

Equity and Hybrid Mutual Fund Expense Ratios in 401(k) Plans Continued Downward Trend in 2019

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Washington, DC; July 27, 2020—The cost of investing in equity and hybrid mutual funds through 401(k) plans fell again in 2019, according to “The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2019,” a research report released today by the Investment Company Institute (ICI). The report also shows that participants who invest in mutual funds in their 401(k) plans tend to hold lower-cost funds.

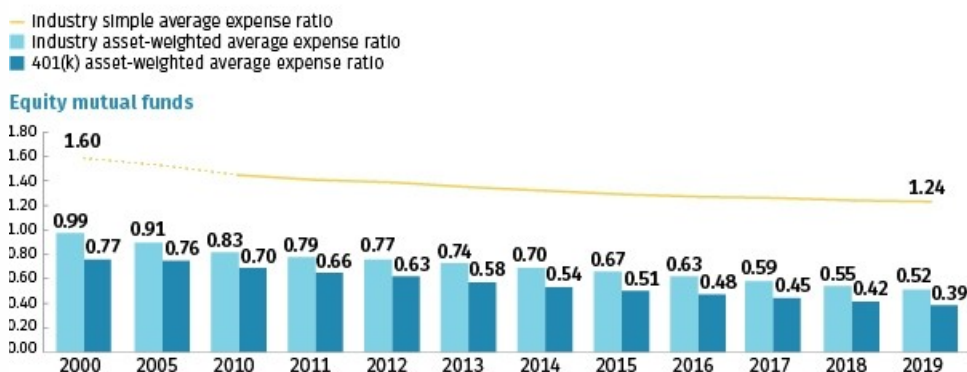
“The long-running decline in mutual fund fees in 401(k) plans demonstrates that plan sponsors and participants are cost-conscious investors in this vibrant, competitive marketplace,” said Sarah Holden, ICI’s senior director of retirement and investor research. “Since mutual funds represent a significant share of assets held in 401(k) plans, this downward trajectory in fees benefits plan participants building their retirement nest eggs.”

Equity and Hybrid Mutual Fund Expense Ratios Have Declined Substantially Since 2000

Mutual funds represented 63 percent of the \$6.4 trillion in 401(k) plan assets at year-end 2019. The average expense ratios that 401(k) plan participants incurred for investing in equity and hybrid mutual funds fell in 2019, while those for bond mutual funds increased slightly. 401(k) plan participants investing in equity mutual funds incurred an average expense ratio of 0.39 percent in 2019, compared with 0.42 percent in 2018 and 0.77 percent in 2000. The average expense ratio that 401(k) plan participants incurred for investing in hybrid mutual funds fell to 0.46 percent in 2019, from 0.49 percent in 2018 and 0.72 percent in 2000. The average expense ratio that 401(k) plan participants incurred for investing in bond mutual funds increased slightly from 0.34 percent in 2018 to 0.35 percent in 2019. However, this is down from 0.60 percent in 2000.

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

Sources: Investment Company Institute, Lipper, and Morningstar

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

ICI uses asset-weighted averages to measure the expense ratios that investors actually incur for investing in mutual funds. The

simple average expense ratio, which measures the average expense ratio of all funds offered for sale, can overstate what investors actually paid because it fails to reflect the fact that investors tend to concentrate their holdings in lower-cost funds.

In 2019, 401(k) plan participants incurred an asset-weighted average expense ratio of 0.39 percent for equity mutual funds, which was less than the industrywide asset-weighted average expense ratio of 0.52 percent. Further, this was about one-third of the industrywide simple average of 1.24 percent for all equity mutual funds offered in the United States in 2019.

For related research on fund fees, see [“Trends in the Expenses and Fees of Funds, 2019,”](#) which reports industry trends. For additional information about 401(k) plan fees, see [The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401\(k\) Plans, 2016](#). For more information on 401(k) plans, please visit our [401\(k\) Resource Center](#).

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