) plan investors](#) pay lower average expense ratios when compared with investors in IRAs and industrywide, the differences can be explained, in part, by plan economies of scale, plan sponsor decisions to cover a portion of 401(k) plan costs, and [use of financial professionals](#) by IRA and retail investors.

Average Expense Ratios Paid by IRA Mutual Fund Investors Continues to Decline

IRA equity mutual fund assets (including both active and index investment styles) represented 55 percent of IRA mutual fund assets in 2019, and 2019 marks the 10th consecutive year that average expense ratios have fallen for equity mutual funds held by IRA investors. Moreover, the average expense ratio is down 43 percent from its level in 2000. The average expense ratio paid by equity mutual fund investors in IRAs fell to 0.56 percent, down from 0.58 percent in 2018 and 0.98 percent in 2000 (Figure 2).

Figure 2
Equity Mutual Fund Expense Ratios

Percent



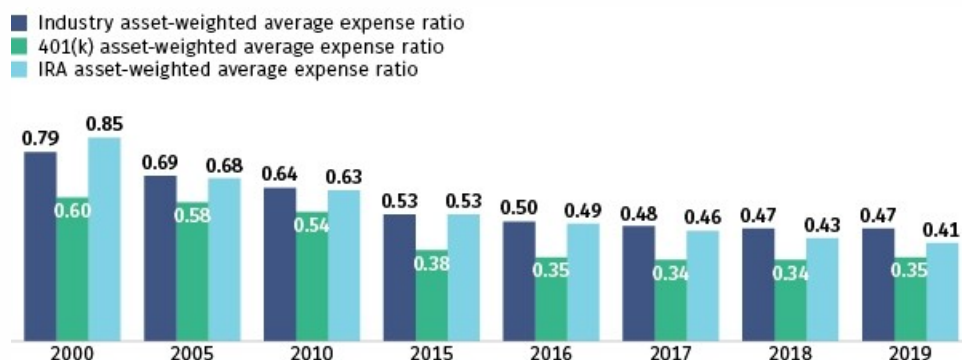
Note: Equity mutual funds in this figure encompass diverse investment styles (e.g., active and index); a range of general investment types (such as growth, sector, alternative strategies, value, and blend); and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Lipper, and Morningstar

IRA bond mutual fund assets (including both active and index investment styles) were 17 percent of IRA mutual fund assets in 2019. Average expense ratios for bond mutual funds held by IRA investors have decreased sharply over the past five years and are down 52 percent from their level in 2000. The average expense ratio paid by bond mutual fund investors in IRAs fell to 0.41 percent, down from 0.43 percent in 2018 and 0.85 percent in 2000 (Figure 3).

Figure 3
Bond Mutual Fund Expense Ratios

Percent

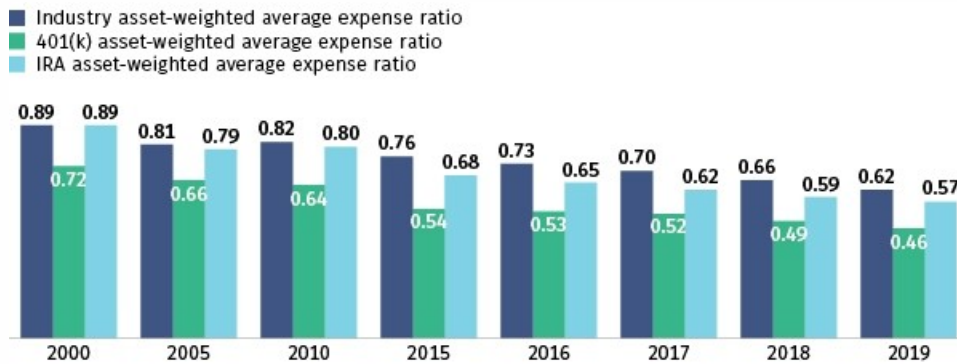


Note: Fund investment categories include active and index investment styles. Data exclude mutual funds available as investment choices in variable annuities and

Twenty-one percent of IRA mutual fund assets were invested in hybrid mutual funds (including both active and index investment styles) in 2019. Similar to equity mutual funds, average expense ratios for hybrid mutual funds held by IRA investors have fallen for 10 consecutive years and are down 36 percent from their level in 2000. The average expense ratio paid by hybrid mutual fund investors in IRAs fell to 0.57 percent, down from 0.59 percent in 2018 and 0.89 percent in 2000 (Figure 4).

Figure 4
Hybrid Mutual Fund Expense Ratios

Percent



Note: Fund investment categories include active and index investment styles. Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Lipper, and Morningstar

A Comparison with 401(k) Mutual Fund Investors

The data show that [401\(k\) investors, on average, incur lower expense ratios](#) in their mutual fund holdings than IRA mutual fund investors. One reason for this is economies of scale, as many employer plans aggregate the savings of hundreds or thousands of workers, and often carry large average account balances, which are more cost-effective to service. In addition, employers that sponsor 401(k) plans may defray some of the costs of running the plan, enabling the sponsor to select lower-cost funds (or fund share classes) for the plan.

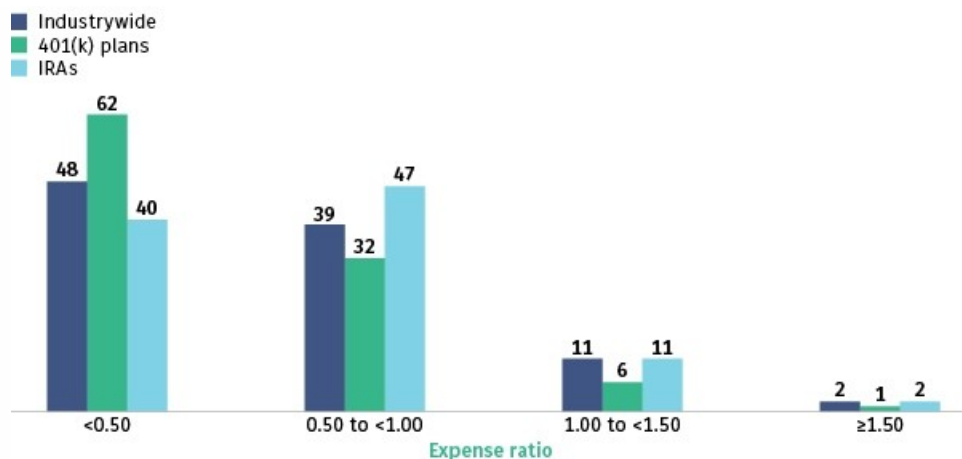
Another difference: IRA investors often pay for the [assistance of a financial professional when investing](#), and sometimes cover the cost of this service by investing in a fund (or fund share class) that has a 12b-1 fee. This fee, which the fund collects and passes to the financial professional assisting the IRA investor, is included in the fund's expense ratio. 401(k) plan participants have generally had more limited access to professional financial advice, so 401(k) plans commonly select funds (or fund share classes) that provide no compensation for financial professionals—which partly explains their somewhat lower expense ratios.

IRA Investors Concentrate Their Assets in Lower-Cost Funds

Like mutual fund assets in 401(k) plans and across the industry, IRA mutual fund assets tend to be concentrated in lower-cost mutual funds. At year-end 2019, 87 percent of equity mutual fund assets (including both active and index investment styles) held by IRAs were invested in mutual funds with expense ratios of less than 1.00 percent, with 40 percent invested in equity mutual funds with expense ratios of less than 0.50 percent (Figure 5).

Figure 5
Equity Mutual Fund Assets Held in IRAs Are Concentrated in Lower-Cost Funds

Percentage of industrywide, 401(k) plan, and IRA equity mutual fund assets, 2019



Note: Equity mutual funds in this figure encompass diverse investment styles (e.g., active and index); a range of general investment types (such as growth, sector, alternative strategies, value, and blend); and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute and Morningstar

ICI Methodology

ICI evaluates fee trends using asset-weighted averages to summarize the expenses that shareholders actually pay through funds. To compute the average, ICI weights each fund's expense ratio by that fund's end-of-year total net assets. Simple averages (counting each fund's expense ratio equally) overstate the impact of the expenses of funds in which investors hold few dollars.

The fund investment categories used in this report are broad and encompass diverse investment styles (e.g., active and index); a range of general investment types (e.g., equity, bond, and hybrid funds); and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). This material is intended to provide general information on fees incurred by investors through funds and insight into average fees across the marketplace. It is not intended for benchmarking fees and expenses incurred by a particular investor or charged by a particular fund or other investment product.

Find data on all figures in this report, including additional data on expense ratios between 2000 and 2019, [here](#). For more information about IRAs, visit our [Individual Retirement Account Resource Center](#).

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