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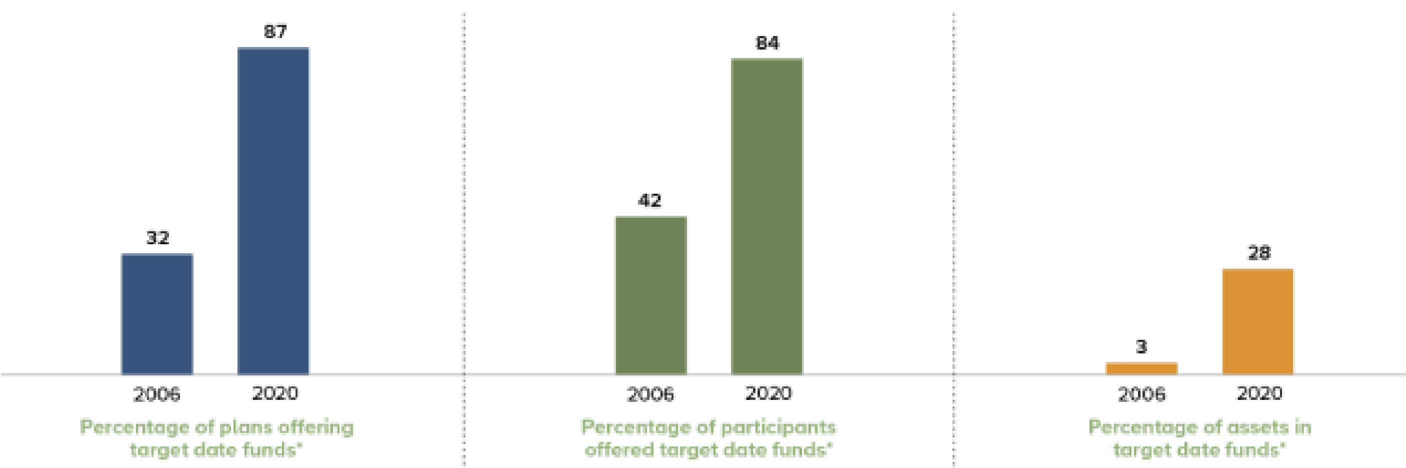
# BrightScope/ICI Data Show 401(k) Plans Offering Wide Array of Diversified and Cost-Effective Investment Options

**Washington, DC; September 28, 2023**—Employers play a significant role in designing diverse investment lineups in 401(k) plans, according to an updated study from BrightScope, an ISS Market Intelligence business, and the Investment Company Institute (ICI). The study, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2020*, found that in 2020, the average large 401(k) plan offered 28 investment options, of which about 13 were equity funds, three were bond funds, and nine were target date funds.

"This study illustrates that employers recognize the importance of customizing investment menus of their 401(k) plans to suit their employees and promote saving and investing for retirement," said Sarah Holden, ICI Senior Director of Retirement and Investor Research. "The wide range of investment options that employers offer allows investors to choose between a straightforward target date fund, or to personalize their asset allocation as they see fit."

Between 2006 and 2020, large 401(k) plans added an average of six investment options to their plan lineups, going from 22 investment options on average in 2006 to 28 in 2020. Target date funds accounted for much of the net increase in investment options offered. In 2006, 32 percent of large 401(k) plans offered target date funds; this had risen to 87 percent of plans in 2020. Similarly, the percentage of participants who were offered target date funds increased from 42 percent of participants to 84 percent between 2006 and 2020, and the percentage of assets invested in target date funds increased from 3 percent to 28 percent.

### Target Date Fund Offering and Use Have Risen in Large 401(k) Plans




* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

Note: BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options or more than 100 investment options are excluded from BrightScope audited 401(k) filings for this analysis. In 2020, the sample is 59,981 plans with 59.1 million participants and $5.9 trillion in assets.

Source: BrightScope Defined Contribution Plan Database

Notably, the report shows that average 401(k) total plan cost has decreased since 2009. In 2020, the average total plan cost was 0.83 percent of assets, down from 1.02 percent in 2009. The average participant was in a lower-cost plan, with a total plan cost of

0.51 percent of assets in 2020 (down from 0.65 percent in 2009), while the average dollar was invested in a plan with a total plan cost of 0.34 percent in 2020 (down from 0.47 percent in 2009). The total plan cost includes administrative, advice, and other fees from Form 5500 filings, as well as asset-based investment management fees.

“The decrease in 401(k) plan cost suggests that 401(k) plan sponsors and participants are paying attention to fees and expenses,” said Brooks Herman, Executive Director for Data & Research at ISS Market Intelligence, a unit of investment advisor Institutional Shareholder Services. “Falling investment management costs have contributed to the decline in total plan cost, including across the variety of mutual funds included in 401(k) plan lineups.”

Other key findings of the study include:

- **Mutual funds held 40 percent of large private-sector 401(k) plan assets in the sample in 2020**. Collective investment trusts (CITs) held 38 percent of assets, guaranteed investment contracts (GICs) held 6 percent, separate accounts held 3 percent, and the remaining 12 percent were invested in individual stocks (including company stock), individual bonds, brokerage, and other investments.
  - Mutual funds accounted for at least half of the assets in all but the very largest plans, where a larger share of assets was held in CITs.
- **Index funds make up a significant component of 401(k) assets, holding 41 percent of 401(k) assets in 2020. Index funds are widely available across all plan sizes**. More than 95 percent of 401(k) plans with more than $10 million in plan assets offered index funds in their plan lineups in 2020, while 86 percent of 401(k) plans with less than $1 million did.
  - Index funds, which tend to be equity index funds, generally have lower expense ratios than actively managed equity funds.
- **Larger 401(k) plans are more likely to report that they automatically enroll workers into the plan** More than half of large 401(k) plans in the sample with more than $100 million in plan assets reported that they automatically enrolled their participants, and six in 10 plans with more than $1 billion in plan assets did.

### About the Study

This report in *The BrightScope/ICI Defined Contribution Plan Profile* series focuses on private-sector 401(k) plans in 2020. This report first analyzes large 401(k) plans in the Department of Labor 2020 Form 5500 Research File. Focus then shifts to nearly 60,000 audited 401(k) plans in ISS Market Intelligence’s BrightScope Defined Contribution Plan Database, which have between four and 100 investment options and typically 100 participants or more. Private-sector 403(b) plans have been excluded from this analysis; for analysis of 403(b) plans covered by the Employee Retirement Income Security Act of 1974 (ERISA), see *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2019* (April 2023).

Complete results of the annual BrightScope/ICI study are posted on www.ici.org/research/retirement/dc-plan-profile. To learn more about ISS Market Intelligence, visit www.issmarketintelligence.com.

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