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Trends in the Expenses and Fees of Funds, 2020

KEY FINDINGS

- » **On average, expense ratios for long-term mutual funds have declined substantially over the past 24 years.** In 1996, equity mutual fund expense ratios averaged 1.04 percent, falling to 0.50 percent in 2020. Hybrid mutual fund expense ratios averaged 0.95 percent in 1996, falling to 0.59 percent in 2020. Bond mutual fund expense ratios averaged 0.84 percent in 1996, compared with 0.42 percent in 2020.
- » **In 2020, average expense ratios for equity mutual funds fell to 0.50 percent from 0.51 percent in 2019.** Average hybrid mutual fund expense ratios declined 4 basis points to 0.59 percent in 2020, and average bond mutual fund expense ratios fell 4 basis points to 0.42.
- » **In 2020, 88 percent of gross sales of long-term mutual funds went to no-load funds without 12b-1 fees, compared with 46 percent in 2000.** This increase, in large part, reflects two growing trends—investors paying intermediaries for advice and assistance directly out of their pockets rather than indirectly through funds, and the popularity of 401(k) plans and other retirement accounts, which often invest in institutional no-load share classes.
- » **Expense ratios of target date mutual funds averaged 0.37 percent in 2020.** Since 2008, the expense ratios of target date mutual funds have fallen 45 percent. Because these funds are attractive to individuals saving for retirement, investor demand for them has flourished in recent years. Ninety-five percent of target date mutual funds are funds of funds—mutual funds that invest in other funds—the expense ratios of which fell from 0.51 percent in 2019 to 0.48 percent in 2020.

Key findings continued »

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For a complete set of data files for each figure in this report, see www.ici.org/info/per27-03_data.xls.

The following conditions, unless otherwise specified, apply to all data in this report: (1) funds of funds are excluded from the data to avoid double counting; (2) mutual funds available as investment choices in variable annuities are excluded; (3) long-term mutual funds include equity, hybrid, and bond mutual funds; (4) dollars and percentages may not add to the totals presented because of rounding; and (5) this report calculates average expense ratios on an asset-weighted basis (see note 1 on page 31).

Key findings continued »

- » **Average expense ratios for both actively managed and index equity mutual funds have fallen since 1996.** In 2020, the average expense ratio of actively managed equity mutual funds fell to 0.71 percent, down from 1.08 percent in 1996. Index equity mutual fund expense ratios fell from 0.27 percent in 1996 to 0.06 percent in 2020. Investor interest in lower-cost equity mutual funds, both actively managed and indexed, has fueled this trend, as has asset growth and the resulting economies of scale.
- » **Economies of scale and competition are putting downward pressure on expense ratios of exchange-traded funds (ETFs).** In 2020, expense ratios of index equity ETFs were 0.18 percent (down from 0.34 percent in 2009). Expense ratios of index bond ETFs, down from a recent peak of 0.26 percent in 2013, fell to 0.13 percent in 2020.
- » **In 2020, average expense ratios for index equity ETFs remained unchanged from 2019 at 0.18 percent.** Average index bond ETF expense ratios declined 1 basis point to 0.13 percent in 2020.
- » **Inflows to funds continued to be concentrated in relatively low-cost funds.** Actively managed bond and hybrid funds with expense ratios among the lowest 25 percent received inflows. While inflows into index domestic equity funds and index bond and hybrid funds were distributed among all expense quartiles, the majority of inflows went to funds in those categories with expense ratios among the lowest 25 percent.
- » **Average expense ratios for money market funds fell 2 basis points from 0.24 percent in 2019 to 0.22 percent in 2020.** Fund advisers increased their use of expense waivers in 2020 as the Federal Reserve sharply reduced short-term interest rates to near-zero levels. Expense waivers had previously been offered widely during the period of near-zero short-term interest rates that had prevailed in the post-financial crisis era.

Mutual Fund Expense Ratios Have Declined Substantially over the Past 24 Years

Fund expenses cover portfolio management, fund administration and compliance, shareholder services, recordkeeping, certain kinds of distribution charges (known as 12b-1 fees), and other operating costs. A fund's expense ratio, which is shown in the fund's prospectus and shareholder reports, is the fund's total annual expenses expressed as a percentage of its net assets. Unlike sales loads, fund expenses are paid from fund assets.

Many factors affect a mutual fund's expense ratio, including its investment objective, its assets, the range of services it offers, fees that investors may pay directly, and whether the fund is a load or no-load fund.

On an asset-weighted basis, average expense ratios incurred by mutual fund investors have fallen substantially over the past 24 years (Figure 1).^{1, 2} In 1996, equity mutual fund investors incurred expense ratios of 1.04 percent, on average, or \$1.04 for every \$100 in assets. By 2020, that average had fallen to

FIGURE 1

Average Expense Ratios for Long-Term Mutual Funds Have Fallen

Percent

| Year | Equity | Hybrid | Bond | Money market |
|------|--------|--------|------|--------------|
| 1996 | 1.04 | 0.95 | 0.84 | 0.52 |
| 1997 | 0.99 | 0.92 | 0.82 | 0.51 |
| 1998 | 0.96 | 0.89 | 0.80 | 0.50 |
| 1999 | 0.98 | 0.90 | 0.77 | 0.50 |
| 2000 | 0.99 | 0.89 | 0.76 | 0.49 |
| 2001 | 0.99 | 0.89 | 0.75 | 0.46 |
| 2002 | 1.00 | 0.89 | 0.73 | 0.44 |
| 2003 | 1.00 | 0.90 | 0.75 | 0.42 |
| 2004 | 0.95 | 0.85 | 0.72 | 0.42 |
| 2005 | 0.91 | 0.81 | 0.69 | 0.42 |
| 2006 | 0.88 | 0.78 | 0.67 | 0.40 |
| 2007 | 0.86 | 0.77 | 0.64 | 0.38 |
| 2008 | 0.83 | 0.77 | 0.61 | 0.35 |
| 2009 | 0.86 | 0.84 | 0.64 | 0.33 |
| 2010 | 0.83 | 0.82 | 0.63 | 0.24 |
| 2011 | 0.79 | 0.80 | 0.62 | 0.21 |
| 2012 | 0.77 | 0.79 | 0.61 | 0.18 |
| 2013 | 0.74 | 0.80 | 0.61 | 0.17 |
| 2014 | 0.70 | 0.78 | 0.57 | 0.13 |
| 2015 | 0.67 | 0.76 | 0.54 | 0.13 |
| 2016 | 0.63 | 0.73 | 0.51 | 0.20 |
| 2017 | 0.59 | 0.70 | 0.48 | 0.25 |
| 2018 | 0.54 | 0.66 | 0.47 | 0.25 |
| 2019 | 0.51 | 0.63 | 0.46 | 0.24 |
| 2020 | 0.50 | 0.59 | 0.42 | 0.22 |

Note: Expense ratios are measured as asset-weighted averages.

Sources: Investment Company Institute, Lipper, and Morningstar

0.50 percent. Hybrid and bond mutual fund expense ratios have also declined since 1996. The average hybrid mutual fund expense ratio fell from 0.95 percent in 1996 to 0.59 percent in 2020, and the average bond mutual fund expense ratio fell from 0.84 percent to 0.42 percent.^{3,4} The average expense ratio for money market funds dropped from 0.52 percent to 0.22 percent over this period.

The decline in the average expense ratios of equity, hybrid, and bond mutual funds in 2020 primarily reflects a long-running shift by investors toward lower-cost funds or fund share classes. In particular, investors have been moving toward no-load share classes—those that had neither a front-end load fee, nor a back-end load fee, nor a 12b-1 fee of more than 0.25 percent.

In general, asset-weighted average expense ratios of mutual funds may fall for one or more of several reasons:

- » Expense ratios of individual funds may have fallen.
- » Assets may have shifted to lower-cost funds.
- » New lower-cost funds may have entered the market.
- » Higher-cost funds may have left the market.

In recent years, assets moving toward lower-cost funds has been a significant factor driving down the asset-weighted average expense ratios of equity, hybrid, and bond mutual funds. This does not mean, however, that the expense ratios of individual equity, hybrid, and bond mutual funds have been unchanged. In 2020, 33 percent of equity mutual fund share classes saw their expense ratios decrease, while 23 percent saw their expense ratios increase (Figure 2). Similarly, 35 percent of hybrid mutual fund share class expense ratios fell in 2020, compared to 26 percent that increased; and 38 percent of bond mutual fund share class expense ratios fell in 2020, compared to 17 percent that increased.

Equity Mutual Funds

In 2020, the average expense ratio for equity mutual funds was 0.50 percent, down from 0.51 percent in 2019, and significantly below its level of 1.04 percent in 1996. There are many reasons that have contributed to the long-term decline in average expense ratios for equity and other long-term mutual funds. For example, some fund costs—such as transfer agency fees, accounting and audit fees, and director fees—are relatively fixed in dollar terms, regardless of fund size. As a result, when fund assets rise, these relatively fixed costs make up a smaller proportion of a fund’s expense ratio.

FIGURE 2

More Than Half of Mutual Fund Share Classes Saw Their Expense Ratios Change

2020

| Category | Percentage of total share classes for which expense ratios in 2020: | | |
|----------|---|-----------------------|-------------|
| | <i>Fell</i> | <i>Were unchanged</i> | <i>Rose</i> |
| Equity | 33 | 44 | 23 |
| Hybrid | 35 | 38 | 26 |
| Bond | 38 | 45 | 17 |

Note: Tabulations are based on a consistent sample; that is, a share class must have existed in both 2019 and 2020.

Sources: Investment Company Institute and Morningstar

Consequently, asset growth tends to contribute to changes in fund expense ratios. During the 2007–2009 financial crisis, actively managed domestic equity mutual fund assets decreased markedly (Figure 3), leading their expense ratios to rise in 2008 and 2009.⁵ As the stock market recovered, however, actively managed domestic equity mutual fund assets rebounded, and their expense ratios fell. Since 2008, assets in these funds have grown substantially and their expense ratios have fallen significantly.

Additional factors have contributed to the decades-long trend of lower average expense ratios of equity

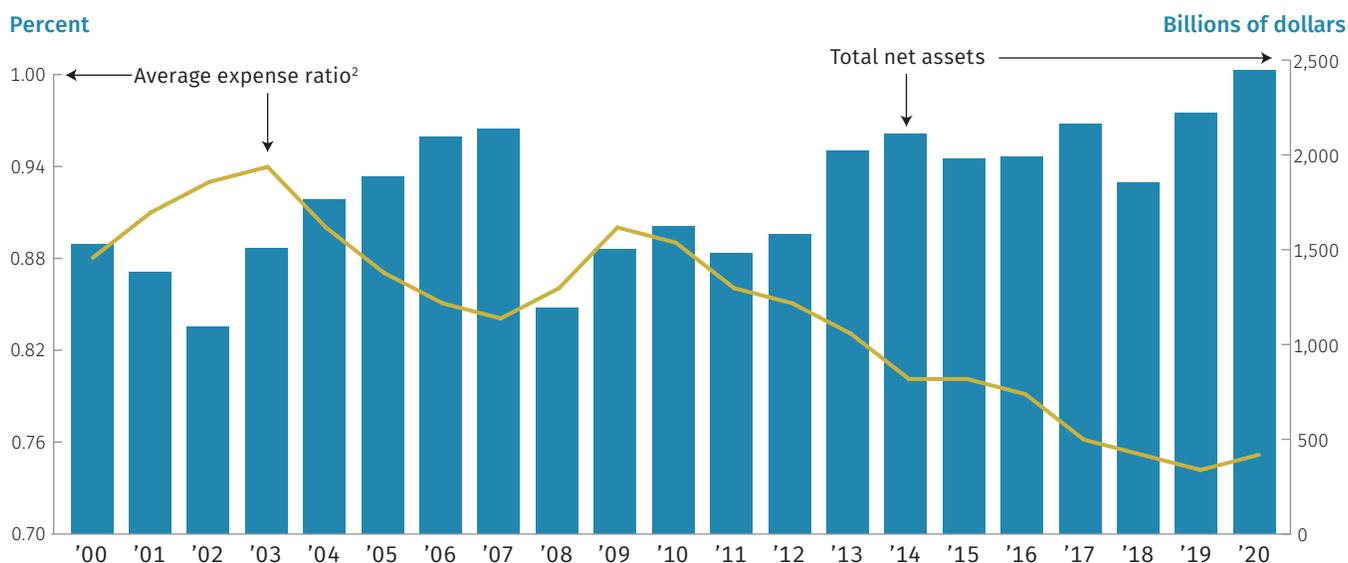
and other long-term mutual funds. First, the average expense ratio of equity mutual funds has declined as a result of growth in index fund investing (see Expense Ratios of Index Mutual Funds and Index ETFs on page 13).

Second, since 2000, fund investors have increasingly compensated financial professionals for assistance through payments outside of funds (see Mutual Fund Load Fees on page 6). An important aspect of this development has been that an increasing share of fund assets are held in no-load share classes, which tend to have below-average expense ratios.

FIGURE 3

Mutual Fund Expense Ratios Tend to Fall as Fund Assets Rise

Share classes of actively managed domestic equity mutual funds continuously in existence since 2000¹



¹ Calculations are based on a fixed sample of share classes. Data exclude index mutual funds.

² Expense ratios are measured as asset-weighted averages.

Sources: Investment Company Institute, Lipper, and Morningstar

Mutual Fund Load Fees

Many mutual fund investors pay for the services of a financial professional.⁶ These professionals typically devote time and attention to prospective investors before the investors make an initial purchase of funds and other securities. Usually, the professional meets with the investor, identifies goals, analyzes the investor's existing portfolio, determines an appropriate asset allocation, and recommends funds to help achieve the investor's goals. Financial professionals may also provide ongoing services, such as periodically reviewing investors' portfolios, adjusting asset allocations, and responding to customer inquiries.

Traditionally, fund shareholders usually compensated financial professionals through a front-end load fee—a onetime, up-front payment for current and future services. Over the past 30 to 40 years, the way in which investors compensate financial professionals—also known as distribution structures—has increasingly shifted toward the use of asset-based fees.⁷

Asset-based fees are assessed as a percentage of the assets that a financial professional manages for an investor, rather than as a percentage of the dollars initially invested. Investors may pay these fees indirectly through a fund's 12b-1 fee, which is included in the fund's expense ratio. The fund's

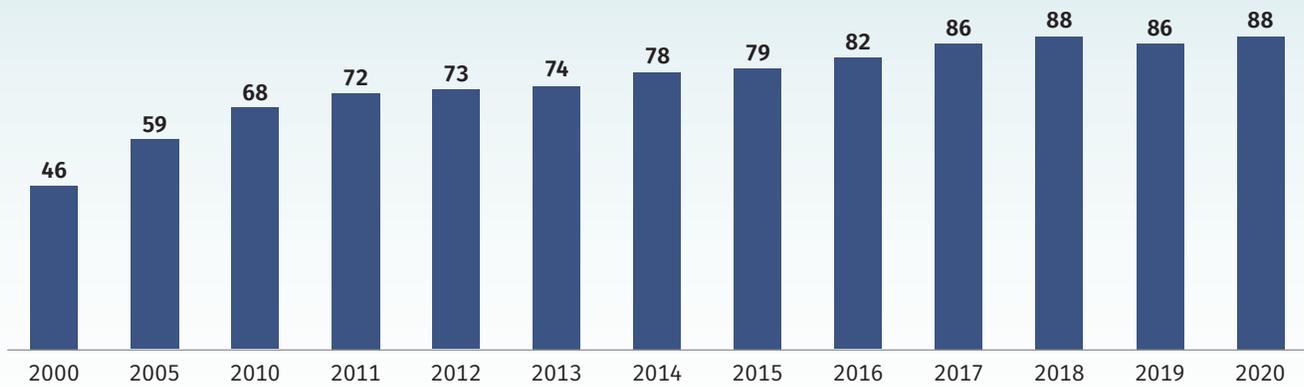
underwriter collects the 12b-1 fee, passing the bulk of it to financial professionals. Alternatively, investors may pay the professional an asset-based fee directly. In such cases, the financial professional typically would recommend the purchase of some mix of ETFs and no-load mutual funds (no-load mutual funds have neither a front-end load fee, nor a back-end load fee, nor a 12b-1 fee of more than 0.25 percent).

Some movement toward no-load funds can be attributed to “do-it-yourself” investors. But two other factors likely explain most of the shift. First, sales of no-load share classes through sales channels that compensate financial professionals with asset-based fees outside mutual funds (for example, through mutual fund supermarkets, discount brokers, fee-based professionals, and full-service brokerage platforms) have increased. Second, assets and flows to institutional no-load share classes have been bolstered by 401(k) plans and other retirement accounts, which often invest in institutional no-load share classes. Evidently, gross sales to no-load mutual funds without 12b-1 fees have grown substantially since 2000 and were 88 percent of total gross sales to long-term mutual funds in 2020 (Figure 4). The shift toward no-load share classes has been important in driving down the average expense ratio of mutual funds.

FIGURE 4

The Majority of Long-Term Mutual Fund Gross Sales Went to No-Load Mutual Funds Without 12b-1 Fees

Percentage of long-term mutual fund gross sales, annual



Sources: Investment Company Institute, Lipper, and Morningstar

For additional data on total net assets, net new cash flow, and gross sales of long-term mutual funds by different types of share classes, see the first three figures in the appendix on pages 26–28.

In addition to varying from year to year, fund expense ratios can also vary by fund type (Figure 5).⁸ For example, bond and money market mutual funds tend to have lower expense ratios than equity and hybrid mutual funds. Among equity mutual funds, expense ratios tend to be higher for funds that specialize in a given sector—such as healthcare or real estate—or those that invest in equities around the world, because the assets such funds hold tend to be more costly to manage. Even within a particular investment objective, mutual fund expense ratios can vary considerably. For

example, 10 percent of equity mutual funds that focus on growth stocks have expense ratios of 0.64 percent or less, while 10 percent have expense ratios of 1.82 percent or more. This variation reflects, among other things, the fact that some growth funds focus more on small- or mid-cap stocks and others focus more on large-cap stocks. Portfolios of small- and mid-cap stocks tend to cost more to manage because information about these types of stocks is less readily available, which means that active portfolio managers must spend more time doing research.

FIGURE 5

Mutual Fund Expense Ratios Vary Across Investment Objectives

Percent, 2020

| Investment objective | 10th percentile | Median | 90th percentile | Asset-weighted average | Simple average |
|----------------------------------|-----------------|-------------|-----------------|------------------------|----------------|
| Equity mutual funds | 0.59 | 1.08 | 1.92 | 0.50 | 1.16 |
| Growth | 0.64 | 1.04 | 1.82 | 0.68 | 1.11 |
| Sector | 0.72 | 1.18 | 2.05 | 0.69 | 1.29 |
| Value | 0.63 | 1.04 | 1.81 | 0.59 | 1.11 |
| Blend | 0.30 | 0.91 | 1.74 | 0.29 | 0.96 |
| World | 0.67 | 1.14 | 1.98 | 0.62 | 1.22 |
| Hybrid mutual funds | 0.50 | 1.09 | 1.99 | 0.59 | 1.20 |
| Bond mutual funds | 0.37 | 0.75 | 1.58 | 0.42 | 0.86 |
| Investment grade | 0.29 | 0.64 | 1.42 | 0.31 | 0.73 |
| World | 0.53 | 0.91 | 1.75 | 0.49 | 1.01 |
| Government | 0.20 | 0.68 | 1.59 | 0.35 | 0.80 |
| High-yield | 0.58 | 0.90 | 1.74 | 0.63 | 0.99 |
| Municipal | 0.41 | 0.68 | 1.54 | 0.46 | 0.82 |
| Money market funds | 0.15 | 0.30 | 0.64 | 0.22 | 0.36 |
| Memo: | | | | | |
| Index equity mutual funds | 0.04 | 0.30 | 1.63 | 0.06 | 0.58 |
| Target date mutual funds* | 0.27 | 0.65 | 1.37 | 0.37 | 0.72 |

* Data include mutual funds that invest primarily in other mutual funds. Ninety-five percent of target date mutual funds invest primarily in other mutual funds.

Note: Each fund's share class is weighted equally for the median, 10th, and 90th percentiles.

Sources: Investment Company Institute and Morningstar

Hybrid Mutual Funds

Total net assets in hybrid mutual funds (which invest in a mix of equities and bonds) have grown 26 percent since year-end 2013, from \$1.3 trillion to over \$1.6 trillion by year-end 2020, and account for 8 percent of long-term mutual fund total net assets. Matching the increase in net assets over the past six years, hybrid mutual funds' expense ratios fell 26 percent from 0.80 percent in 2013 to 0.59 percent in 2020 (Figure 1).

Growth in balanced mutual funds* is largely responsible for the decrease in average expense ratios of hybrid mutual funds since 2013. Net assets in balanced mutual funds increased from \$428 billion at year-end 2013 to \$737 billion by year-end 2020—increasing their share of hybrid mutual fund net assets from 33 percent to 45 percent during the same period. Balanced mutual funds tend to have lower expense ratios than other types of hybrid mutual funds because the vast majority of the total net assets of index hybrid mutual funds are in balanced mutual funds.

Bond Mutual Funds

The asset-weighted average expense ratio for bond mutual funds fell 4 basis points from 0.46 percent in 2019 to 0.42 percent in 2020 (Figure 1), marking a period of more than a decade that the average expense ratio of bond mutual funds has fallen or remained unchanged. Since 2009, the asset-weighted average expense ratio of bond mutual funds fell 34 percent. Over the past decade, attractive returns on bonds and strong demand for bond funds, likely boosted by the aging of the Baby Boom Generation, have fueled growth in bond mutual fund assets.

This trend continued in 2020 even with the COVID-19 pandemic rocking financial markets in February and March. For the year, total returns on bonds were about 7.5 percent⁹ and bond mutual funds received net inflows of \$244 billion. As a result, total net assets of bond mutual funds increased nearly 11 percent to \$5.2 trillion. Through economies of scale, this growth helped contribute to the 4 basis point decline of the average expense ratio of bond mutual funds in 2020.

Continued investor interest in lower-cost funds also played an important role in the decline of the average bond fund expense ratio in 2020. Investment grade bond mutual funds, which invest primarily in high-quality corporate bonds issued by US firms, received \$193 billion in net inflows in 2020. This helped reduce the asset-weighted average expense ratio of bond mutual funds because such funds tend to have lower expense ratios than other types of bond mutual funds. In 2020, investment grade bond mutual funds had an asset-weighted average expense ratio of 0.31 percent, lower than the asset-weighted average expense ratio of 0.42 percent for all bond mutual funds. Additionally, investor interest in index funds continues to grow, and index bond mutual funds, which have below-average expense ratios, accounted for 23 percent of net inflows to bond mutual funds in 2020 (see Expense Ratios of Index Mutual Funds and Index ETFs on page 13).

* Balanced mutual funds invest in a mix of equity securities and bonds with the three-part objective of conserving principal, providing income, and achieving long-term growth of both principal and income. For more information on definitions of ICI's investment objectives, please see www.ici.org/research/stats/iob_update/classification/iob_definitions.

Funds of Funds

Funds of funds are mutual funds that invest in other funds. The market for funds of funds has expanded considerably in recent years.¹⁰ By year-end 2020, there were 1,390 funds of funds with \$2,881 billion in total net assets (Figure 6).

The great majority (84 percent) of funds of funds are hybrid mutual funds. Hybrid funds of funds invest in a mix of equity, bond, and even other hybrid funds. Hybrid

funds of funds are often target date mutual funds (see Target Date Mutual Funds on page 11). They may also be asset allocation funds, which have exposure to equities, bonds, or other securities, often in a mix that may change in response to market conditions to achieve a given investment objective.

In 2020, the asset-weighted average expense ratio of funds of funds was 0.48 percent, down from 0.51 percent in 2019 (Figure 7).^{11, 12} From 2005 to

FIGURE 6

Funds of Funds Have Grown Rapidly in Recent Years

Number of funds of funds

| Year | Total | Equity | Hybrid | Bond |
|------|-------|--------|--------|------|
| 2008 | 838 | 122 | 706 | 10 |
| 2009 | 943 | 130 | 803 | 10 |
| 2010 | 977 | 146 | 818 | 13 |
| 2011 | 1,081 | 156 | 904 | 21 |
| 2012 | 1,146 | 163 | 953 | 30 |
| 2013 | 1,249 | 173 | 1,042 | 34 |
| 2014 | 1,322 | 174 | 1,107 | 41 |
| 2015 | 1,394 | 178 | 1,177 | 39 |
| 2016 | 1,432 | 173 | 1,218 | 41 |
| 2017 | 1,388 | 165 | 1,182 | 41 |
| 2018 | 1,522 | 182 | 1,287 | 53 |
| 2019 | 1,470 | 168 | 1,247 | 55 |
| 2020 | 1,390 | 161 | 1,174 | 55 |

Total net assets of funds of funds, billions of dollars

| Year | Total | Equity | Hybrid | Bond |
|------|-------|--------|--------|------|
| 2008 | \$469 | \$43 | \$425 | \$1 |
| 2009 | 680 | 55 | 623 | 2 |
| 2010 | 915 | 81 | 825 | 9 |
| 2011 | 1,036 | 81 | 939 | 16 |
| 2012 | 1,271 | 93 | 1,150 | 28 |
| 2013 | 1,558 | 129 | 1,391 | 38 |
| 2014 | 1,690 | 128 | 1,515 | 47 |
| 2015 | 1,715 | 137 | 1,524 | 54 |
| 2016 | 1,859 | 150 | 1,652 | 57 |
| 2017 | 2,197 | 180 | 1,950 | 67 |
| 2018 | 2,104 | 195 | 1,830 | 80 |
| 2019 | 2,543 | 252 | 2,194 | 97 |
| 2020 | 2,881 | 363 | 2,402 | 116 |

Source: Investment Company Institute

2020, the average expense ratio of funds of funds fell 52 percent, from 1.01 percent to 0.48 percent.

Target Date Mutual Funds

Much of the growth in funds of funds stems from investor interest in target date mutual funds. Target date mutual funds usually invest through a fund-of-funds structure, meaning that they primarily hold and invest in shares of other mutual funds and exchange-traded funds (ETFs)—95 percent of target date mutual funds are funds of funds, and 43 percent of funds of funds are target date mutual funds. A target date (also known as *lifecycle*) mutual fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund’s name. This change in investment mix over time is typically referred to as the *glide path* for the fund. At year-end 2020, target date mutual funds had \$1.6 trillion in total net assets (Figure 8).

The strong investor demand for target date mutual funds likely reflects a number of factors. Investors value the features of target date mutual funds, including diversification and the glide path; these are especially attractive for individuals saving for retirement in 401(k) plans and individual retirement accounts (IRAs).¹³ Additionally, target date funds are often used as a qualified default option¹⁴ for 401(k) plans.¹⁵ As a result, newly hired employees who do not select any investment choices will often have their 401(k) contributions invested in target date funds. At year-end 2018 (the latest data available), for example, about half of the account balances of 401(k) plan participants in their twenties were invested in target date funds.¹⁶

The average expense ratio of target date mutual funds has declined sharply in recent years. In 2008, investors on average paid 0.67 percent to invest in target date mutual funds (Figure 9).¹⁷ By 2020, the average expense ratio had fallen by 30 basis points to 0.37 percent.

FIGURE 7

Expense Ratios of Funds of Funds Percent

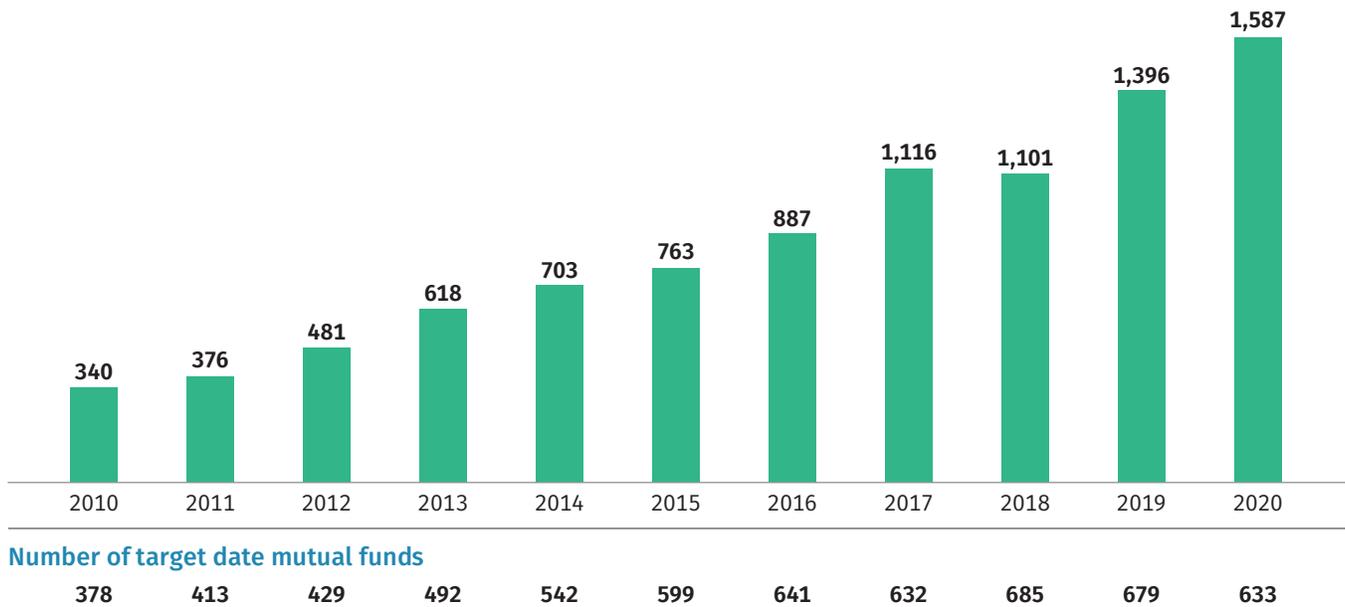
| Year | Asset-weighted average | Simple average | Median |
|------|------------------------|----------------|--------|
| 2005 | 1.01 | 1.56 | 1.52 |
| 2006 | 0.96 | 1.44 | 1.39 |
| 2007 | 0.94 | 1.44 | 1.35 |
| 2008 | 0.92 | 1.40 | 1.34 |
| 2009 | 0.91 | 1.38 | 1.31 |
| 2010 | 0.87 | 1.34 | 1.28 |
| 2011 | 0.83 | 1.30 | 1.23 |
| 2012 | 0.82 | 1.27 | 1.20 |
| 2013 | 0.80 | 1.22 | 1.15 |
| 2014 | 0.76 | 1.20 | 1.11 |
| 2015 | 0.71 | 1.12 | 1.05 |
| 2016 | 0.66 | 1.08 | 1.01 |
| 2017 | 0.59 | 1.01 | 0.93 |
| 2018 | 0.55 | 0.99 | 0.90 |
| 2019 | 0.51 | 0.94 | 0.85 |
| 2020 | 0.48 | 0.92 | 0.81 |

Sources: Investment Company Institute, Lipper, and Morningstar

FIGURE 8

Target Date Mutual Fund Assets Have Significantly Increased Since 2010

Total net assets in billions of dollars, year-end



Note: Data include mutual funds that invest primarily in other mutual funds.

Source: Investment Company Institute

FIGURE 9

Expense Ratios of Target Date Mutual Funds

Percent

| Year | Asset-weighted average | Simple average | Median |
|------|------------------------|----------------|--------|
| 2008 | 0.67 | 1.23 | 1.18 |
| 2009 | 0.67 | 1.20 | 1.14 |
| 2010 | 0.65 | 1.14 | 1.11 |
| 2011 | 0.61 | 1.11 | 1.09 |
| 2012 | 0.59 | 1.07 | 1.04 |
| 2013 | 0.58 | 1.04 | 1.01 |
| 2014 | 0.57 | 1.03 | 0.96 |
| 2015 | 0.53 | 0.91 | 0.87 |
| 2016 | 0.50 | 0.87 | 0.82 |
| 2017 | 0.44 | 0.81 | 0.74 |
| 2018 | 0.42 | 0.78 | 0.71 |
| 2019 | 0.39 | 0.74 | 0.67 |
| 2020 | 0.37 | 0.72 | 0.65 |

Note: Data include mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute, Lipper, and Morningstar

Expense Ratios of Index Mutual Funds and Index ETFs

An index fund generally seeks to replicate the return on a specified financial market index. Under this approach, often referred to as *passive management*, portfolio managers buy and hold all, or a representative sample of, the securities in their target indexes. This approach to portfolio management is a primary reason that index funds—whether mutual funds or ETFs—tend to have below-average expense ratios. By contrast, under an active management approach, managers have more discretion to increase or reduce exposure to sectors or securities within their funds’ investment mandates. Active managers may also undertake significant research about individual stocks or bonds, market sectors, or geographic regions. This approach offers investors the chance to earn superior returns or to meet other investment objectives such as limiting downside risk, managing volatility, under- or over-weighting various sectors, and altering asset allocations in response to market conditions. These characteristics tend to make active management more costly than management of an index fund.

Index Mutual Funds

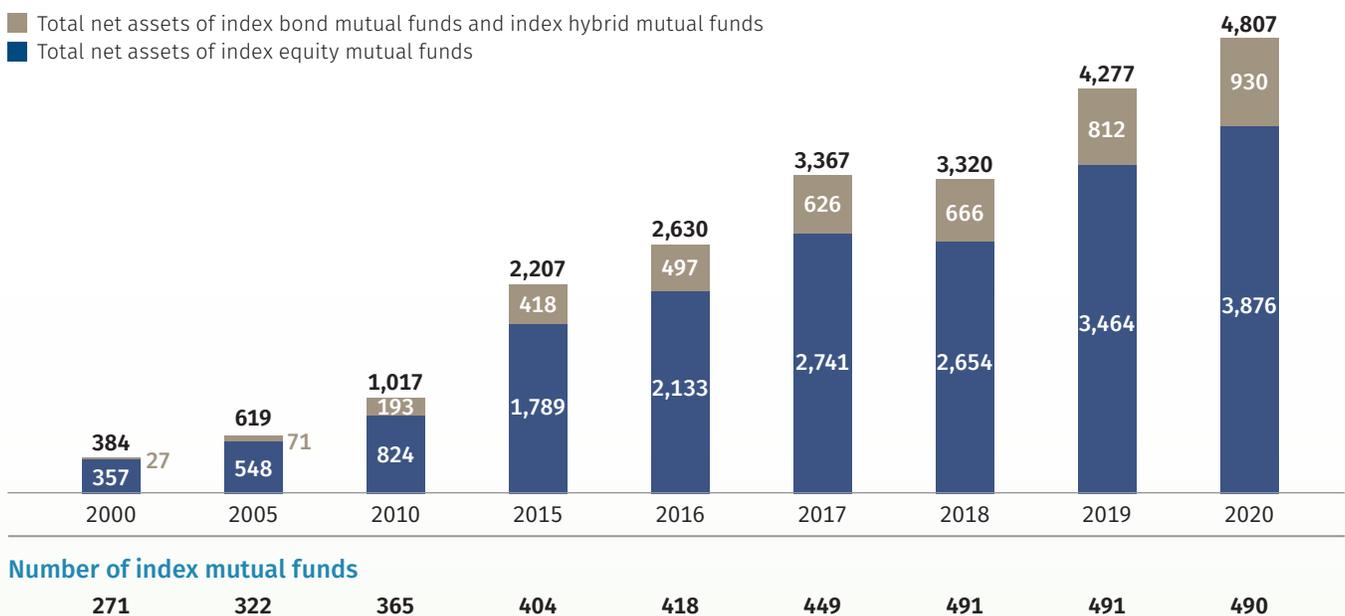
Growth in index mutual funds has contributed to the decline in asset-weighted average expense ratios of long-term mutual funds. From year-end 2000 to year-end 2020, index mutual fund total net assets increased significantly, from \$384 billion to \$4.8 trillion (Figure 10). This rapid growth contributed to a rise in index mutual funds’ share of long-term mutual fund total net assets, which has more than tripled from 7.5 percent at year-end 2000 to 24.6 percent by year-end 2020 (Figure 11). Within index mutual funds, index equity mutual funds accounted for the lion’s share (81 percent) of index mutual fund total net assets at year-end 2020.

Index mutual funds tend to have below-average expense ratios for several reasons. First, their approach to portfolio management—in which managers generally seek to replicate the return on a specified index by buying and holding all, or a representative sample of, the securities in their target indexes—lends itself to being less costly. This is because index funds’ portfolios tend not to change frequently and therefore have low turnover rates.

FIGURE 10

Total Net Assets and Number of Index Mutual Funds Have Increased in Recent Years

Billions of dollars, year-end

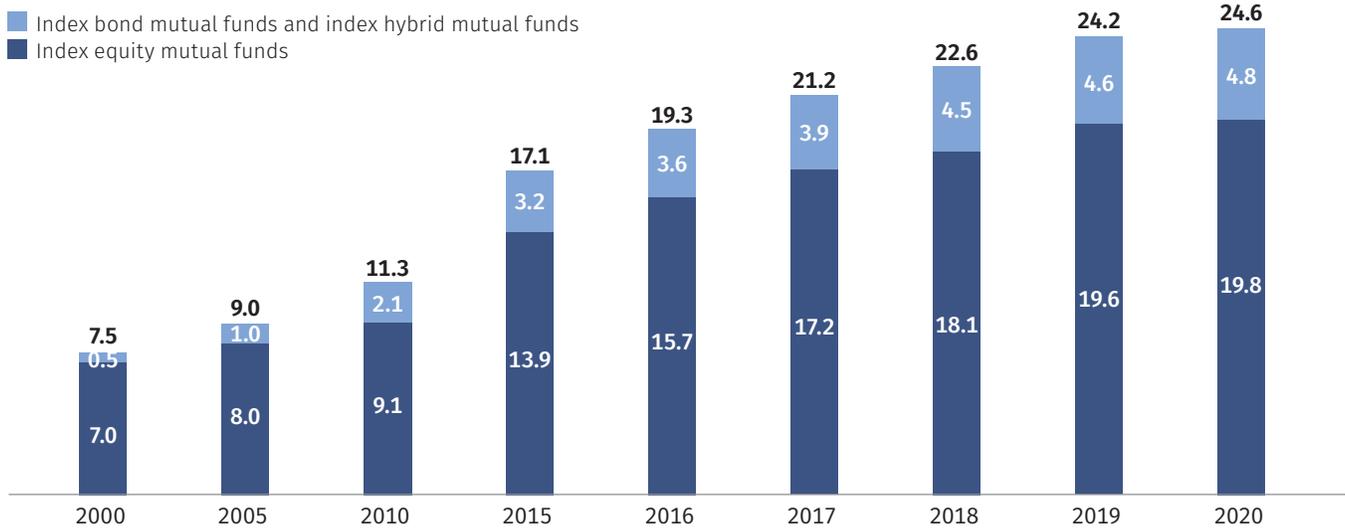


Source: Investment Company Institute

FIGURE 11

Index Mutual Funds Continued Their Steady Growth

Percentage of long-term mutual funds' total net assets, year-end



Source: Investment Company Institute

Second, the investment focus of index mutual funds helps keep their expense ratios low. Assets of index equity mutual funds are concentrated more heavily in large-cap blend funds that target US large-cap indexes, such as the S&P 500. Assets of actively managed equity mutual funds, on the other hand, are more widely distributed across stocks of varying market capitalization, international regions, or specialized business sectors. Managing portfolios of small- or mid-cap, international, or sector stocks is generally acknowledged to be more expensive than managing portfolios of US large-cap stocks.

Third, index mutual funds are larger on average than actively managed funds, which, through economies of scale, helps reduce fund expense ratios. At year-end 2020, the average index equity mutual fund (\$9.5 billion) was more than four times as large as the average actively managed equity mutual fund (\$2.2 billion).

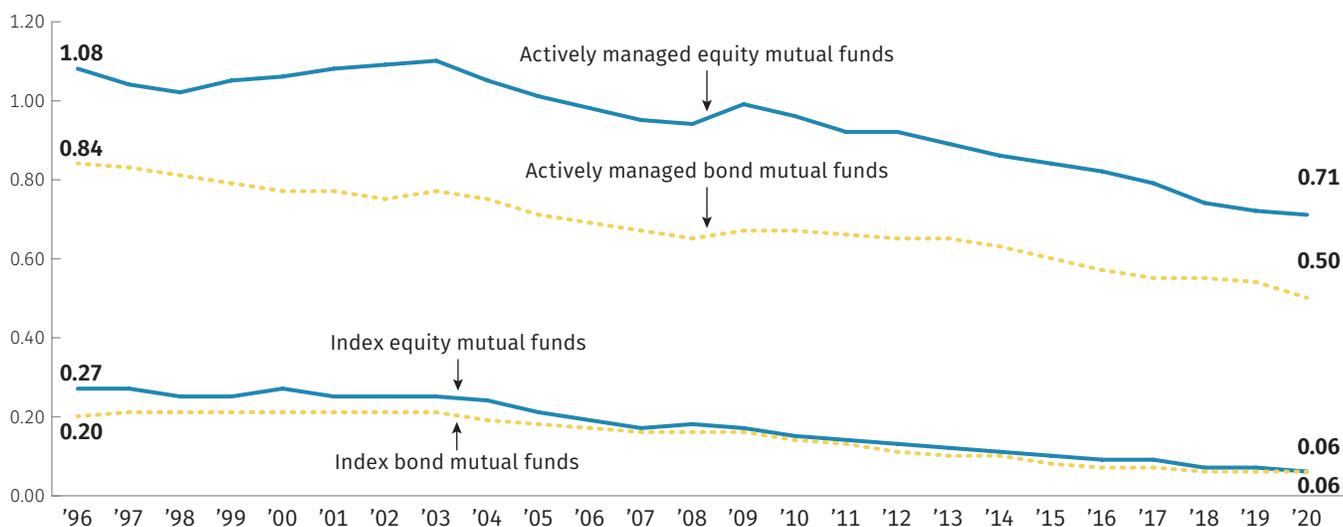
Finally, index mutual fund investors who hire financial professionals might pay for that service out of pocket, rather than through the fund's expense ratio (see Mutual Fund Load Fees on page 6). By contrast, actively managed mutual funds are more likely to have share classes that bundle those costs into the expense ratio. Nevertheless, actively managed mutual funds are also increasingly offering share classes that do not bundle these costs into the expense ratio.

These reasons, among others, help explain why index mutual funds generally have lower expense ratios than actively managed mutual funds. It is important to note, however, that both index and actively managed mutual funds have contributed to the decline in the average expense ratios of mutual funds (Figure 12). From 1996 to 2020, the average expense ratio of index equity

mutual funds fell from 0.27 percent to 0.06 percent, and the average expense ratio for actively managed equity mutual funds fell from 1.08 percent to 0.71 percent. Over the same period, the average expense ratio of index bond mutual funds fell from 0.20 percent to 0.06 percent, and that of actively managed bond mutual funds fell from 0.84 percent to 0.50 percent.

FIGURE 12
Expense Ratios of Actively Managed and Index Mutual Funds Have Fallen

Percent



Note: Expense ratios are measured as asset-weighted averages.
 Sources: Investment Company Institute, Lipper, and Morningstar

The downward trend in the average expense ratios of both index and actively managed mutual funds reflects, in part, investors' increasing tendency to buy lower-cost funds. Investor demand for index mutual funds is disproportionately concentrated in funds with the lowest costs. At year-end 2020, for example, 82 percent of the total net assets of index equity mutual funds were in funds with expense ratios that were among the lowest 25 percent of all index equity mutual funds.¹⁸

Index Exchange-Traded Funds

ETFs have grown in popularity over the past decade as investors are increasingly attracted to the specific features of these funds. General trends in investing and money management have also

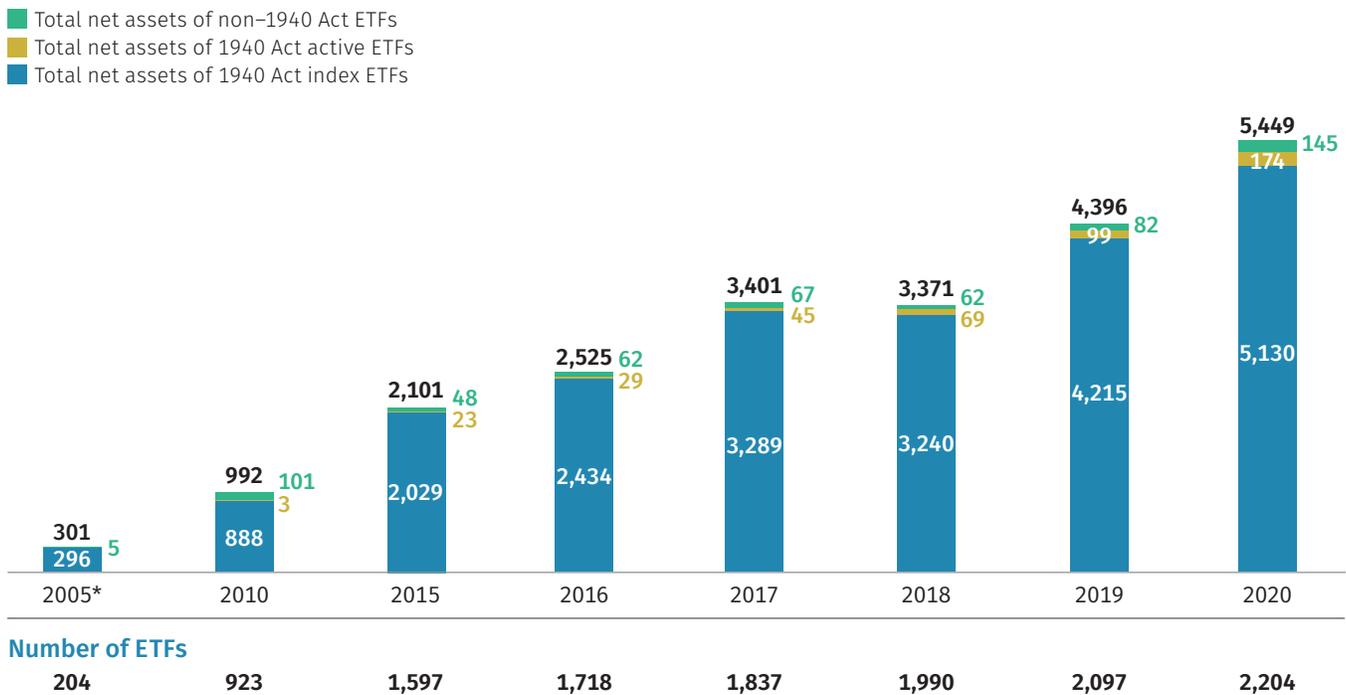
bolstered the demand for ETFs.¹⁹ ETF total net assets have grown rapidly in recent years, from \$301 billion at year-end 2005 to \$5.4 trillion at year-end 2020 (Figure 13).

ETFs are largely index-based and registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. Actively managed ETFs registered under the 1940 Act represented 3.2 percent of ETF total net assets at year-end 2020, and ETFs not registered under the 1940 Act represented 2.7 percent.²⁰ Like index mutual funds, most of the assets in ETFs are in funds that focus on equities. Equity ETFs accounted for 77 percent of the total net assets of ETFs at year-end 2020.

FIGURE 13

Total Net Assets and Number of ETFs Have Increased in Recent Years

Billions of dollars, year-end



* In 2005, there were no actively managed ETFs registered under the Investment Company Act of 1940.

Source: Investment Company Institute

As index funds have grown in popularity, their share of the assets in long-term funds has also grown. At year-end 2005, index ETFs and index mutual funds accounted for 12.8 percent of the total net assets in long-term funds. That share rose to 40.3 percent by year-end 2020 (Figure 14). Over the same time, the share attributable to index ETFs has increased significantly. In 2005, just 4.2 percent of the total net assets of long-term funds were in index ETFs, and by 2020 that share had risen to 21.1 percent.

ETFs fit well within the business model of compensating financial professionals through an asset-based fee. Compensation to financial professionals for distribution or account servicing and maintenance will typically be paid by the investor directly (rather than indirectly

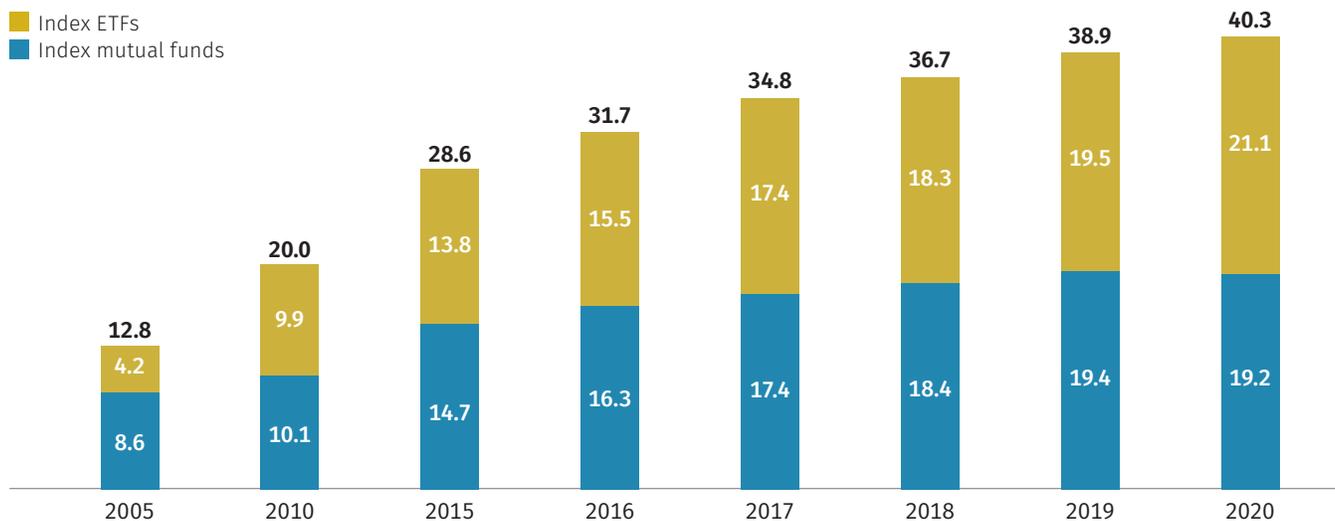
through a 12b-1 fee charged by the fund). Although some ETFs do bundle distribution fees in their expense ratios to cover marketing and distribution expenses, these fees are usually very small, typically less than 0.06 percent. Also, financial professionals often provide programs that offer investors a suite of ETFs suited to their investment goals. In such cases, investors would typically pay financial professionals an asset-based fee in addition to the ETF expense ratios in the suite of ETFs selected.

Because ETFs are generally index funds and typically do not bundle distribution and account servicing or maintenance fees in their expense ratios, their expense ratios are typically low.

FIGURE 14

Market Shares of Index Mutual Funds and Index ETFs Have Grown

Percentage of long-term mutual fund and ETF total net assets, year-end



Source: Investment Company Institute

Index Equity ETFs

In 2020, the asset-weighted average equity ETF expense ratio remained unchanged from 2019 at 0.18 percent, down from a peak of 0.34 percent in 2009 (Figure 15). Several factors have influenced the pattern in average equity ETF expense ratios since 2005.

Expansion into a variety of equity asset classes contributed to the rise in ETF expense ratios from 2005 to 2009. Until the mid-2000s, assets in ETFs were

predominantly in funds that tracked broad-based, large-cap, domestic equity indexes, such as the S&P 500. As the demand for ETFs grew, fund sponsors began offering a much wider variety of equity ETFs, such as those tracking indexes of international stocks or indexes of narrower segments of the domestic stock market or even of particular industries. From 2005 to 2009, net share issuance to sector and world equity ETFs amounted to \$245 billion, outpacing net share issuance of broad-based domestic equity ETFs by about

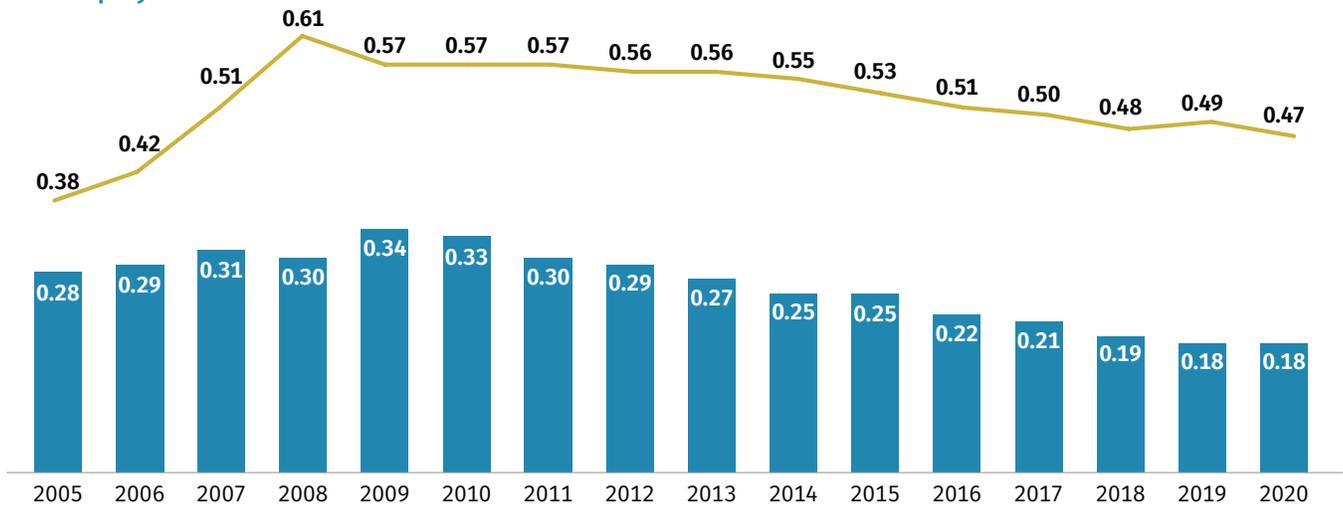
FIGURE 15

Expense Ratios Incurred by Index ETF Investors Have Declined in Recent Years

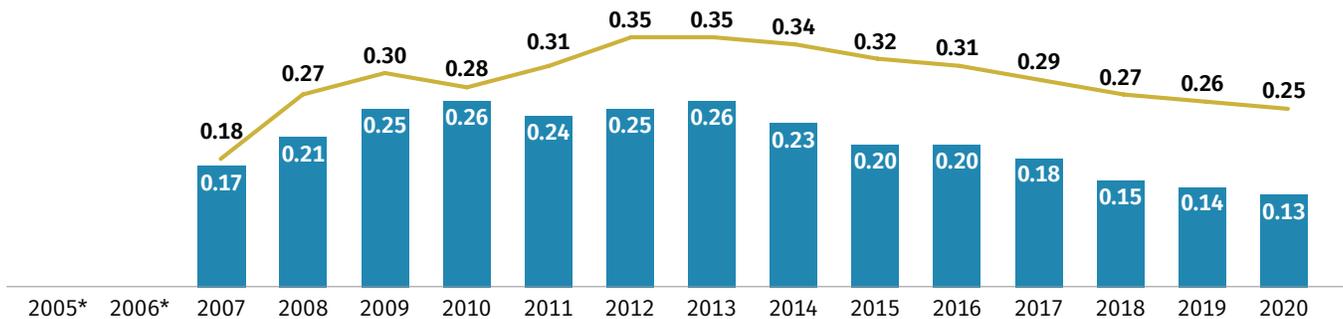
Percent

— Simple average
 ■ Asset-weighted average

Index equity ETFs



Index bond ETFs



* Data for bond ETFs are excluded prior to 2007 because of a limited number of funds.

Note: Data exclude ETFs not registered under the Investment Company Act of 1940.

Sources: Investment Company Institute and Morningstar

39 percent. World and sector equity ETFs tend to have higher expense ratios than ETFs focusing on broad-based domestic equity indexes (Figure 16).²¹

Beginning in 2009, competition and economies of scale within the ETF industry appear to have put downward pressure on equity ETF expense ratios. The number of equity ETFs more than quadrupled from 2004 to 2009 and then nearly tripled over the next 11 years. By the end of 2020, 1,669 equity ETFs competed for investors' business. In addition, new ETF sponsors have entered the marketplace to compete for market share. Even with a steady stream of new types of equity ETF offerings, the rapid growth in equity ETF total net assets has allowed many equity ETFs to increase in size and reduce their expense ratios because of economies of scale.

Although total net assets of equity ETFs increased by 21 percent to \$4.2 trillion at year-end 2020, any resulting downward pressure on the average expense ratios from economies of scale was offset by heightened demand for sector equity ETFs, which received \$52 billion in inflows in 2020. Expense ratios of sector equity ETFs tend to be higher than expense ratios of other types of equity ETFs. In 2020, the asset-weighted average expense ratio for sector equity ETFs was 0.26 percent, which was larger than the asset-weighted average expense ratio for all equity ETFs.

Index Bond ETFs

The asset-weighted average bond ETF expense ratio was 0.13 percent in 2020, down 1 basis point from 2019 and down 50 percent from a recent peak of 0.26 percent in 2013 (Figure 16).

Like the pattern of average expense ratios in equity ETFs, the average expense ratios of bond ETFs rose early on but then began to fall in more recent years. The reasons are much the same. Bond ETFs are a relatively new product. The first bond ETF launched in 2002, nearly a decade after the first 1940 Act equity ETF, which opened in 1993. Three of the first four bond ETFs targeted indexes of US government bond returns (the fourth targeted an index of US investment grade

corporate bonds). From 2002 to 2006, relatively few additional bond ETFs were brought to market. By the end of 2006, two-thirds of the assets of bond ETFs were in funds tied to US government bond indexes. Such ETFs tend to have low expense ratios (Figure 16), in large part reflecting that the markets for US Treasury and agency securities are deep and liquid, making it relatively inexpensive to manage portfolios of those securities.

Bond ETFs began to grow and diversify in 2007. The number of bond ETFs jumped from six to 49, in part because sponsors opened the first high-yield and world bond ETFs. Following the 2007–2009 financial crisis, the share of ETF total net assets in US government bond ETFs declined. Low yields on US government bonds may have prompted increased demand by investors for the higher yields typically offered by corporate, high-yield, and world bonds, leading to growth in bond ETFs holding these types of securities. Portfolios of high-yield bonds and world bonds, though, are typically more costly to manage. Thus, as the range of bond ETFs offered to investors broadened, the asset-weighted average expense ratio of bond ETFs also rose.

In recent years, however, the market for bond ETFs has been maturing. As total net assets have increased significantly, economies of scale have helped reduce fund expense ratios. In addition, competition has intensified in the bond ETF space, with more funds and sponsors contending for investor dollars. In part reflecting these developments, the expense ratios of bond ETFs have been steadily falling since 2013.

Understanding the Differences in Index Mutual Fund and Index ETF Expense Ratios

When compared to index mutual funds, average index ETF expense ratios are somewhat higher. In 2020, index equity mutual funds had an asset-weighted average expense ratio of 0.06 percent (Figure 12) compared with 0.18 percent for index equity ETFs (Figure 15). Similarly, index bond mutual funds had an asset-weighted average expense ratio of 0.06 percent in 2020 compared with 0.13 percent for index bond ETFs. Two factors largely explain these differences.

FIGURE 16

Index ETF Expense Ratios Vary Across Investment Objectives

Percent, 2020

| Investment objective | 10th percentile | Median | 90th percentile | Asset-weighted average | Simple average |
|---------------------------|-----------------|-------------|-----------------|------------------------|----------------|
| Index equity ETFs | 0.10 | 0.45 | 0.93 | 0.18 | 0.47 |
| Growth | 0.07 | 0.30 | 0.60 | 0.15 | 0.32 |
| Sector | 0.13 | 0.46 | 0.95 | 0.26 | 0.53 |
| Value | 0.08 | 0.29 | 0.60 | 0.19 | 0.34 |
| Blend | 0.07 | 0.35 | 0.95 | 0.11 | 0.42 |
| World | 0.12 | 0.51 | 0.80 | 0.27 | 0.50 |
| Index hybrid ETFs | 0.47 | 0.60 | 0.98 | 0.49 | 0.68 |
| Index bond ETFs | 0.06 | 0.18 | 0.50 | 0.13 | 0.25 |
| Corporate | 0.05 | 0.10 | 0.23 | 0.07 | 0.14 |
| World | 0.22 | 0.35 | 0.51 | 0.22 | 0.38 |
| Government | 0.05 | 0.14 | 0.95 | 0.12 | 0.25 |
| High-yield | 0.20 | 0.39 | 0.56 | 0.39 | 0.40 |
| Municipal | 0.17 | 0.18 | 0.30 | 0.14 | 0.21 |
| Memo: | | | | | |
| Active equity ETFs | 0.23 | 0.75 | 0.90 | 0.69 | 0.70 |

Note: Each fund's share class is weighted equally for the median, 10th, and 90th percentiles. Data exclude ETFs not registered under the Investment Company Act of 1940.

Sources: Investment Company Institute and Morningstar

First, total net assets in index mutual funds are more highly concentrated in categories that, by their nature, tend to have lower-than-average expense ratios—for example, expense ratios of domestic equity funds (for both mutual funds and ETFs) tend to be lower than those of funds that target specific markets, regions, or sectors. This is important because 81 percent of the total net assets of index equity mutual funds as of 2020 were in index domestic equity mutual funds (excluding sector equity). In contrast, domestic equity ETFs (excluding sector equity ETFs) represented a smaller share (62 percent) of index equity ETF total net assets in 2020.

Second, average fund size plays a role in reducing fund expense ratios through economies of scale. In 2020, the average fund size for long-term index mutual funds was \$9.8 billion, more than three times the average fund size of index ETFs (\$3.0 billion). Even for domestic equity funds (excluding sector funds), there is a significant difference in average fund size (\$11.0 billion for index mutual funds compared with \$5.5 billion for index ETFs). Compared to the market for index mutual funds, the index ETF market is still relatively young. As the ETF market continues to mature and existing ETFs become larger, the gap between the asset-weighted average expense ratio for index ETFs and index mutual funds seems likely to close.

Fund Flows Are Concentrated in the Lowest-Cost Fund Share Classes

In recent years, fund investors have moved toward lower-cost funds or fund share classes in both actively managed and index funds. One way to see this is to examine how fund flows respond to fund expense ratios. Figure 17 plots the sum of net new cash flow or net share issuance into funds that have been sorted and grouped into quartiles based on their expense ratios. The lowest quartile of expense ratios is further split into three ranges—funds with expense ratios below the 5th percentile, those between the 5th and the 10th percentiles, and those between the 10th and the 25th percentiles. Additionally, the expense ratios representing these quartiles are different for active and index funds, and for each investment category. For example, 25 percent of actively managed domestic equity funds have an expense ratio less than 0.80 percent, compared with 0.19 percent for index domestic equity funds.*

Domestic Equity Funds

Inflows to domestic equity funds were concentrated in the lowest-cost index funds in 2020 (Figure 17, top panel). Actively managed domestic equity funds experienced outflows in 2020 across all quartiles. While index domestic equity funds saw net inflows across all quartiles, funds with expense ratios below the 5th percentile had \$56 billion in net inflows.

Further, index domestic equity funds with expense ratios above the 25th percentile received \$66 billion in net inflows. The primary reason for this is that sector equity funds were especially popular in 2020, and these funds tend to have higher expense ratios than other types of domestic equity funds.

World Equity Funds

Net new cash flow into world equity funds was generally negative in each of the four main quartiles of expense ratios (Figure 17, middle panel). Actively managed world equity funds saw only very minor inflows in funds with expense ratios between the 10th and 25th percentiles (\$4 billion). Index world equity funds experienced net inflows of \$16 billion in funds with expense ratios between the 10th and 25th percentiles.

Bond and Hybrid Funds

Actively managed bond and hybrid funds had strong inflows to funds with expense ratios in the entire lowest quartile (Figure 17, bottom panel). In particular, actively managed bond and hybrid funds had \$108 billion of inflows in funds with expense ratios below the 5th percentile. Index bond and hybrid funds received \$232 billion in net inflows among funds with expense ratios in all quartiles in 2020.

* For detail on the expense ratios that define the ranges between the different percentiles in Figure 17, see the appendix on page 29.

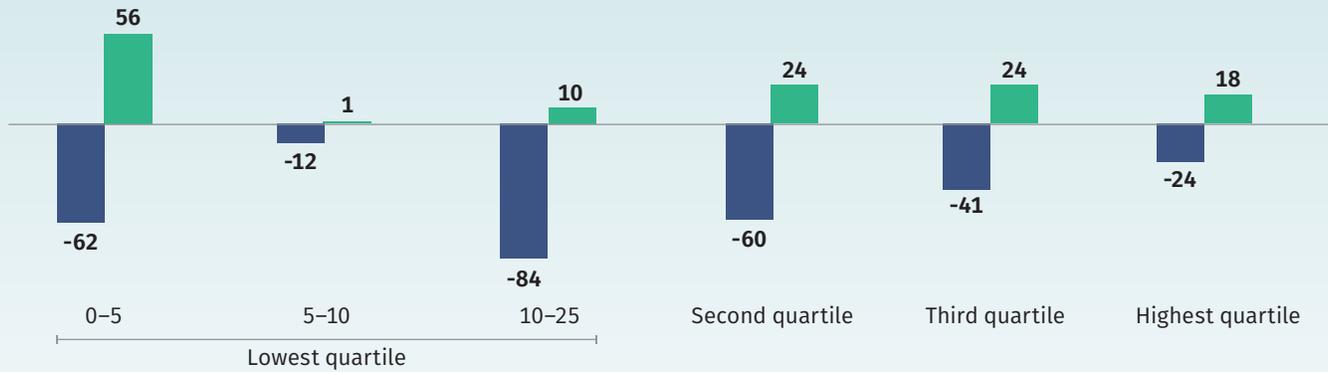
FIGURE 17

Fund Inflows Tend to Be Concentrated in Funds with Lower Expense Ratios

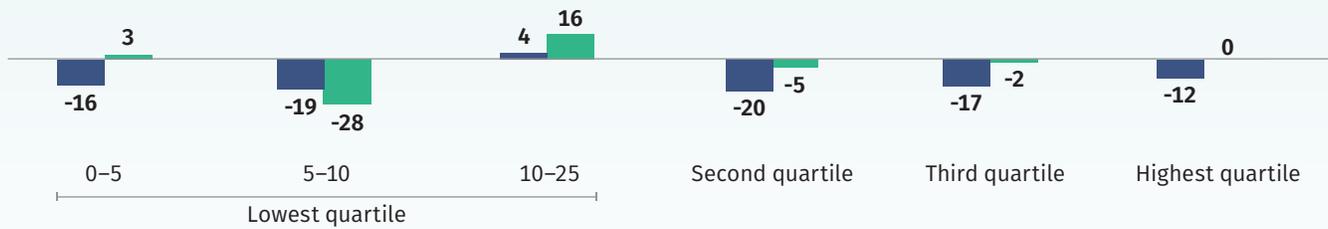
Net new cash flow to and net share issuance of mutual funds and ETFs in billions of dollars, by expense ratio quartiles, 2020

■ Actively managed funds
■ Index funds

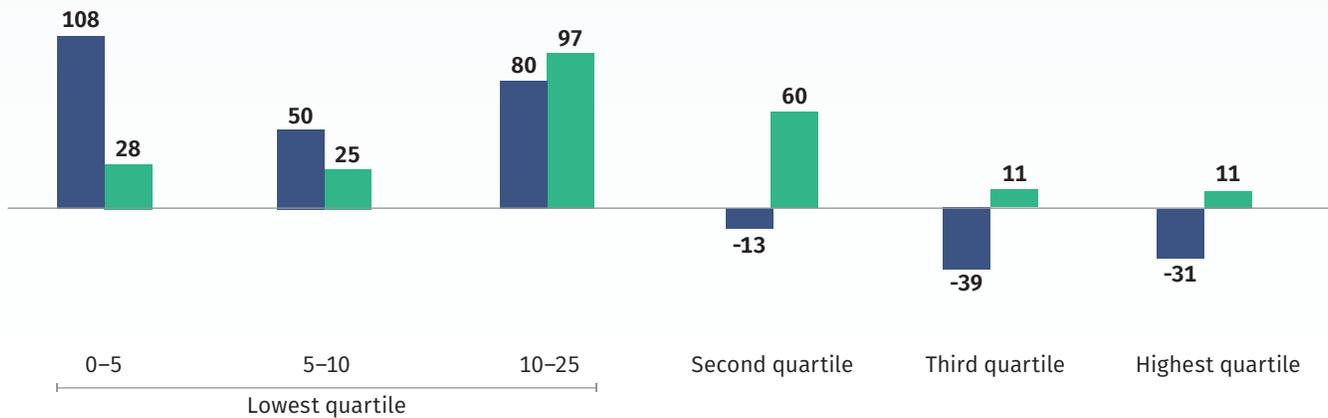
Domestic equity



World equity



Bond and hybrid



Note: Data include mutual funds and ETFs but exclude new funds without reported expense ratios and funds with missing expense ratios.

Sources: Investment Company Institute and Morningstar

Money Market Funds

The average expense ratio of money market funds fell 2 basis points from 0.24 percent in 2019 to 0.22 percent in 2020 (Figure 1). Over the past decade, developments that stemmed from changes in short-term interest rates have been the primary factors affecting average money market fund expense ratios.²²

Over 2008–2009, the Federal Reserve sharply reduced short-term interest rates. By 2009, the federal funds rate was hovering at a little more than zero. Gross yields on taxable money market funds (the yield before deducting the fund’s expense ratio)—which closely track short-term interest rates—fell to all-time lows. This situation remained in stasis from 2010 to late 2015 (Figure 18).

In this environment, most money market funds adopted expense waivers²³ to ensure that net yields (the yield on a fund after deducting fund expenses) did not fall below zero.²⁴ With an expense waiver, a fund’s adviser agrees to absorb the cost of all or a portion of a fund’s fees and expenses for some time. The expense waiver, by reducing the fund’s expense ratio, boosts the fund’s net yield. These expense waivers are costly for fund advisers, reducing their revenues and profits. From 2009 to 2015, advisers waived an estimated \$36 billion in money market fund expenses (Figure 19). It was expected that when short-term interest rates rose and pushed up gross yields on money market funds, advisers would reduce or eliminate expense waivers, causing the expense ratios of money market funds to rise somewhat.²⁵

That, ultimately, is what happened. In December 2015, the Federal Reserve raised the federal funds rate by 0.25 percent, signifying a strengthening economy; it was raised eight more times from 2016 to 2018, each time by 0.25 percent.²⁶ In 2019, however, this trend reversed—as global trade tensions grew more uncertain and expectations around future global growth fell, the Federal Reserve lowered the federal funds rate three times. These actions were reflected in short-term interest rates and gross yields on money market funds.

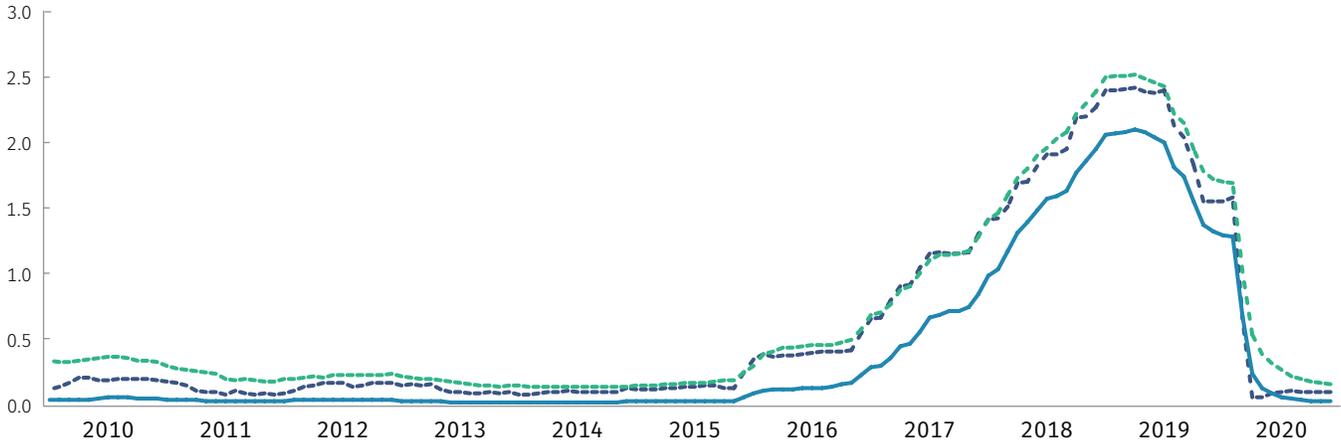
In 2020, the Federal Reserve slashed the federal funds rate back to near-zero territory as the COVID-19 pandemic effectively shut down the global economy. With short-term interest rates at nearly zero by the end of April 2020, it became more likely that the net yields of money market funds could fall below zero. Consequently, advisers reinstated the expense waivers they had provided to their money market funds in the ultralow interest rate environment that persisted from 2009 through 2015. For example, at the end 2019, 68 percent of money market fund share classes had expense waivers, but by the end of 2020, an estimated 94 percent of money market fund share classes had expense waivers. Additionally, the expenses waived increased sharply from an estimated \$1.2 billion in 2019 to an estimated \$3.1 billion in 2020.

FIGURE 18

Taxable Money Market Fund Yields

Percent; monthly, January 2010–December 2020

- Gross yield on taxable money market funds
- Federal funds rate
- Net yield on taxable money market funds

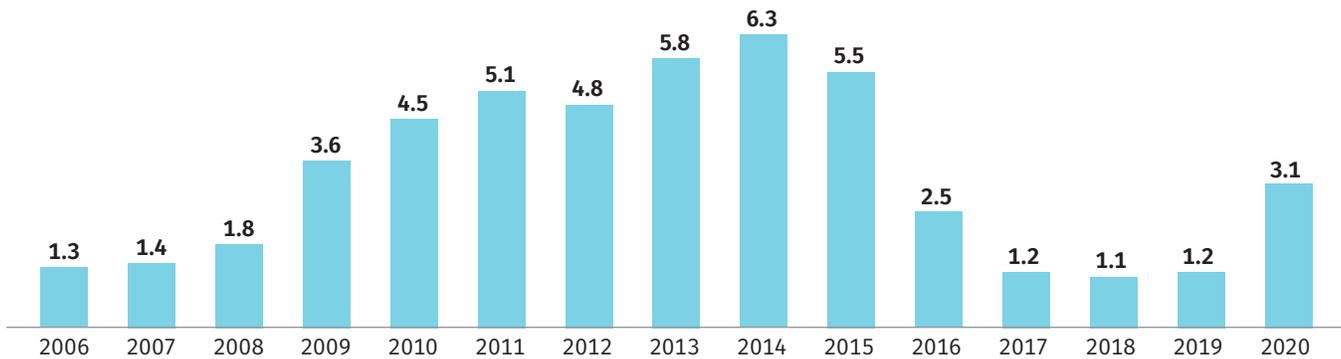


Sources: Crane Data and Federal Reserve Board

FIGURE 19

Money Market Funds' Use of Expense Waivers Increased in 2020

Money market fund expenses waived, billions of dollars



Sources: Investment Company Institute tabulations of iMoneyNet data

Conclusion

Expense ratios of equity, hybrid, and bond mutual funds declined in 2020 as investors continued to shift toward lower-cost funds. Strong asset growth and competitive pressures, fueled by individuals saving for retirement, continued to put downward pressure on target date mutual fund expense ratios. Average expense ratios for equity ETFs remained unchanged, as downward pressure from economies of scale offset

upward pressure from strong demand for sector equity ETFs, which tend to have higher expense ratios. Meanwhile, average expense ratios of fixed-income ETFs decreased in 2020, reflecting a maturing market that is characterized by economies of scale and competition. Expense ratios of money market funds fell 2 basis points in 2020 as funds increased their use of expense waivers to avoid negative yields.

Additional Reading

- » **The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2019**
www.ici.org/pdf/per26-05.pdf
- » **Understanding Exchange-Traded Funds: How ETFs Work**
www.ici.org/pdf/per20-05.pdf
- » **2021 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry (forthcoming)**
www.ici.org/pdf/2021_factbook.pdf
- » **Ongoing Charges for UCITS in the European Union, 2019**
www.ici.org/pdf/per26-07.pdf
- » **ICI Resources on 401(k) Plans**
www.ici.org/401k
- » **ICI Resources on 12b-1 Fees**
www.ici.org/rule12b1fees

Appendix

Additional Information on Mutual Fund Load Fees

As noted in Mutual Fund Load Fees on page 6, the shift toward the use of asset-based fees to compensate financial professionals has been a decades-long trend. Partly because of this trend, the total net assets of load share classes have fallen as a percentage of all

long-term mutual fund net assets, while the net assets of no-load share classes have increased substantially. For example, the net assets of load share classes have fallen from 42 percent of long-term mutual fund net assets at year-end 2000 to just 13 percent at year-end 2020 (Figure A1). And since 2010, load share classes have seen net outflows of \$1.6 trillion (Figure A2), and gross sales of back-end load share classes have dwindled to almost zero (Figure A3).

FIGURE A1

Total Net Assets of Long-Term Mutual Funds Are Concentrated in No-Load Share Classes

Billions of dollars, year-end

| | 2000 | 2005 | 2010 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| All long-term mutual funds | \$5,111 | \$6,862 | \$9,028 | \$12,903 | \$13,625 | \$15,918 | \$14,673 | \$17,659 | \$19,563 |
| Load | 2,141 | 2,346 | 2,406 | 2,510 | 2,432 | 2,449 | 2,109 | 2,373 | 2,520 |
| Front-end ¹ | 1,485 | 1,750 | 1,926 | 2,053 | 2,007 | 2,052 | 1,816 | 2,104 | 2,297 |
| Back-end ² | 487 | 276 | 78 | 17 | 12 | 8 | 4 | 4 | 2 |
| Level ³ | 145 | 288 | 381 | 429 | 408 | 378 | 283 | 258 | 211 |
| Other ⁴ | 21 | 26 | 18 | 7 | 6 | 6 | 6 | 7 | 9 |
| Unclassified ⁵ | 2 | 5 | 2 | 5 | (*) | 4 | 1 | (*) | 1 |
| No-load⁶ | 2,178 | 3,391 | 5,034 | 8,310 | 9,042 | 11,010 | 10,333 | 12,667 | 14,150 |
| Retail | 1,616 | 2,384 | 3,056 | 4,569 | 4,862 | 5,631 | 5,061 | 6,231 | 6,745 |
| Institutional | 563 | 1,007 | 1,979 | 3,742 | 4,181 | 5,379 | 5,272 | 6,436 | 7,405 |
| Variable annuities | 784 | 1,039 | 1,290 | 1,596 | 1,636 | 1,793 | 1,590 | 1,816 | 1,943 |
| "R" share classes⁷ | 8 | 86 | 297 | 487 | 514 | 666 | 640 | 803 | 950 |

¹ Front-end load > 1 percent. Primarily includes Class A shares; includes sales where front-end loads are waived.

² Front-end load = 0 percent and contingent deferred sales load (CDSL) > 2 percent. Primarily includes Class B shares.

³ Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes Class C shares; excludes institutional share classes.

⁴ This category contains all other load share classes not classified as front-end load, back-end load, or level load.

⁵ This category contains load share classes with missing load fee data.

⁶ Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

⁷ "R" shares include assets in any share class that ICI designates as a "retirement share class." These share classes are sold predominantly to employer-sponsored retirement plans. However, other share classes—including retail and institutional share classes—also contain investments made through 401(k) plans or IRAs.

(*) = total net assets of less than \$500 million

Sources: Investment Company Institute, Lipper, and Morningstar

FIGURE A2

All Types of Fund Share Classes Experienced Aggregate Outflows in 2020

Billions of dollars, annual

| | 2000 | 2005 | 2010 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|-------------|---------------|--------------|---------------|
| All long-term mutual funds | \$231 | \$192 | \$244 | -\$120 | -\$193 | \$72 | -\$346 | -\$99 | -\$486 |
| Load | 77 | 27 | -57 | -129 | -238 | -298 | -231 | -130 | -140 |
| Front-end ¹ | 19 | 54 | -53 | -105 | -187 | -225 | -162 | -77 | -87 |
| Back-end ² | 27 | -47 | -28 | -6 | -5 | -3 | -2 | -1 | -1 |
| Level ³ | 30 | 18 | 21 | -22 | -45 | -70 | -66 | -53 | -51 |
| Other ⁴ | 3 | 2 | 2 | (*) | -1 | (*) | (*) | (*) | -1 |
| Unclassified ⁵ | -1 | -1 | (*) | 5 | (*) | 1 | -1 | (*) | (*) |
| No-load⁶ | 103 | 124 | 261 | 78 | 126 | 456 | -1 | 152 | -195 |
| Retail | 79 | 65 | 55 | 5 | -28 | 41 | -93 | -23 | -179 |
| Institutional | 24 | 59 | 206 | 73 | 155 | 415 | 93 | 175 | -16 |
| Variable annuities | 51 | 18 | 7 | -67 | -79 | -112 | -124 | -125 | -134 |
| "R" share classes⁷ | (*) | 24 | 33 | -2 | -2 | 26 | 10 | 4 | -17 |

¹ Front-end load > 1 percent. Primarily includes Class A shares; includes sales where front-end loads are waived.

² Front-end load = 0 percent and contingent deferred sales load (CDSL) > 2 percent. Primarily includes Class B shares.

³ Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes Class C shares; excludes institutional share classes.

⁴ This category contains all other load share classes not classified as front-end load, back-end load, or level load.

⁵ This category contains load share classes with missing load fee data.

⁶ Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

⁷ "R" shares include assets in any share class that ICI designates as a "retirement share class." These share classes are sold predominantly to employer-sponsored retirement plans. However, other share classes—including retail and institutional share classes—also contain investments made through 401(k) plans or IRAs.

(*) = inflow or outflow of less than \$500 million

Sources: Investment Company Institute, Lipper, and Morningstar

FIGURE A3

Gross Sales of Long-Term Mutual Funds Are Concentrated in No-Load Share Classes

Billions of dollars, annual

| | 2000 | 2005 | 2010 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| All long-term mutual funds | \$2,291 | \$1,739 | \$2,701 | \$3,500 | \$3,560 | \$3,926 | \$4,120 | \$3,826 | \$5,008 |
| Load | 978 | 538 | 579 | 503 | 437 | 369 | 349 | 343 | 382 |
| Front-end ¹ | 704 | 408 | 455 | 395 | 361 | 309 | 296 | 297 | 341 |
| Back-end ² | 175 | 36 | 8 | 3 | 2 | 2 | 1 | 1 | (*) |
| Level ³ | 91 | 85 | 111 | 99 | 72 | 56 | 48 | 45 | 39 |
| Other ⁴ | 7 | 8 | 5 | 2 | 1 | 1 | 1 | 1 | 2 |
| Unclassified ⁵ | (*) | 1 | 1 | 5 | (*) | 2 | 3 | (*) | (*) |
| No-load⁶ | 1,043 | 936 | 1,693 | 2,597 | 2,730 | 3,169 | 3,366 | 3,110 | 4,078 |
| Retail | 774 | 598 | 931 | 1,222 | 1,222 | 1,334 | 1,427 | 1,263 | 1,643 |
| Institutional | 269 | 338 | 762 | 1,375 | 1,508 | 1,835 | 1,938 | 1,847 | 2,435 |
| Variable annuities | 268 | 225 | 318 | 248 | 245 | 184 | 210 | 188 | 324 |
| "R" share classes⁷ | 2 | 40 | 112 | 152 | 148 | 203 | 195 | 185 | 223 |

¹ Front-end load > 1 percent. Primarily includes Class A shares; includes sales where front-end loads are waived.

² Front-end load = 0 percent and contingent deferred sales load (CDSL) > 2 percent. Primarily includes Class B shares.

³ Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes Class C shares; excludes institutional share classes.

⁴ This category contains all other load share classes not classified as front-end load, back-end load, or level load.

⁵ This category contains load share classes with missing load fee data.

⁶ Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

⁷ "R" shares include assets in any share class that ICI designates as a "retirement share class." These share classes are sold predominantly to employer-sponsored retirement plans. However, other share classes—including retail and institutional share classes—also contain investments made through 401(k) plans or IRAs.

(*) = gross sales of less than \$500 million

Sources: Investment Company Institute, Lipper, and Morningstar

By contrast, no-load share classes have generally seen net inflows and rising assets since the beginning of 2000. No-load share classes have accumulated the bulk of the net inflows to long-term mutual funds during this time and have experienced net inflows of \$1.9 trillion since 2010. At year-end 2000, no-load share classes accounted for 43 percent of long-term mutual fund total net assets, rising to 72 percent by year-end 2020.

Within no-load funds, the total net assets of both retail and institutional share classes have grown considerably since the beginning of 2010. Since 2010, total net assets in no-load institutional share classes, however, have

grown faster, rising from 20 percent to 38 percent of long-term mutual fund total net assets, compared with a very small increase of 34 percent to 35 percent for no-load retail share classes.

Additional Information on Fund Flows by Expense Ratio Quartiles

This appendix also contains additional detail for Figure 17 on page 22 of this report. Figure A4 shows the data for Figure 17 in tabular form and includes the expense ratios that define the ranges for each percentile or quartile.

FIGURE A4

Low-Cost Funds Tend to Receive Majority of Inflows

Mutual funds and ETFs ranked from lowest to highest expense ratios, net flow in billions of dollars, 2020

Domestic equity

| Type of fund | Percentile of expense ratios | | | | | |
|-------------------------|------------------------------|--------------------|--------------------|--------------------|--------------------|---------|
| | < 5th | ≥ 5th to < 10th | ≥ 10th to < 25th | ≥ 25th to < 50th | ≥ 50th to < 75th | ≥ 75th |
| Actively managed | | | | | | |
| Expense ratio | < 0.47% | ≥ 0.47% to < 0.62% | ≥ 0.62% to < 0.80% | ≥ 0.80% to < 1.05% | ≥ 1.05% to < 1.43% | ≥ 1.43% |
| Net flow | -\$62 | -\$12 | -\$84 | -\$60 | -\$41 | -\$24 |
| Index | | | | | | |
| Expense ratio | < 0.04% | ≥ 0.04% to < 0.07% | ≥ 0.07% to < 0.19% | ≥ 0.19% to < 0.41% | ≥ 0.41% to < 0.71% | ≥ 0.71% |
| Net flow | \$56 | \$1 | \$10 | \$24 | \$24 | \$18 |

World equity

| Type of fund | Percentile of expense ratios | | | | | |
|-------------------------|------------------------------|--------------------|--------------------|--------------------|--------------------|---------|
| | < 5th | ≥ 5th to < 10th | ≥ 10th to < 25th | ≥ 25th to < 50th | ≥ 50th to < 75th | ≥ 75th |
| Actively managed | | | | | | |
| Expense ratio | < 0.55% | ≥ 0.55% to < 0.72% | ≥ 0.72% to < 0.91% | ≥ 0.91% to < 1.15% | ≥ 1.15% to < 1.50% | ≥ 1.50% |
| Net flow | -\$16 | -\$19 | \$4 | -\$20 | -\$17 | -\$12 |
| Index | | | | | | |
| Expense ratio | < 0.06% | ≥ 0.06% to < 0.09% | ≥ 0.09% to < 0.28% | ≥ 0.28% to < 0.49% | ≥ 0.49% to < 0.65% | ≥ 0.65% |
| Net flow | \$3 | -\$28 | \$16 | -\$5 | -\$2 | \$0 |

Bond and hybrid

| Type of fund | Percentile of expense ratios | | | | | |
|-------------------------|------------------------------|--------------------|--------------------|--------------------|--------------------|---------|
| | < 5th | ≥ 5th to < 10th | ≥ 10th to < 25th | ≥ 25th to < 50th | ≥ 50th to < 75th | ≥ 75th |
| Actively managed | | | | | | |
| Expense ratio | < 0.29% | ≥ 0.29% to < 0.40% | ≥ 0.40% to < 0.57% | ≥ 0.57% to < 0.81% | ≥ 0.81% to < 1.24% | ≥ 1.24% |
| Net flow | \$108 | \$50 | \$80 | -\$13 | -\$39 | -\$31 |
| Index | | | | | | |
| Expense ratio | < 0.04% | ≥ 0.04% to < 0.05% | ≥ 0.05% to < 0.07% | ≥ 0.07% to < 0.18% | ≥ 0.18% to < 0.39% | ≥ 0.39% |
| Net flow | \$28 | \$25 | \$97 | \$60 | \$11 | \$11 |

Note: Data include mutual funds and ETFs but exclude new funds without reported expense ratios and funds with missing expense ratios.
Sources: Investment Company Institute and Morningstar

Notes

- ¹ ICI uses asset-weighted averages to summarize the expenses and fees that shareholders pay through funds. In this context, asset-weighted averages are preferable to simple averages, which would overstate the expenses and fees of funds in which investors hold few dollars. ICI weights the expense ratio of each fund share class by its year-end total net assets.
- ² The fund investment categories used in this report are broad and encompass diverse investment styles (e.g., active and index), a range of general investment types (e.g., equity, bond, and hybrid funds), and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). This material is intended to provide general information on fees incurred by investors through funds as well as insight into average fees across the marketplace. It is not intended for benchmarking fees and expenses incurred by a particular investor or charged by a particular fund or other investment product.
- ³ Mutual funds that invest primarily in other mutual funds are not included in this section but are analyzed separately in a later section (see page 10).
- ⁴ To assess the expenses and fees incurred by individual shareholders in long-term mutual funds, this report includes both retail and institutional share classes of long-term mutual funds. Including institutional share classes is appropriate because the vast majority of the assets in the institutional share classes of long-term mutual funds represent investments made on behalf of retail investors, such as through defined contribution plans, IRAs, broker-dealers investing on behalf of retail clients, 529 plans, and other accounts (such as omnibus accounts).
- ⁵ Data are based on a fixed sample of actively managed domestic equity mutual fund share classes continuously in existence since 2000.
- ⁶ Among households owning mutual fund shares outside employer-sponsored retirement plans, 75 percent own fund shares through investment professionals. See Holden, Schrass, and Bogdan 2020.
- ⁷ See, for example, Damato and Pessin 2010.
- ⁸ Use of Morningstar data requires the following disclaimer: © 2021 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.
- ⁹ As measured by the year-over-year change in the FTSE US Broad Investment Grade Bond Index.
- ¹⁰ Some funds of funds also invest in ETFs.
- ¹¹ See note 8.
- ¹² A 2006 SEC rule requires a fund of funds to include both direct and indirect expenses in the expense ratio reported in its prospectus fee table. The expense ratios shown in Figure 7 account for both the expenses that a fund pays directly out of its assets (direct expenses) and the expenses of the underlying funds in which it invests (acquired fund fees or indirect expenses).
- ¹³ As of year-end 2020, 85 percent of target date mutual fund assets were held in IRAs and defined contribution retirement plans. See Investment Company Institute 2021a.
- ¹⁴ When 401(k) plan participants are enrolled automatically or otherwise do not specify how their contributions should be allocated among plan investment choices, the plan sponsor may invest the contributions in a qualified default investment alternative (QDIA). The Pension Protection Act of 2006 required that QDIAs include a mix of asset classes consistent with capital preservation, long-term capital appreciation, or both. The Department of Labor (DOL) QDIA regulation (29 CFR 2550.404c-5) allows three types of investments to be used as long-term QDIAs: target date funds (also called lifecycle funds), balanced funds, and managed accounts. These may be mutual funds, collective investment trusts, or separately managed accounts. This section focuses only on target date mutual funds.
- ¹⁵ See Exhibit 2.10 in BrightScope and Investment Company Institute 2020, which shows the increased use of target date funds in 401(k) plans.
- ¹⁶ The latest available data from the DOL are for plan year 2018. In the EBRI/ICI 401(k) database, from which this statistic was generated, funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. See Holden, VanDerhei, and Bass 2021.
- ¹⁷ See note 8.
- ¹⁸ See Investment Company Institute 2021b.
- ¹⁹ For a discussion on understanding ETFs and the features that make them attractive to investors, see Antoniewicz and Heinrichs 2014.
- ²⁰ Actively managed ETFs are excluded from the analysis in this report except when indicated. The analysis also excludes ETFs not registered under the Investment Company Act of 1940 (which are ETFs that invest primarily in commodities, currencies, and futures).
- ²¹ See note 8.
- ²² Prior to this, between 2000 and 2009, a combination of two factors played a significant role in reducing average expense ratios of money market funds. First, the market share of institutional share classes (which tend to have larger average account balances, and therefore tend to have lower expense ratios) rose to two-thirds of money market fund total net assets. Second, expense ratios of retail money market fund share classes declined 21 percent over this period. For further discussion, see Gallagher 2014.
- ²³ ICI uses the term *expense waivers* to refer to fee waivers and/or expense reimbursements.
- ²⁴ See Gallagher 2014.
- ²⁵ See Gallagher 2014.
- ²⁶ See www.federalreserve.gov/monetarypolicy/openmarket.htm.

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