

ICI VIEWPOINTS

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Fund Fees Have Been Falling for Two Decades

By Paul Schott Stevens

The following ICI Viewpoints is a letter to the editor by Paul Schott Stevens, president and CEO of the Investment Company Institute, in response to an editorial published on October 9, 2016, in InvestmentNews, “DOL fiduciary rule may finally spark lower fund fees for mutual funds.” It appeared in the print edition of the publication on October 17, 2016.

Your October 9 editorial claims that the Department of Labor’s fiduciary rule will drive down fees for mutual funds, and declares, “It’s about time.” To which I must ask: Where has *Investment News* been for the past 20 years?

Fund investors’ expenses have fallen substantially for at least two decades. Just since 2000, the asset-weighted average fee (what investors actually pay) for equity mutual funds shrank from 99 basis points to 68 basis points in 2015, with a similar trend in hybrid and bond funds. ICI research shows both that funds are charging less and that investors are migrating to lower-cost funds.

Fund sales charges—the fees that funds collect on behalf of, and pass along to, brokers and investment advisers—have also fallen. The past 25 years have seen a tremendous decline in the front-end sales loads that investors actually pay, as more and more shares are sold with loads waived. Since 2010, investors have in aggregate poured more than \$1 trillion into no-load share classes, while in aggregate redeeming more than \$500 billion from load share classes. These trends reflect a shift in the business models and preferences of brokers and advisers—*Investment News*’s readers—toward investors paying for financial advice directly out of their pockets rather than indirectly through funds.

The DOL rule may indeed hasten the movement away from commissions and sales loads. What’s not clear is whether that movement will benefit investors. Millions of savers are being forced into fee-based advisory accounts, where buy-and-hold investors are likely to pay more in cumulative annual fees than they ever paid in commissions. And savers with the smallest accounts may find that they can’t get advice at all.

Pursuing Efficiency

Fund expenses have fallen for decades because funds and advisers have pursued efficiency and competed robustly to meet the needs of the market—and investors have been the winners. Whether government dictates can create similar benefits remains to be seen.

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Paul Schott Stevens was President and CEO of ICI.