SPEECH

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Commentary: Institute President, Senior Economist Discuss Comparisons of Mutual Fund, Pension Plan Fee Levels

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Washington, DC, January 6, 2004 - In a press briefing today, ICI President Matthew P. Fink and Senior Economist Sean Collins discussed a comprehensive Institute economic study demonstrating that portfolio management fee levels at mutual funds and pension funds are quite similar.

The study, which refutes suppositions about pension fund and mutual fund fees first advanced in an Iowa law journal article and more recently cited by New York Attorney General Eliot Spitzer, uncovers serious deficiencies in the Iowa article's methodology for evaluating the cost of managing investment portfolios.

Portfolio Management Fees Are Similar at Mutual Funds and Pension Funds

"The bottom line of the study is that the fee levels paid by both entities [mutual funds and pension plans] are roughly equivalent. We're issuing the study at this time because in recent weeks, policymakers including New York State Attorney General Eliot Spitzer, have been citing a 2001 law review article which deals with the subject and which we think is very flawed. It compares apples and oranges, because in essence, it compares the portfolio management fee paid by pension funds, which is a narrow fee for a narrow service, with the entire investment advisory fees paid by mutual funds, which cover a wide variety of services."

An Apples-to-Oranges Comparison …

"You have to look at what pension funds are paying for and what mutual funds are paying for. The pension fund basically is hiring an investment manager to select securities and monitor those securities for a portion of the pension fund's portfolio. The pension fund, for example, will hire Advisor A to manage large cap stocks in the portfolio. It's a narrow hiring; a narrow responsibility. Mutual funds pay advisory fees to investment advisers for a whole package of services."

An Apples-to-Apples Comparison …

“If you want to get an apples-to-apples comparison, unlike the apples-to-oranges comparison in the Freeman-Brown law review article, there's an easy way to do it. Many mutual fund advisors hire unrelated third parties to manage fund portfolios to simply provide a selection and monitoring of securities, so that quite resembles what pension funds are doing. And when you look at pension fund portfolio management fees and mutual fund sub-advisory fees, you find they are almost equivalent… To be specific, the average pension fund fee in the large portfolio is 28 basis points a year and the mutual fund it’s 31 basis points a year.”

Comparing Total Costs: Per-Account Costs at Mutual Funds Tend to be Lower

“The other thing that we've done in this study is we've tried to look at other ways that you can compare the cost of pension funds and mutual funds… One way you can do that is you can look at the total expenses that each entity incurs for operating… And when we do that, what we find is that there are some notable differences, as you would expect, given that these two entities operate in different ways, they report their expenses in different ways, they operate under different laws and regulations and what we find is that if you look at expenses on a weighted by or scaled by assets, the expenses of public pension funds tend to be lower. But if you look at a cost per account basis, the expenses of mutual funds tend to be lower.”