

NEWS RELEASE

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Number of Factors Impact Retirement Plan Fees

A Number of Factors Impact Retirement Plan Fees, ICI-Deloitte Study Finds
Plan Size, Contribution Rates, and Auto Enroll Associated with Lower Fees
Washington, DC, April 14, 2009 - A comprehensive study of the economics of 401(k) and defined contribution retirement plans released today by the Investment Company Institute and Deloitte found that lower fees are closely related to a number of factors, including:

- the size of the plan;
- higher contribution rates by employers and employees;
- greater use of automatic enrollment.

A key study finding is that, for the companies surveyed in the study, [Defined Contribution/401\(k\) Fee Study](#), the number of participants and the average account balance are primary drivers of fees, with the larger plans in the study enjoying significant economies of scale because they can spread fixed administrative costs over more assets and participants. It also identifies secondary drivers that can affect fees for these companies, such as the structure of their plan and their plan sponsor, their plan sponsor's relationship with their plan service provider and allocation of assets to equities, consistent with the fact that equity funds tend to be more costly to manage.

"The study also revealed a number of other factors that do not tend to drive fees for the companies studied," explains Daniel Rosshirt, a principal with Deloitte Consulting LLP, who led the research effort. "These factors include the number of payrolls that a plan sponsor has, which might have increased complexity; whether plan services are provided by a mutual fund sponsor, life insurance company, bank, or third party; the plan's tenure with the service provider; or the percentage of assets invested in proprietary investments of the service."

The new study looks at total fees charged across a broad sample of defined contribution plans with a range of plan sizes, service levels, investment offerings, service providers, and fee structures. Using an exclusive survey that gathered more than 1,000 data points from each of the 130 plans studied, Deloitte researchers calculated an "all-in" fee for each plan that captured administrative and investment-related fees as a percentage of plan assets.

"401(k) and other defined contribution plans play an important and growing role in Americans' retirement security. Policymakers, employers, plan service providers, and workers all need a better understanding of what plans cost and what factors are the key drivers of plan fees," said ICI President and CEO Paul Schott Stevens. "The median fee level

found in the survey—72 basis points—aligns with previous ICI findings on fees of mutual funds used in 401(k) plans and demonstrates that competition in this vital market has kept fees low, even as plans offer higher levels of service.”

The median fee for the 130 plans in the study was 0.72 percent of assets, within a range from 0.35 percent (the 10th percentile) to 1.72 percent (the 90th percentile) of assets. (see chart) The median annual plan fee per participant was \$346.

'All-In' Fee Range (% of Assets) - 10th and 90th Percentile

“Commitment by employers and employees is really key. The study found that the plans tend to be lower cost when the participants’ and employers’ contribution rates are higher,” said Sarah A. Holden, ICI’s senior director, retirement and investor research.

While the survey was not intended to provide a statistical representation of the market of defined contribution plans, the demographics of the plans participating in the survey appear to be similar to those of defined contribution plans generally. The 130 plans surveyed in November and December 2008 ranged from less than \$1 million to more than \$500 million in assets, and from fewer than 100 to more than 10,000 participants.

According to the Department of Labor, 62 percent of 401(k) plans have less than \$1 million in assets, but only 4 percent of aggregate 401(k) plan assets and 10 percent of active participants are in such small plans. The bulk of 401(k) assets are in larger plans: half of 401(k) plan assets are in plans with more than \$500 million in assets

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