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Average Expense Ratios Paid by Mutual Fund Investors Continued to Decline in 2012

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Newly Compiled Data for Target Date Mutual Funds Show Expenses Fell in 2012

Washington, DC, April 11, 2013 - The downward trend in average expense ratios paid by investors in mutual funds continued during 2012, according to an annual Investment Company Institute report on fund expenses and fees. This trend is reflected in both long-term mutual funds (equity, bond and hybrid funds) and money market funds. A fund's expense ratio is the fund's total annual expenses expressed as a percentage of a fund's net assets.

The report, *Trends in the Expenses and Fees of Mutual Funds, 2012*, highlights target date mutual funds and shows—based on newly compiled data—that the average expense ratio paid by investors in these funds fell from 2011 to 2012.

Target Date Mutual Fund Expense Ratios Declined

Investors in target date mutual funds in 2012 incurred an asset-weighted average expense ratio of 58 basis points, compared to 61 basis points in 2011. The expenses of these funds have fallen 13 percent since 2008, when they were 67 basis points. At least two factors played a role in the decline in these target date mutual funds' average expense ratio. First, total assets in these funds, an increasingly popular investment for retirement plan participants, have tripled since 2008, to $481 billion, resulting in lower fund expense ratios through economies of scale. Second, a greater concentration of assets in lower cost target date mutual funds pushed down the average expense ratio paid by target date fund investors.

Total Expense Ratios of Target Date Mutual Funds
Basis points, 2008–2012

	Asset-weighted average	Simple average	Median
2008	67	123	118
2009	67	120	114
2010	65	114	111
2011	61	111	109
2012	58	107	104

"Last year we saw economies of scale at work in the declining level of expenses that target date fund investors paid, as the assets invested in these funds continued to grow," said Sean Collins, ICI's Senior Director of Industry and Financial Analysis. "This study also shows that investors gravitate toward the least costly target date funds."

Expense Ratios of Equity, Bond, and Hybrid Funds Declined

Equity fund investors in 2012 paid 77 basis points (0.77 percent of assets) in expenses, down 2 basis points from 2011. During the last two decades, on an asset-weighted basis, average expense ratios for equity funds have fallen nearly 30 percent.

In 2012, the asset-weighted average expense ratio for bond funds also declined, by 1 basis point to 61 basis points. The expense ratio incurred by investors in hybrid funds likewise declined 1 basis point in 2012, falling to 79 basis points. From 1993 to 2012, the average expense ratio of bond funds dropped 27 percent, while that of hybrid funds fell from 96 basis points to 79 basis points, an 18 percent decrease.

Money Market Fund Expense Ratios Drop, Reflecting Fee Waivers

The average expense ratio of money market funds was 17 basis points in 2012, a drop of 4 basis points since 2011. Over two decades, expenses incurred by investors in money market funds dropped 67 percent, from 52 basis points in 1993 to the 2012 level. Expense ratios have fallen sharply in the past few years as the great majority of money market funds waived expenses to ensure that net returns to investors remained positive in the current low interest rate environment. When short-term interest rates rise from their current historic lows, advisers may reduce or eliminate waivers, and money market fund expense ratios could rise.

Mutual Fund Sales Loads

Investors in mutual funds incur two primary kinds of expenses and fees: fund expenses and sales loads. Whereas fund expenses are paid indirectly from fund assets throughout the year, sales loads are one-time fees that investors pay either at the time of purchase or when shares are redeemed.

Load fee payments have decreased. In 2012, the average maximum sales load of equity funds offered to investors was 5.3 percent. But the average sales load investors actually paid was only 1.0 percent, owing to load fee discounts on large purchases, as well as fee waivers, such as those on purchases through 401(k) plans. Average load fees paid by equity fund investors have fallen roughly 75 percent since 1990.

ICI Methodology

In this annual study, ICI evaluates fee trends using asset-weighted averages to summarize the expenses that shareholders actually pay through mutual funds. To compute the average, ICI weights each fund’s expense ratio by that fund’s end-of-year assets. Simple averages (counting each fund’s expense ratio equally) would overstate the impact of expenses of funds in which investors hold few dollars.
