Abstract

Abstract: This study analyzes 58,300 United States corporate retirement plans to quantify the prevalence of overpriced and underperforming investment options. Using fund performance data from 2015–2025, Abernathy-Daley's research demonstrates that **among all corporate 401(k) plans**:

- More than 99% of all corporate 401(k) plans contain at least one fund with a cheaper, higher-performing alternative available to plan participants over a period of three, five, and 10 years.
  - More than 94% contain at least three such funds
  - More than 85% contain at least five such funds
- More than 70% contain at least ten such funds over three- and five-year periods
- More than 40% contain at least ten fundsover a period of 10 years.

By modeling the long-term impact of suboptimal fund selection, Abernathy-Daley estimates that employees lose a significant amount in potential retirement savings due to excessive fees and underperformance.[i] These findings underscore systemic inefficiencies in plan governance and highlight the urgent need for regulatory and fiduciary reforms.

Abernathy-Daley strongly advocates for a fail-safe investment menu of low-priced stock and bond index funds, coupled with the personalized education needed to ensure each individual employee who wants to understand the risks they are taking can achieve that goal.

This paper provides actionable insights for plan sponsors, regulators, and litigators. Additional data visualizations or case studies are available upon request.

Introduction

The U.S. defined-contribution system manages over $12.4 trillion in assets, with total retirement assets representing more than 34% of all household assets in 2024.[1] While prior research has documented fee disparities in isolated cases (DOL, 2023), this research paper provides the first large-scale analysis of fund underperformance and overpayment across all corporate 401(k) plans with verifiable investment allocations. Using data from over 58,000 401(k) plans filing

Schedule H of Form 5500, Abernathy-Daley found virtually every retirement plan within the study has overpriced and underperforming funds offered to its employees.

[1] “Retirement Assets Total $44.1 Trillion in Fourth Quarter 2024”, ICI: https://www.ici.org/statistical-report/ret_24_q4

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One faulty fund: When it rains, it pours

The average large 401(k) plan offers 28 investment fund options,[2] so why does having “just one” overpriced and underperforming fund matter? The Anderson v. Southwest Airlines Co. lawsuit is a notable recent example of how one overpriced, underperforming fund provided sufficient evidence of a lack of fiduciary oversight, leading Southwest Airlines to pay millions in fees for neglecting its fiduciary duties.[3]

The lawsuit alleged that the Southwest Airlines retirement plan’s Harbor Capital Appreciation Investment Fund,[4] an actively managed mutual fund, “significantly underperformed” its designated benchmark,[5] over three-, five-, and nine-year periods, while charging participants significantly higher fees than were readily available with superior performing options.

Abernathy-Daley’s data supports the hypothesis that it is almost never “just one” outlier fund. In Southwest's case, other funds in the 401(k) plan were overpriced and underperforming. The lawsuit focused on a fund that can easily be categorized as egregious in its overpricing, notably 64 times more expensive than the comparable Vanguard fund. The underperformance was also significant, as it lagged the comparable Vanguard fund by more than 25% over the investment period.

Research has not uncovered why this is the new normal; however, thousands of examples highlight the reasons for concern. It is important to note that underperforming and overpriced actively managed funds offered in an employee 401(k) plan are detrimental to plan participants, regardless of the reason. Additionally, overpriced and underperforming funds may create or increase a legal liability for the corporate plan sponsor.

Foolproof Menus

The investment fund options within a 401(k) must be foolproof to ensure that plan participants avoid mistakes that could lead to lost investment opportunities. Abernathy-Daley defines “foolproof” as 401(k) plan investment options priced at or below market value and performing better than or equal to their chosen benchmark. Abernathy-Daley’s research shows that the funds available to the plan’s participants should be well diversified and passively managed, featuring the lowest cost, category-specific fee structures, to maximize the likelihood of their desired outcome and prevent lawsuits against the plan sponsor. The average employee likely cannot determine which fund selections are adequately diversified or, more importantly, the inherent risk levels in the available fund options. Therefore, the list of available employee investment selections within a 401(k) plan must be foolproof. Said differently, index funds should be the only options available for most employees. They track the index they represent, minus the modest, rock-bottom fees.

For employees who wish to speculate with their retirement funds and can demonstrate educational competence, an option allowing additional alternatives, including actively managed funds, could be available, provided that the plan sponsor is not liable for losses should the employee overpay for the underperforming funds.

[2] The Bright Scope/ICI Defined Contribution Plan Profile, 2024: https://www.ici.org/system/files/2024-08/24-ppr-dcplan-profile-401k.pdf
[3] Anderson v. Southwest Airlines Co., No. 3:25-cv-00214-S (N.D. Tex. Jan. 28, 2025): https://si-interactive.s3.amazonaws.com/prod/plansponsor-com/wp-content/uploads/2025/01/29165234/SW-ERISA-Plaintiffs-Original-Complaint-Copy.pdf
[4] The fund contained over $2.3 billion in plan assets, about 17% of the plan’s entire value
[5] the Russell 1000 Growth Index2

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Literature Review

1. The Tyranny of Compounding Costs: Fee Drag and Long-Term Wealth Erosion

One of the most well-documented threats to plan participant outcomes is the compounding effect of investment fees. According to the Department of Labor (DOL),[6] a 1% fee increase reduces retirement income by 28% over 35 years. This "fee drag" results from compounding costs that erode annual returns, especially in plans lacking low-cost index fund options.

2. Active vs. Passive Management

Actively managed funds in the investment sector consistently underperform the relevant passively managed indexes. Further, academic research shows it is impossible to determine which outperforming funds will outperform the index funds ex-ante.

Further, active management costs two to sixty times more than passively managed index funds. A significant portion of the actively managed funds that fail to outperform the indexes over three-, five-, and 10-year periods may be underperforming because of their high fees relative to the comparable index's fees.

3. Performance Chasing and Structural Misalignment

Despite mounting data on long-term underperformance, many plans retain actively managed funds with subpar historical returns relative to the passively managed related index. The DOL attributes plans maintaining underperforming active funds to revenue-sharing agreements, which disincentivize fiduciaries from removing these funds.[7] This revenue sharing tactic suggests a direct misalignment between plan sponsor incentives and the plan participants' best interests.

4. Fiduciary Oversight and Benchmarking Gaps

Fiduciary obligations under the Employee Retirement Income Security Act (ERISA) require plan sponsors to regularly monitor and evaluate investment options to ensure plan participants are not overpaying for underperforming investment alternatives. However, a 2023 Government Accountability Office (GAO) report shows that 63% of plan sponsors do not evaluate their funds regularly (or at all) by benchmarking them annually. Abernathy-Daley's previous independent research[8] offers evidence that almost 80% of plan sponsors do not benchmark their 401(k) plans each year. This failure to systematically assess fund performance undermines the prudent standard defined under ERISA and increases the likelihood that participants will be left with overpriced, underperforming investment options.

[6] A Look at 401(k) Plan Fees: https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/401k-plan-fees.pdf?
[7] Understanding Retirement Plan Fees and Expenses: https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/understanding-retirement-plan-fees-and-expenses
[8] Abernathy Daley Finds 78% of U.S. Companies Overpay Retirement Plan Fees: https://www.abernathydaley401k.com/nationaloverpaymentresearch

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Research Methodology and Study Details

The database used to generate the calculations in this analysis is a live database. This means data is added and deleted on every download, so data is constantly changing. Abernathy-Daley's analysis required a complete list of all funds available to plan participants, the fees and charges paid for each investment, and the amounts invested in each investment alternative to determine when employees overpay for underperforming funds.

As of June 2, 2025, there have been 799,661 total submitted Form 5500 plan filings in the United States. Of these filings, 119,844 included the long form Schedule H, which provided access to partial fund data for 401(k) plans, and 58,300 of the 119,844 plans contained the complete data (verified investment positions) demanded for this analysis.

This statistically significant number of corporate 401(k) plans likely reflect the expense ratio and performance scenario across the majority of 401(k) plans in the U.S. Consequently, analysts determined it is a relevant representation of the 401(k) industry and suitable for an analytical review of the expense and performance of 401(k) plans in the U.S.

Among the 58,300 plans that filed Schedule H Form 5500s from 2015-2025 with verified fund lineups, analysts identified alternative funds that met all of the following criteria:

- Same category (e.g., Large-Cap Growth).
- Lower expense ratio (AnnualER)
- Higher returns over three-, five-, and ten-year periods.

Finally, this research defined "cheaper alternative" as funds with AnnualER ≤ 0.50% for passive and ≤0.75% for active strategies and excluded funds without a comparable Morningstar-assigned benchmark.[9]

Results

To calculate the percentage of plans featuring overpriced funds and underperforming investments within their respective categories, Abernathy-Daley analyzed over 58,000 401(k) retirement plans to derive the following figures:

# of underperforming overpriced funds	3 Years		5 Years		10 years	
	# of Plans	Percentage	# of Plans	Percentage	# of Plans	Percentage
≥ 1	58,175	99.80%	58,119	99.69%	57,878	99.28%
≥ 3	57,341	98.40%	57,204	98.12%	55,808	95.73%
≥ 5	55,555	95.30%	55,281	94.82%	50,402	86.45%
≥ 10	42,019	72.10%	41,505	71.19%	25,123	43.09%

[9] Abernathy-Daley's proprietary database uses the Morningstar categorization database to compare one fund against another.

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Discussion

Each of the over 700,000+ corporate 401(k) plans may have a different reason for including overpriced and underperforming fund selections in their retirement plans. Regardless of the reason, the impact on employees' savings is widespread and cannot be understated.

Abernathy-Daley's analysis finds that corporations should immediately:

- Conduct a benchmarking analysis that clearly and succinctly outlines the preferred changes needed to return the plan to more cost-effective and higher-performing alternatives.
- Mandate that the plan advisor “fix the fund lineup” to avoid liabilities and provide a better retirement platform for employees.

The following sections are intended to serve as discussion springboards for the reader, presenting potential structural drivers of underperformance, their impacts on employees, and common recommendations for addressing these issues.

1. Potential Structural Drivers of Underperformance

Revenue Sharing: 42% of plans include funds that pay kickbacks[10] to recordkeepers and advisors (DOL, 2024). This analysis supports eliminating all revenue sharing to any vendor associated with the corporate 401(k) retirement plan which negatively impacts employees' retirement plan performance.

Inertia: Plan sponsors rarely remove legacy funds, even when cheaper ETFs or collective investment trusts (CITs) are available. For example, Southwest Airlines' 401(k) plan offered a fund that underperformed its relevant indexes while egregiously overcharging its employees for over nine years.

Fiduciary Complacency: Only 22% of plans conduct annual fund benchmarking (BrightScope, 2024). Our previous proprietary research[11] indicates annual benchmarking may be a smaller percentage than the BrightScope estimate.

2. Impact on Employees

Compound Losses: Just like compound interest, compound losses due to high fees and underperforming investments lessen each employee's potential investment growth. Over time, this can lead to a lower amount of assets available for the employee’s retirement.

- Example: A $500,000 investment in Fund X (0.45% fee, 7% annual return) vs. Fund Y (0.08% fee, 7% annual return). After 30 years Fund X is valued at ≈ $3,306,813 and Fund Y at ≈ $3,806,129, which places the total loss to fees and underperformance at $499,316 (13.1% of potential wealth).

[10] Kickbacks are defined as “a payment made to someone who has facilitated a transaction or appointment, especially illicitly”. In the financial services industry, in most cases, as long as the recipient of the kickbacks tells those paying the excessive fees that the recipient is receiving a kickback for recommending the questionable fund, it is not illegal. This supports the reasoning that advisors should NOT be allowed to receive kickbacks, commissions, or any incentive to include an overpriced underperforming fund as an investment option for any plan participant.
[11] Abernathy Daley Finds 78% of U.S. Companies Overpay Retirement Plan Fees: https://www.abernathydaley401k.com/nationaloverpaymentresearch

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Equity Effects: Low-income workers lack financial literacy and are disproportionately harmed by overpriced and underperforming investment alternatives.[12]

3. Recommendations
Mandatory Benchmarking: Plans must benchmark their funds every year and replace funds underperforming their category median over three to five years.

Fee Caps: The Retirement Savings Modernization Act (2024) proposes limiting expense ratios for all 401(k) investment options.[13]

- Academic research shows that low-cost, passively managed index funds outperform higher-cost actively managed funds.
- Passively managed index funds are widely available and cost below 0.10%.

Adopt Passive Default Options: Reduce fiduciary liability, as seen in Tibble v. Edison.[14]

Conclusion

The ubiquity of overpriced, underperforming funds in corporate retirement plans constitutes a breach of fiduciary duty and a systemic threat to retirement security. Abernathy-Daley believes it has become a national crisis. Following the high-profile Southwest Airlines ruling and subsequent penalties, Abernathy-Daley believes additional legal challenges will increase the risk to plan sponsors who ignore this trend.

Proactive plan governance, including yearly benchmarking of the corporate retirement plan and regulatory enforcement of fee transparency, is critical to aligning the 401(k) system with participants' best interests.

References

- U.S. Department of Labor. (2024). Annual Report on Employee Benefit Plan Enforcement.
- Bogle, J. (2022). The Arithmetic of Active Management. Vanguard Research.
- BrightScope. (2024). 401(k) Plan Benchmarking Report.
- Tible v. Edison International, 575 U.S. 523 (2015).

Appendix

Full methodology for alternative fund selection and compounding calculations is available upon request.

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[12] U.S. Government Accessibility Office, OLDER WORKERS: Retirement Account Disparities Have Increased by Income and Persisted by Race Over Time: https://www.gao.gov/assets/gao-23-105342.pdf?
[13] U.S. Congress: H.R. 9066: https://www.congress.gov/bill/117th-congress/house-bill/9066
[14] Tibble v. Edison Int'l, 575 U.S. 523 (2015): https://supreme.justia.com/cases/federal/us/575/523/

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Endnotes

[i] Several types of costs may reduce employee retirement savings. Administrative and record-keeping costs, the costs associated with the investment funds, and educational costs for the plan participants all challenge an employee's final retirement amount. However, all of the above-mentioned fees/costs are controllable, and with thoughtful construction, this combination can create a desirable outcome for employees or plan participants as long as the plan sponsor performs its fiduciary obligations.

[ii] The results of this analysis were generated using a live database: This means that as Form 5500s are filed, they are added to the database. This means the number of funds could change daily, and fund performance changes hourly and daily. While the constant flux data may change before each download, the data changes on most days by single digits. It is Abernathy-Daley's view that the daily changes might matter if the denominator represented a small number of 401 (k) plans (for instance, less than 1,000), but since the denominator is in the 50,000 401(k) fund range, single-digit changes matter very little. Therefore, this analysis concludes that the number of plans and the ratios of overpriced investment options and underperforming fund choices are likely to be indicative of the U.S. defined contribution plan retirement market, which we call a corporate 401K plan.

Understanding that the return numbers vary daily based on the market's ups and downs, each daily change in market valuations alters the 3, 5, and ten-year numbers (both for the funds in the 401(k) plan, which are overpriced and underperforming, and for the ideal fund Abernathy-Daley would advocate for, which has much lower fees and an index-like performance). These numbers will vary from day to day, meaning that each time researchers query the database, they may get a slightly different answer (in the 0.001 range).

[iii] For the remaining 61,544 plans that filed the long form, analysts lacked complete information about all investments and allocations. Not all investment choices in their 401K plans were verifiable. This could be due to various reasons, such as investments in trust funds, de-listed funds, or funds of funds with unidentified symbols for which return data could not be derived. Consequently, researchers have assumed there are 58,300 verified 401(k) plans to derive the data set presented.

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