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Fees and Expenses of Mutual Funds Stay Steady in 2009

ICI Study: Mutual Fund Expense Ratios Ticked Up in 2009, While Total Fees and Expenses Remained Steady

Average Investor Cost Constant as Drop in Sales Charges Offsets Rise in Expenses

Washington, DC, April 13, 2010 - The average expense ratios of stock funds and bond funds rose slightly in 2009, but the total fees and expenses, including load fees, paid by investors remain largely unchanged on an asset-weighted basis, according to research published today by the Investment Company Institute.

Rising expense ratios of stock funds—attributable in significant part to the effects of the stock market downturn—were offset by a decline in sales charges, or loads, paid by investors. In 2009, the average maximum sales load on stock funds offered to investors was 5.3 percent. However, the average sales load investors actually paid was only 1.0 percent, as a result of fee discounts and fee waivers on many funds, such as those purchased through 401(k) plans.

"Mutual fund fees and expenses have declined by half since 1990," said ICI Senior Director of Industry and Financial Analysis Sean Collins, author of the report. "While expense ratios for long-term mutual funds rose slightly last year, this increase, like the increase in expense ratios during the stock market downturn in the early 2000s, seems likely to be temporary."

The study, *Trends in the Fees and Expenses of Mutual Funds, 2009*, found that stock fund investors on average paid 99 basis points (or 99 cents for every $100 in assets invested) in fees and expenses in 2009, the same as in 2008. Fees and expenses for bond funds were also unchanged at 75 basis points. The average expense ratio of stock funds rose 2 basis points to 86 basis points, after having declined the previous six years. Bond fund expense ratios rose 2 basis points to 65 basis points.

Other key findings of the study include:

- Fees and expenses of money market funds fell an average of 4 basis points in 2009, to 34 basis points. Reasons for the decline include an increase in the market share of institutional money market funds, a move by retail and institutional investors toward lower-cost funds, and likely also an increase in fee waivers by some retail funds as a result of the low interest rate environment.
- Average expense ratios of funds of funds—mutual funds that invest in other mutual funds—declined for the fourth consecutive year, falling 1 basis point to 91 basis points. Since 2005, the average expense ratio for investing in funds of funds has fallen 10 basis points. Lifecycle funds of funds—also known as target date funds—and lifestyle funds of funds account for 61 percent and 68 percent of the total assets of funds of funds, respectively.
- While the rise in the average expense ratio of stock funds stemmed from a drop in the assets of stock funds, the rise in the average expense ratio of bond funds, by contrast, was attributable primarily to actions taken by some tax-exempt bond funds to avoid having to sell securities at unfavorable prices during the financial crisis.

The Institute's unique annual study evaluates fee trends using a comprehensive measure of the major fees and expenses that shareholders pay for investing in mutual funds. It accounts for loads and annual fund expenses, and is based on the same considerations underlying the fee information required by the U.S. Securities and Exchange Commission in every mutual fund prospectus. The study evaluates fees on an asset–weighted basis in order to measure the fees that investors actually pay.

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