

VIDEO

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ICI Chief Economist Discusses the 401(k) Landscape

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In a December 8, 2014, appearance on Fox Business Network's *The Willis Report*, ICI Chief Economist Brian Reid discusses a [comprehensive new study](#) of more than 35,000 defined contribution plans conducted by ICI Research and BrightScope Inc.

The study shows that the great majority of employers are actively participating in their plans, with more than 80 percent making plan contributions and offering a wide range of lower-cost options to their employees.

[Find out more about the study and its results.](#)

[Read the full study.](#)

Transcript

Gerri Willis: [Let's look at how] your 401(k) plan matches up. Over 35,000 retirement plans across the country were analyzed to see just how generous employers are, and what kinds of offerings and costs employees are facing. So, are you getting the most from your 401(k)? We're covering your assets tonight with Brian Reid, chief economist at the Investment Company Institute, which helped conduct the study.

35,000 plans. I mean, that's astonishing to me that you guys were able to get data on that many plans. Tell me, first off, how did you conduct the study, how long ago, and ultimately how many individuals were involved in it?

Brian Reid: We were partnering up with BrightScope, who took data that all these plans are providing to the Department of Labor. They've been building this database for a while. Together we were able to sit down and look at plans back into the mid-2000s, to see how employees are doing, how these plans are doing. This is the largest data set of this kind to ever be analyzed.

Willis: I can believe that. Alright, I want the details because I want to know how my plan matches up. So let's start with the company match. What did you learn about what most people are getting?

Reid: Well, first of all, four out of five employers are giving some kind of contribution to a

worker's plan. And those numbers have actually recovered somewhat from the recession, which is great news. The second thing is that the most common way in which they make a contribution is through a match: I put a dollar in and then the employer contributes, and the most common way is at 6 percent—up to 6 percent, that is—so either they contribute 50 cents on the dollar up to 6 percent, or dollar-for-dollar up to 6 percent in some cases.

Willis: But you said the number one most common form of a company matching is that they match 50 percent of contributions up to 6 percent of the salary, so that's how that works.

Reid: That's right.

Willis: So maybe you're doing better, maybe you're doing worse, but now at least you know what most people are getting.

So I want to talk to you about how many options people have out there, because you want to have lots of options, but what is the average, Brian?

Reid: The average is 25 options in a 401(k) plan, and what's important here is that there are two ways of thinking about this. The employee can put together their own asset allocation, their own investment strategy, or many plans are also offering target-date funds and these target-date funds allow you just to put your money into a single fund and they asset-allocate that for you. It's really important to be able to have that range of options and that variety in that plan, because each individual's risk tolerance is going to be different, and so this range of options is really helpful in accomplishing that.

Willis: Right. People are different ages, they have different obligations financially. Let's take a look at the fees. So this is important, and you and I have talked about this a lot, and you show us that fees are actually going down.

Reid: Yes, we've been finding in a variety of different studies that we've been doing that fees are going down for mutual funds. What we can look at in this study is not only mutual funds but all the costs that go into a 401(k) plan, and we're finding again that the fees have been dropping, not only for large plans but for small plans, and this is because there's competition—employers are looking for lower-cost options, but employees are increasingly going to lower-cost options as well. For instance, index funds and other types of lower-cost mutual funds [have] really helped to drive fees down.

Willis: Well, let's talk about that for a second because that's on your list of what your 401(k) should deliver—low-cost funds. These could be ETFs, these could be mutual funds, but what is the fee range? I mean, what should I be willing to pay for a mutual fund?

Reid: Well, a lot of that really depends on—if it's an international fund, you're going to ultimately pay more because those are more complicated to manage, versus, let's say, a large-cap U.S. equity fund, [which] is going to be lower cost.

Willis: So give me a range. So, 50 basis points, 100 basis points, 25 basis points—what do you like, Brian?

Reid: What we find is that the average is about 50 to 60 basis points for a stock fund, for a U.S. stock fund, and that's across all plans. When you're in a small plan, you're probably not going to have the lower-cost options, because the fees are paying for the overall cost of the plan and the small plans have certain overhead that they have to cover. If you're with a

larger employer—and this study shows that—you're going to have access to more lower-cost funds. But the fees have been trending down for both sizes of plans.

Willis: Okay. I just want to say, do you have this study on your website?

Reid: We do, yes.

Willis: It's [ici.org](https://www.ici.org), isn't it?

Reid: It's www.ici.org, yes.

Willis: And let me suggest something to our viewers tonight. If you listened to this segment, and you think that your 401(k) is not up to snuff—maybe you don't have 25 investment options, maybe there are no low-cost funds, maybe you're not getting a decent employer match—I say, take that ICI study and take it to your employers and ask for a better deal. That's a great way to do it.

Brian, thanks for coming on the show tonight, great to have you here.

Reid: Thanks a lot.

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