Plans Could Save 70 Bps a Year Through Trusts and ETFs

By Editor Test *Tue, Jul 6, 2010*

Without giving up the investment objectives offered by actively managed funds, participants in 401(k) plans could pay much lower costs on their assets by shifting to ETFs and commingled trusts, a Center for Retirement Research report said.

A new brief from the Center for Retirement Research at Boston College asserts that if defined contribution plans offered commingled trusts that invested in exchange-traded funds (ETFs) rather than actively managed funds, costs would fall by 70 basis points a year or more and participant balances might be 12% higher after 30 years.

The study, written by Richard W. Kopckem Francis M. Vitagliano, and Zhenya S. Karamcheva, notes that commingled trusts, big pools of assets in which pension funds invest, offer administrative and asset management costs that are 30 to 45 basis points cheaper than mutual fund providers.

Turning their attention to trading costs that are associated with high-turnover, actively-managed funds or with the impact of moving large blocks of shares, the researchers also showed that investing in ETFs can be as much as 50 basis points cheaper than investing in active funds.

“Within defined contribution pension plans, most of the money that is invested in equity mutual funds is held in actively-managed funds. Without giving up the investment objectives offered by these funds, participants in 401(k) plans could pay significantly lower costs on their assets by shifting to ETFs and commingled trusts,” the study said.