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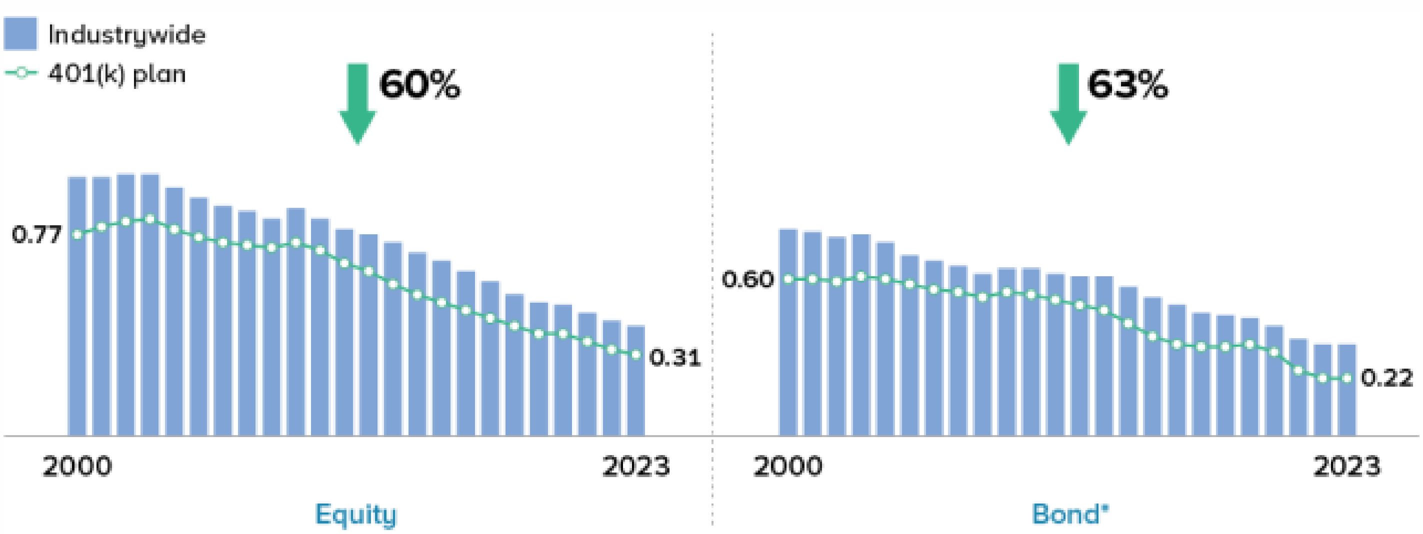
401(k) Investors Benefit as Mutual Fund Fees Cut in Half

Washington, DC, July 16, 2024—The latest research from the Investment Company Institute (ICI), "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2023," shows that 401(k) plan participants have incurred substantially lower fees for holding mutual funds over the past two decades, offering them higher returns and higher balances in retirement. From 2000 to 2023, the average equity mutual fund expense ratio paid by 401(k) investors dropped by more than half. The decrease in mutual fund fees should be contrasted against the fact that Americans are paying more for almost everything else. For example, over the same period, the costs of tuition and tax preparation services rose about 45 percent more than overall price inflation, and car insurance and rent by about 20 percent.

"This is great news for American workers looking to invest for the long-term and drive growth in their 401(k) plan nest eggs," said Sarah Holden, ICI Senior Director, Retirement and Investor Research. "Our study shows that retirement savers continue to see high value investing in mutual funds, which are diversified, professionally managed, and cost-effective. Competition, clear disclosure, the rising role of index funds, and plan participants' investment choices continue to reduce the costs of saving for retirement through 401(k) plans."

401(k) Plan Participants Have Seen Average Mutual Fund Expenses Fall Substantially Since 2000

Asset-weighted expense ratio; percent



* Data exclude tax-exempt mutual funds

Sources: Investment Company Institute, Lipper, and Morningstar

Other key findings of the study include:

- **On average, expense ratios paid by 401(k) investors for long-term mutual funds have declined substantially over the past two decades.** From 2000 to 2023, the average equity mutual fund expense ratio paid by 401(k) investors dropped by 60 percent, and their average bond mutual fund expense ratio by 63 percent. The long-running decline in average mutual fund expense ratios paid by 401(k) investors primarily reflects a shift toward lower-cost funds, which includes movement to no-load fund share classes.
- **401(k) plan participants investing in mutual funds tend to hold lower-cost funds**. At year-end 2023, 401(k) plan assets totaled $7.4 trillion, with 38 percent invested in equity mutual funds. In 2023, 401(k) plan participants who invested in equity mutual funds paid an average expense ratio of 0.31 percent, somewhat less compared with the expense ratio of 0.42 percent for

all assets in equity mutual funds.

- **The expense ratios of target date mutual funds, a popular investment among 401(k) plan participants, have fallen steadily since 2008**. The average expense ratio of target date mutual funds, also experiencing a long-running downward trend, dropped 55 percent from 2008 to 2023. Most recently, the average asset-weighted expense ratio for target date mutual funds declined from 0.32 percent in 2022 to 0.30 percent in 2023.

For more detail on equity, hybrid, bond, and money market mutual fund investing in 401(k) plans, visit the fullreport here. Data for all figures in the report are accessible here.
