

# IRA Investors in Mutual Funds Concentrate Their Assets in Lower-Cost Mutual Funds



Individual retirement accounts (IRAs) have helped millions of US households save for retirement and represent the largest share of assets in the US retirement market. Of the \$13.6 trillion in IRA assets at year-end 2023, 43 percent was held in mutual funds, with IRA mutual fund investors primarily invested in equity funds.

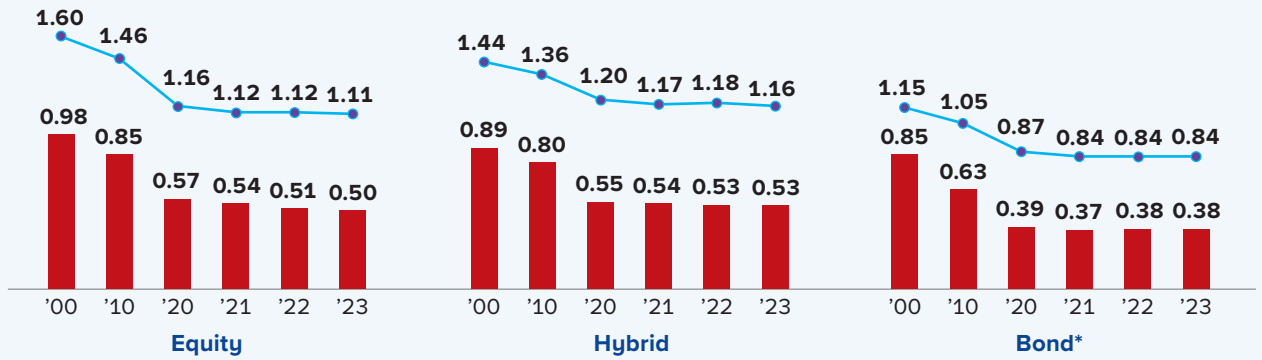
Like other mutual fund investors, IRA mutual fund investors have benefited from downward pressures on fund expense ratios.

## 1

### Average expense ratios paid by IRA mutual fund investors have trended downward over time

Percent

- Industry simple average
- IRA asset-weighted average

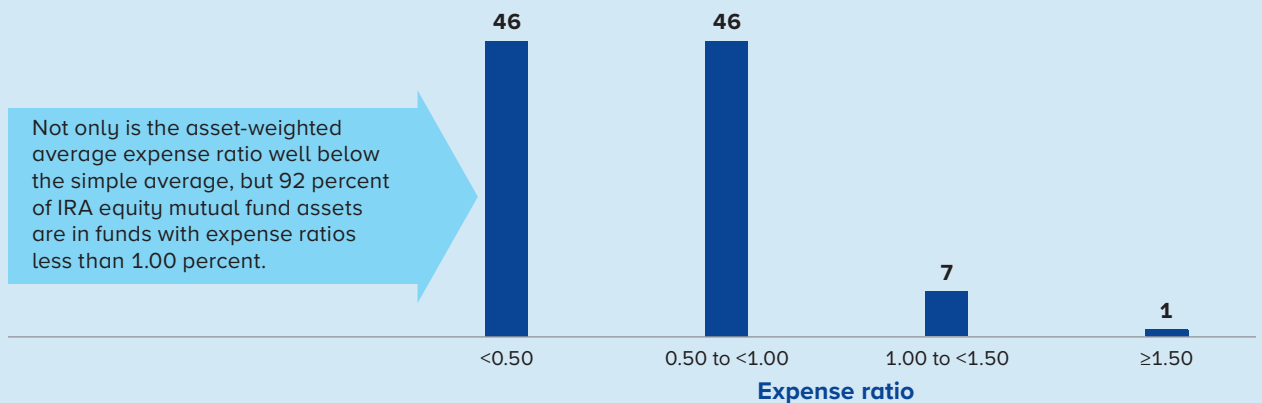


\* Data exclude tax-exempt funds

## 2

### IRA investors tend to concentrate their assets in lower-cost mutual funds

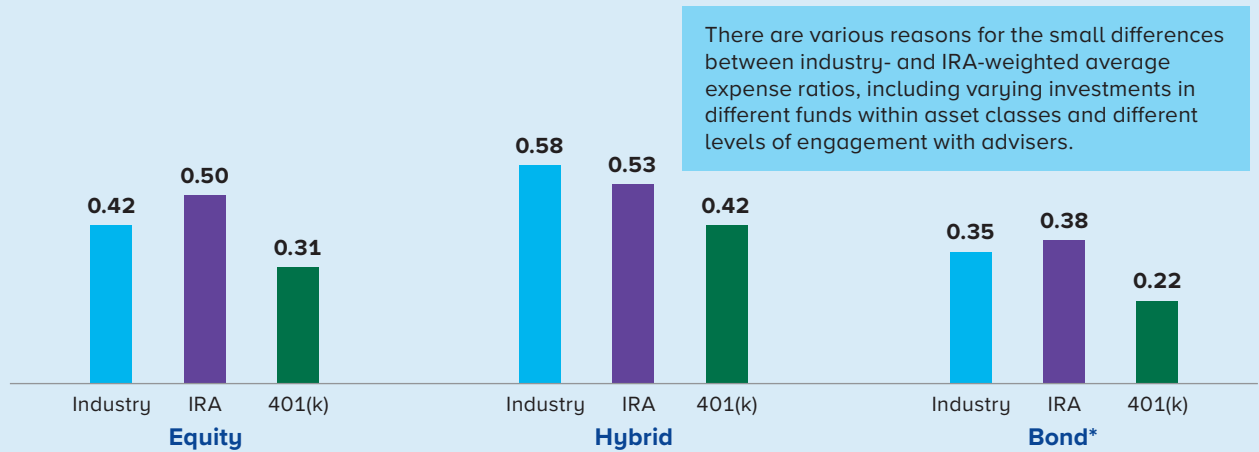
Percentage of IRA equity mutual fund assets, year-end 2023





## Average expense ratios for IRA mutual fund investors are more closely aligned with industrywide averages than 401(k) mutual fund averages

Asset-weighted average mutual fund expense ratio; percent, 2023



There are various reasons for the small differences between industry- and IRA-weighted average expense ratios, including varying investments in different funds within asset classes and different levels of engagement with advisers.

\* Data exclude tax-exempt funds

### Deeper Dive: 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—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, an employer that sponsors a 401(k) plan 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.

Take a [closer look at the data](#). For more information about IRAs, visit our [Individual Retirement Account Resource Center](#).

Data note: Mutual funds in this figure encompass diverse investment styles (e.g., active and index); a range of general investment types (such as growth and sector for equity funds, balanced and flexible portfolio for hybrid funds, and investment grade and high yield for bond funds; and both domestic and international); 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 and tax-exempt mutual funds.

This material is intended to provide general information on fees incurred by investors through funds as well as 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.

Sources: Investment Company Institute, Lipper, and Morningstar