

VIDEO

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Focus on Funds: Fund Fees Continue Decades-Long Decline

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US mutual fund investors continue to see expenses and fees fall for a variety of asset classes. In the March 27, 2020, edition of *Focus on Funds*, ICI Economist James Duvall shares highlights from the latest report.

Transcript

Stephanie Ortvals-Tibbs, ICI director of media relations: The cost of investing in mutual funds continues to fall. ICI's latest study is out, and James Duvall, you're the author of [this study](#). What do we see as some of the major trend lines inside this report?

James Duvall, ICI economist: Asset-weighted expense ratios of equity mutual funds fell from 55 basis points in 2018 to 52 basis points in 2019. This 3 basis point drop is consistent with the annual decreases in the expense ratios for about the past decade, and it's consistent with the increasing investor demand for low-cost funds, which have lower expense ratios.

Ortvals-Tibbs: What do you see when you look at hybrid funds?

Duvall: Asset-weighted average expense ratios for hybrid mutual funds fell from 66 basis points in 2018 to 62 basis points in 2019.

Ortvals-Tibbs: Now the story on bond funds is a little bit different.

Duvall: Yeah, so bond mutual fund expense ratios actually stayed the same for a second year in a row, at 48 basis points, and this is primarily because of two offsetting factors. The first is there was increased demand for municipal bond funds and multi-term bond funds. Since the pool of investments that these funds have access to is much larger than other funds, that naturally carries over into research costs, which tends to raise the average expense ratios. Additionally, there's been continued demand for index bond funds and short-term bond funds, which naturally have lower expense ratios.

Ortvals-Tibbs: Are there any differences in fee trends between active and index funds?

Duvall: No, the trends are largely the same. Most importantly, what this shows is that the aggregate decrease in asset-weighted average equity mutual fund expense ratios is owed in both to decreases in active and index equity mutual fund expense ratios.

Ortbals-Tibbs: The last thing I'd like to ask you about is funds of funds.

Duvall: Fund of fund expense ratios have also been decreasing over time. They fell from 55 basis points in 2018 to 51 basis points in 2019. Given that the underlying fund expense ratios have fallen, it's not surprising that the fund of funds' expense ratios have also fallen. But another part of this has been the increased demand for target date mutual funds. Target date mutual funds are five and a half times as large now as they were a decade ago, and equivalently, target date mutual fund expense ratios were 65 basis points in 2010, and they've fallen to 37 basis points in 2019.

Ortbals-Tibbs: That is remarkable, and that can really be chalked up in many ways to economies of scale.

Duvall: Exactly.

Additional Resources

- [ICI Research Perspective: Trends in the Expenses and Fees of Funds, 2019](#)
- [Release: Expense Ratios of Actively Managed and Index Funds Have Declined for More Than Two Decades](#)
- [ICI Research Perspective: Ongoing Charges for UCITS in the European Union](#)
- [US Fund Expenses and Fees: *Investment Company Fact Book*](#)

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