

## VIDEO

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# ICI Chief Economist Appears on Nightly Business Report to Discuss Falling 401(k) Fees

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In a July 14, 2014, appearance on CNBC's Nightly Business Report, ICI Chief Economist Brian Reid discusses falling 401(k) fees, as well as overall trends in mutual fund investing, including index investing.

## Transcript

Tyler Mathisen: According to the Investment Company Institute, that's the mutual fund's big trade group, by the end of last year nearly 38 percent of 401(k) assets were invested in equity mutual funds. Guess what? The fees on those funds continued to drop, meaning more of your money went to work for you.

Joining us to talk more about this trend and others is Brian Reid, chief economist at ICI. Brian, welcome back. Three quick questions: how much did the fees on average fall? Why? And how does this translate into more money in my pocket as a fund holder?

Brian Reid: Fees have dropped 30 percent in the last decade, and just between 2012 and 2013 they dropped five cents. What do I mean by five cents? Well, stock investors in a 401(k) now are paying 58 cents for every 100 dollars invested, compared to 63 cents in 2012 and, a decade ago, 83 cents. What this means for you is that, as you said, more of your money is being put to work into the market.

Why this is happening is that employers are helping to drive greater competition and the fund industry is responding. They're coming out with new share classes, new types of funds that have lower fees, and also investors and their employers are going toward more index products or passive products, which tend to be lower cost as well. All this is contributing to this decline.

Susie Gharib: And Brian, are you finding that investors are putting more of their money to work, possibly because of these fees? We always hear that the individual investor has so much cash on the sidelines. Is that cash now going into these 401(k)s and being invested?

Brian Reid: There's a lot of money going into 401(k)s, there's no doubt about that. I think the improving employment situation, with unemployment coming down and employment going up, is helping investors have more cash flow in their overall balance sheets and their

income, and some of that's being put into the 401(k) market.

To your point about the overall cash positions, we're finding that, if you look at households overall, the amount of cash that they're holding—while total dollar amount is at a record high—the percentage of overall financial assets of investors is at a near-record low at below 15 percent. This has been hovering in this area for a long time, so investors look pretty fully invested right now, not only in their 401(k)s but outside.

Tyler Mathisen: So far this year, Brian, where is the fund money—and not just in 401(k)s—where is the money going? In some of your research, it indicated to me that relatively less of it is going into actively managed domestic stock mutual funds, which speaks to the popularity, I suppose, of ETFs and index funds. But overall, where is the money going?

Brian Reid: We're seeing several trends. First of all, as you indicated, we're seeing strong inflows into passive, particularly in domestic equity, where the passive has the strongest presence.

We're also seeing very strong investor demand for mutual funds that are investing outside the United States. This has been part of a trend that's really been in place for close to a decade now. U.S. investors have tried to diversify their portfolios, within their 401(k)s and outside, to include more foreign investing. This would even include some emerging market bonds and bond funds.

In addition, we are seeing renewed investor interest into taxable bond funds as well as new flows that are coming into tax-exempt bond funds; even though last year we saw some outflows following the rise in interest rates, money is coming back in now.

Tyler Mathisen: Brian Reid, thank you very much. Brian is chief economist at the Investment Company Institute.

## **Additional Resources**

- [Long-Term Downward Trend of Fees Paid by 401\(k\) Investors in Mutual Funds Continued in 2013](#)
- [“The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2013”](#) (pdf)