

Average Expense Ratios Paid by 401(k) Investors in Mutual Funds Declined in 2012, Continuing a Long-Term Trend

Average Expense Ratios Paid by 401(k) Investors in Mutual Funds Declined in 2012, Continuing a Long-Term Trend

Washington, DC, June 12, 2013 -The expenses that 401(k) plan participants incurred for investing in long-term mutual funds—which include equity, bond, and hybrid funds—declined in 2012, consistent with the downward trend of the past decade and a half, according to new report by the Investment Company Institute (ICI).

The report, [The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2012](#), shows that plan participants holding mutual funds tend to invest in lower-cost funds. In 2012, the average expense ratio on equity funds offered for sale in the United States was 1.40 percent. 401(k) plan participants who invested in equity mutual funds paid less than half that amount, 0.63 percent. Expenses paid by 401(k) investors were also lower than the asset-weighted average expenses for all equity fund investors (0.77 percent).

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

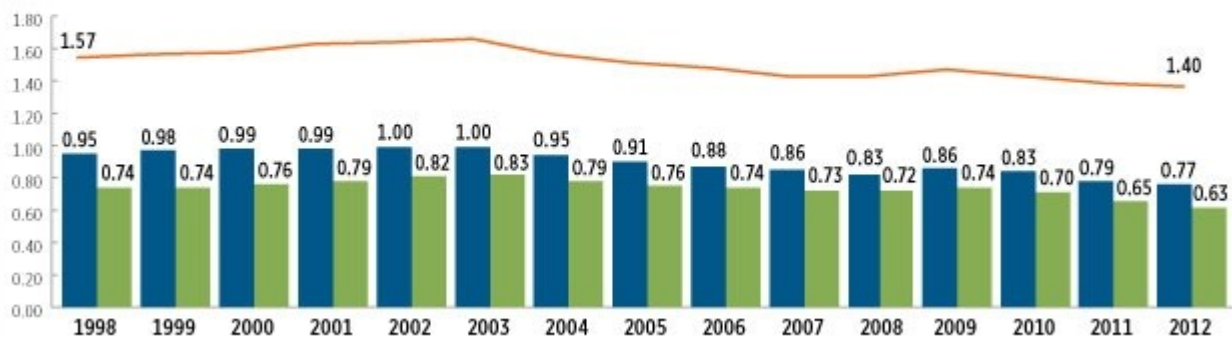
Percent, 1998–2012

Equity funds

■ Industry average expense ratio¹

■ 401(k) average expense ratio²

— Industry simple average expense ratio



¹The industry average ratio is measured as an asset-weighted average.

²The 401(k) average expense ratio is measured as a 401(k) asset-weighted average.

Note: Figures exclude mutual funds available as investment choices in variable annuities and tax-exempt mutual funds.

Source: Investment Company Institute and Lipper

401(k) Plan Participants' Costs for Investing in Mutual Funds Show a Long-Term Decline

For the last decade and a half, the costs 401(k) plan participants have incurred for investing in long-term mutual funds have trended down, according to the study. In 1998, 401(k) plan participants incurred expenses of 0.74 percent of the 401(k) assets they held in equity funds. By 2012, that had fallen to 0.63 percent, a 15 percent decline. The expenses 401(k) plan participants incurred for investing in hybrid and bond funds have fallen even more, by 19 percent and 23 percent, respectively, from 1998 to 2012.

401(k) Plan Participants Again Incurred Lower Mutual Fund Expense Ratios in 2012

In line with the trend in recent years, the average expense ratio 401(k) plan participants incurred for investing in equity funds declined from 0.65 percent in 2011 to 0.63 percent in 2012, the study finds. Similarly, expense ratios that 401(k) plan participants paid for investing in hybrid funds fell from 0.61 percent in 2011 to 0.59 percent in 2012. The average expense ratio 401(k) plan participants incurred for investing in bond mutual funds dropped from 0.52 percent in 2011 to 0.50 percent in 2012.

More Than Half of 401(k) Assets Are Held in Mutual Funds; Lower-Cost Funds Are Popular

More than half of the \$3.6 trillion invested in 401(k) plans at year-end 2012—or \$2.1 trillion—was invested in mutual funds. Of the \$2.1 trillion in 401(k) assets invested in mutual funds, 55 percent was

in equity funds, 26 percent in hybrid funds, 15 percent in bond funds, and 5 percent in money market funds.

“Our research bears out the fact that 401(k) plan participants investing in mutual funds tend to hold lower-cost funds,” said Sean Collins, senior director of industry and financial analysis. “As our study notes, this provides a market incentive for funds to offer their services at competitive prices. In addition, employers, as 401(k) plan sponsors, consider a range of factors when selecting investment options for the 401(k) plan, including performance, services, funds’ investment objectives, and, importantly, cost.”

The report also details the services that 401(k) plans provide to participants, as well as the regulatory and other costs of offering a 401(k) plan. Plan sponsors are fiduciaries to the participants and must ensure, in overseeing the plan, that the costs for plan services are reasonable. Employers and employees generally share the costs of operating 401(k) plans.

For related research on mutual fund fees, see [Trends in the Expenses and Fees of Mutual Funds, 2012](#), which reports industry trends. For more information on 401(k) plans please visit our [401\(k\) Resource Center](#).

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete.

Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.