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Suggested citation: Collins, Sean, and Emily Gallagher, 2012. "Trends in the Expenses and Fees of Mutual Funds, 2011." ICI Research Perspective 18, no. 2 (April).

Trends in the Expenses and Fees of Mutual Funds, 2011

KEY FINDINGS

- » **On average, expense ratios incurred by investors in long-term mutual funds declined in 2011: equity fund investors on average paid 79 basis points (0.79 percent) in expenses, down 4 basis points from 2010.** Expenses of bond funds declined 2 basis points, to 62 basis points.
- » **Expense ratios of money market funds fell in 2011 following a sharp decline in 2010.** The asset-weighted average expense ratio of money market funds was 21 basis points in 2011, a drop of 3 basis points from 2010. Expense ratios on money market funds have fallen sharply in the past few years as the great majority of funds waived expenses to ensure that net returns to investors remained positive in the current low interest rate environment.
- » **In 2011, the average expense ratio paid by investors in funds of funds—mutual funds that invest in other mutual funds—declined 4 basis points to 83 basis points.** The total expense ratio of funds of funds includes the expenses that a fund pays directly out of its assets as well as the expense ratios of the underlying funds in which it invests. Since 2005, the average expense ratio for investing in funds of funds has fallen 18 basis points.
- » **The average expense ratio investors paid to hold either index or actively managed funds declined in 2011.** Since 1997, the average expense ratio of actively managed equity funds has declined 11 basis points, while that of equity index funds declined 13 basis points. Growing investor demand for index funds has contributed to the overall decline in long-term fund expenses because index funds have lower average expense ratios than actively managed funds.
- » **Load fee payments have declined over time.** In 2011, the average maximum sales load on equity funds offered to investors was 5.4 percent. But the average sales load investors actually paid was only 1.0 percent, owing to load fee discounts on large purchases and fee waivers, such as those on purchases through 401(k) plans. This represents a decline of nearly 75 percent from the average load fee investors paid in 1990.

Mutual Fund Expense Ratios Continue to Decline

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 disclosed in the fund's prospectus and shareholder reports, is the fund's total annual expenses expressed as a percentage of the fund's net assets. As opposed to sales loads, which are discussed later, fund expenses are paid from fund assets.

Various factors affect a mutual fund's expenses, including its investment objective, its level of assets, the average account balance of its investors, the range of services it offers, fees that investors may pay directly, and whether the fund is a "load" or "no-load" fund (see "Understanding Mutual Fund Load Fees," below).

Over the past two decades, on an asset-weighted basis, average expenses* paid by mutual fund investors have fallen significantly (Figure 1).¹ In 1990, investors on average paid 99 basis points, or 99 cents for every \$100 in assets, to invest in equity funds. By contrast, expenses averaged 79 basis points for equity fund investors in 2011, a decline of over 20 percent from 1990. The decline in the average expense ratio of hybrid funds mimicked that of equity funds while the decline of bond funds was more marked, falling 30 percent, from 88 basis points in 1990 to 62 basis points in 2011.² Expenses incurred by investors in money market funds dropped 61 percent, from 54 basis points in 1990 to 21 basis points in 2011.^{3, 4}

Equity Funds

Expense ratios of equity funds declined in 2010 and 2011, following a rise of 4 basis points in 2009. This pattern was not unexpected, given recent stock market developments. Expense ratios often vary inversely with fund assets. Certain fund costs—such as transfer agency fees, accounting and audit fees, and directors' fees—are more or less fixed in dollar terms regardless of fund size. When fund assets rise, these fixed costs become smaller relative to those assets. As fund assets fall, the fixed costs contribute relatively more (as a percentage of assets) to a fund's expense ratio.

During the stock market downturn from October 2007 to March 2009, the assets of stock funds declined markedly (Figure 3, dashed line with an inverted scale), leading expense ratios to rise slightly. As the stock market recovered, stock fund assets rebounded in 2010. This coincided with a 4 basis point drop in average expenses that year. In 2011, fund assets peaked in April. After that, market volatility and sovereign debt crises contributed to a retrenchment in the stock market, but the downturn was not strong enough to knock fund assets off their upward two-year moving average trend—contributing to the 3 basis point decline in average fund expenses in 2011.

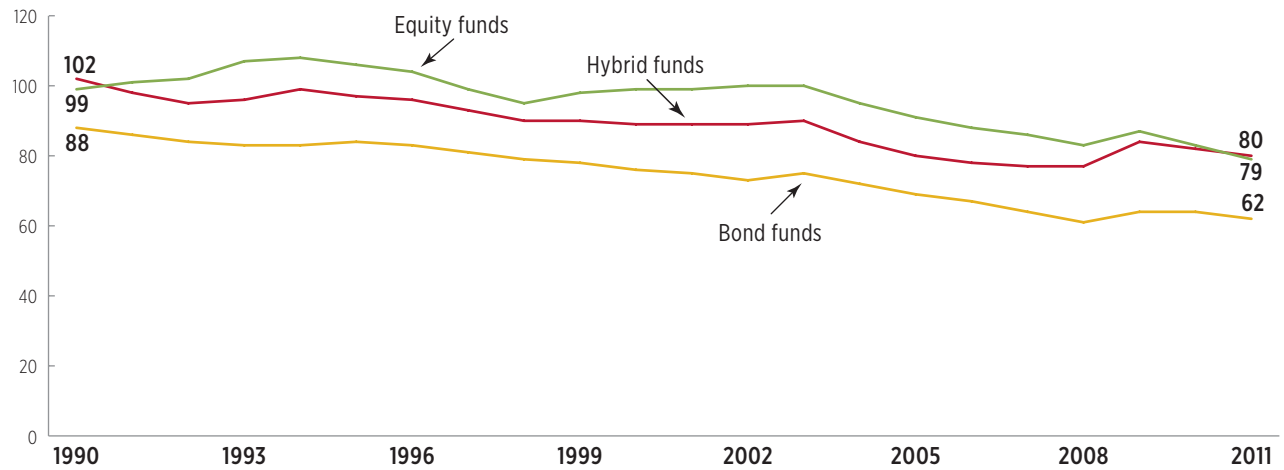
* In this paper, unless otherwise noted, average expenses are calculated on an asset-weighted basis. See note 1 on page 19.

FIGURE 1

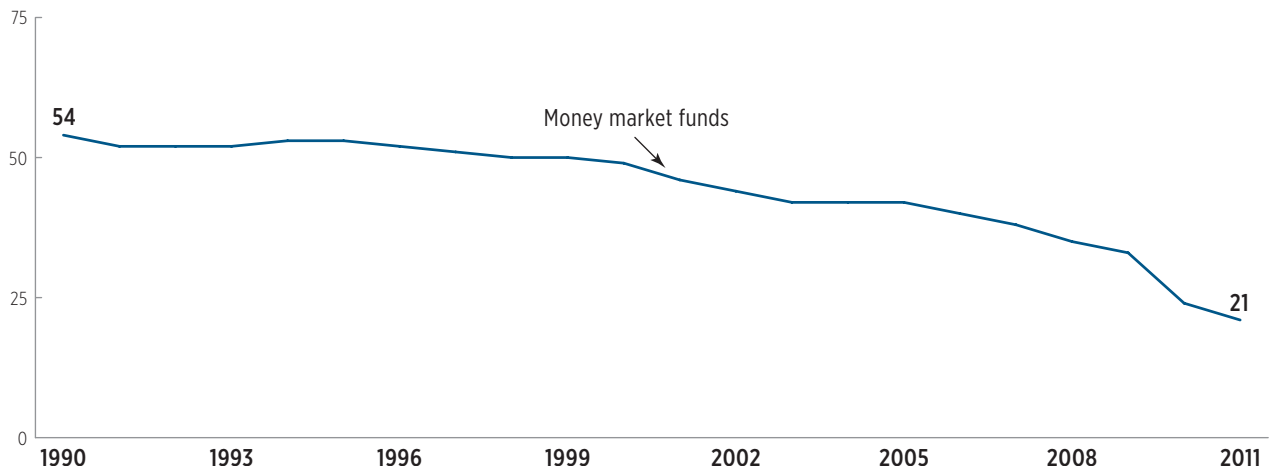
Mutual Fund Fees and Expenses Have Fallen Since 1990

Basis points, 1990–2011

Equity, hybrid, and bond funds



Money market funds



Note: Expense ratios are measured as an asset-weighted average; figure excludes mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

Another factor in the decline in the average expenses of long-term funds has been a shift by investors toward no-load share classes, particularly institutional no-load share classes, which tend to have lower-than-average expense ratios. This is due in large part to a change in the way investors compensate brokers and other financial professionals (see “Understanding Mutual Fund Load Fees” below).

Hybrid Funds

The average expense ratios of hybrid funds also continued a pattern of decline after a sharp rise in 2009. Hybrid funds invest in a mix of equities and bonds. Due to their bond holdings, they are less susceptible to stock market volatility and did not experience a year-over-year decline in assets in 2011. The net assets of hybrid funds rose from \$695 billion in December 2009 to \$839 billion in December 2011, a 21 percent increase. This was accompanied by a 2 basis point per year decline in average expenses in 2010 and 2011.

FIGURE 2

Total Expense Ratios for Mutual Funds Have Fallen

Basis points, 1990–2011

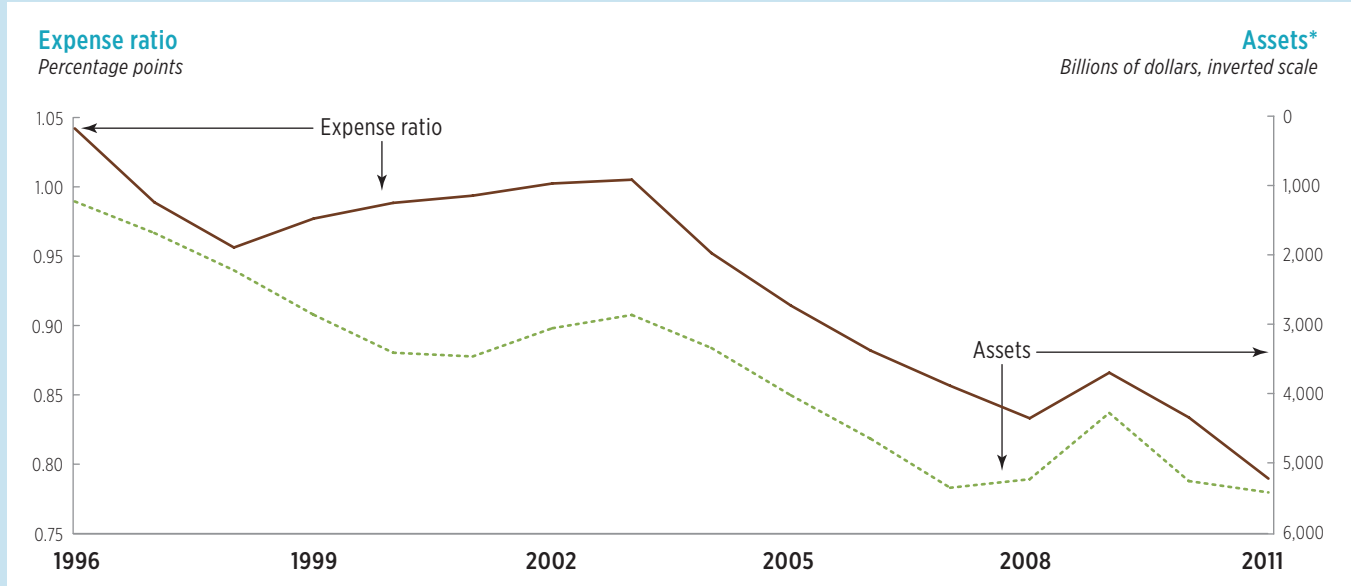
Year	Equity funds	Hybrid funds	Bond funds	Money market funds
1990	99	102	88	54
1991	101	98	86	52
1992	102	95	84	52
1993	107	96	83	52
1994	108	99	83	53
1995	106	97	84	53
1996	104	96	83	52
1997	99	93	81	51
1998	95	90	79	50
1999	98	90	78	50
2000	99	89	76	49
2001	99	89	75	46
2002	100	89	73	44
2003	100	90	75	42
2004	95	84	72	42
2005	91	80	69	42
2006	88	78	67	40
2007	86	77	64	38
2008	83	77	61	35
2009	87	84	64	33
2010	83	82	64	24
2011	79	80	62	21

Note: Total expense ratios are measured as an asset-weighted averages. Figures exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

FIGURE 3

Equity Fund Expense Ratios Are Inversely Related to Equity Fund Assets



*Figure excludes assets of mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds. Assets are plotted as a two-year moving average.

Sources: Investment Company Institute and Lipper

Bond Funds

The average expenses that shareholders paid for investing in bond funds declined by 2 basis points in 2011, to 62 basis points (Figure 2). Bond funds experienced strong asset growth in 2010, which continued in 2011. Bond fund assets totaled \$2.9 trillion at the end of 2011, up 10 percent from year-end 2010. As with equity and hybrid funds, growth in fund assets put downward pressure on the expense ratios of bond funds. Two other factors also played a role.

First, in 2010, investors, seeking higher yields available in a number of foreign markets, increased their holdings of global/international bond funds. Such funds generally are more costly to manage than bond funds with a domestic orientation and thus have above-average expense ratios. Money continued to flow into global/international bond funds in 2011, albeit at a more tempered pace (net new cash flow into these funds was \$39 billion in 2011 versus \$53 billion in 2010). This comparatively smaller inflow was coupled with nearly a 5 basis point decline in the average expenses of global/international bond funds in 2011—reducing upward pressure on the overall average expense ratio of bond funds.

Second, in 2011, on the back of Federal Reserve announcements that short-term interest rates were likely to remain very low through 2014, money flowed into longer-term and mortgage-backed bond funds. Expense ratios of these funds tend to be lower than average. For example, in 2011, the average expense ratio of long-term government bond funds was 57 basis points, 5 basis points lower than the average for all bond funds. This category witnessed a 17 percent increase in assets in 2011 versus only a 1 percent increase in 2010, helping to explain why average expenses of all bond funds declined in 2011 but held steady in 2010.

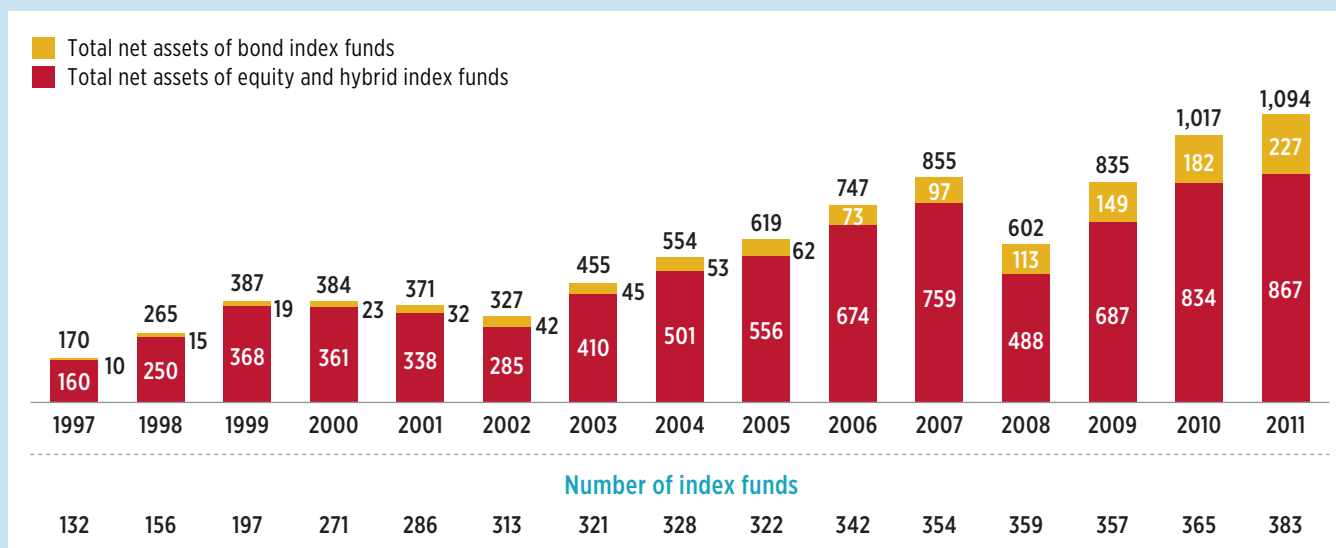
Index Funds

Another factor that has contributed to the decline of equity and bond fund expense ratios has been growing investor demand for index funds. Index funds generally seek to mimic the returns on a specified index; this is often referred to as passive management. To do this, their portfolio managers buy and hold all, or a representative sample of, the securities in their target indexes. Index fund assets have grown substantially in the last 15 years, from \$170 billion in assets in 1997 to nearly \$1.1 trillion in 2011 (Figure 4). Investor demand for indexed bond funds has

FIGURE 4

Total Net Assets and Number of Index Funds* Have Increased

Billions of dollars, year-end, 1997–2011



*Index fund data exclude funds that invest primarily in other funds.

Note: Components may not add to the total because of rounding.

Source: Investment Company Institute

grown in the past few years, but nearly 80 percent of index fund assets are invested in equity and hybrid index funds.⁵ The increased demand for index funds has contributed to the overall decline in fund expense ratios because index funds generally have lower expense ratios than actively managed funds (Figure 5).

Although growing investor demand for index funds has contributed to the overall decline in fund expense ratios, the average expense ratios incurred by investors in both index and actively managed funds have fallen, and by roughly the same amount. For example, from 1997 to 2011 the average expense ratio of index equity funds has fallen 13 basis points, compared with a decline of 11 basis points for actively managed equity funds. Similarly, the average expense ratios of index and actively managed bond funds have fallen 8 and 16 basis points, respectively. This indicates that both index and actively managed funds have contributed to the decline in the overall average expense ratios of mutual funds shown in Figure 1.

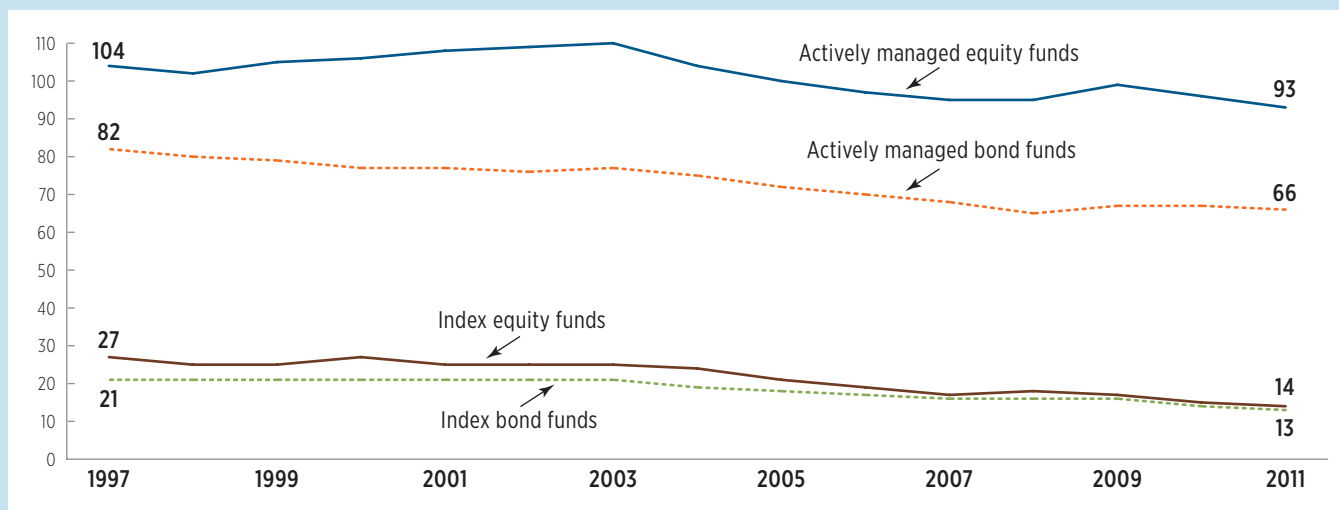
All else equal, the average expense ratios of index funds tend to be lower than those of actively managed funds because active management is a costly enterprise. Other factors also play a role. For example, actively managed funds more commonly bundle in the fund’s expense ratio the cost of compensating financial professionals who may assist fund investors, whereas index fund investors who seek the assistance of financial professionals may pay for that advice out-of-pocket outside the fund’s expense ratio (see “Understanding Mutual Fund Load Fees,” below).

Also, index funds are larger on average than actively managed funds, which through economies of scale helps keep their expense ratios down. For example, in 2011, the average equity index fund had assets of \$1.6 billion compared to \$374 million for the actively managed equity funds.

FIGURE 5

Expense Ratios of Actively Managed and Index Funds

Basis points, 1997–2011



Note: Expense ratios are measured as an asset-weighted average; figures exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

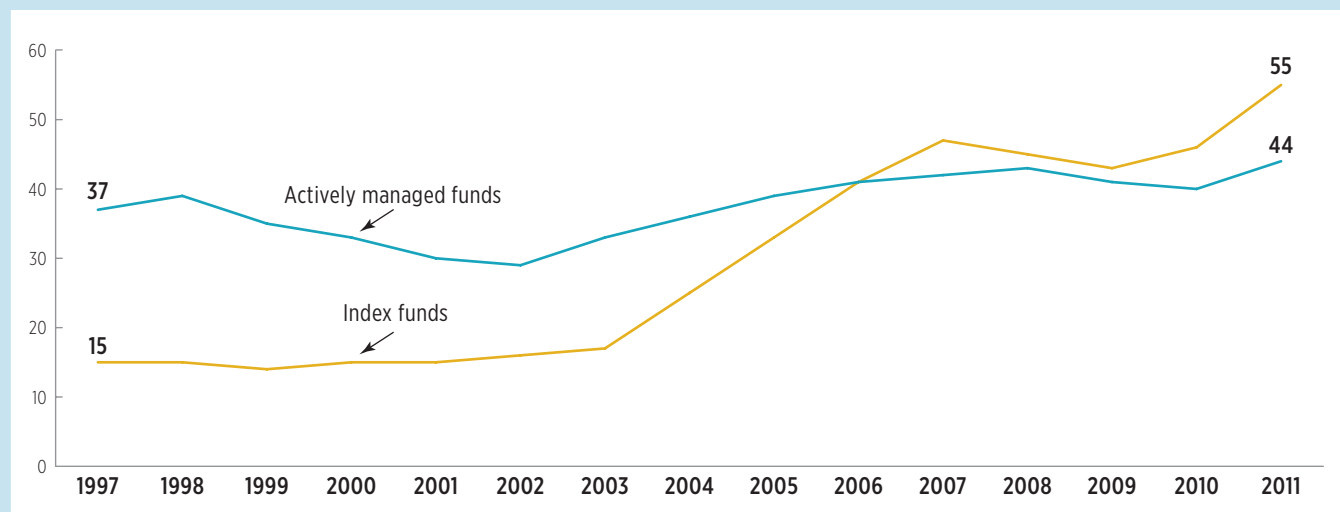
Furthermore, investor demand for index funds is disproportionately concentrated in the very lowest cost funds. For example, in 2011, 55 percent of the assets of index equity funds were held in those funds whose expense ratios were among the lowest 10 percent of all equity index funds (Figure 6). This phenomenon is not unique to index funds, however. Although it has been particularly dramatic among index fund investors, there has been a general shift by investors toward lower cost funds.

To a certain extent, the fact that equity index assets are concentrated in the least costly index funds reflects the investment focus of index funds compared to that of actively

managed funds. The assets of index funds have historically been concentrated most heavily in “large-cap blend” funds that target large-cap stock market indexes, notably the S&P 500 index. The assets of actively managed funds, on the other hand, have been more diffuse, spread among funds that focus on large-cap stocks, but also among those that focus on mid- and small-cap stocks, the international sector, or particular sectors, such as medical, electronics, or natural resources. All else equal, managing a portfolio of large-cap stocks is generally acknowledged to be less costly than managing a portfolio of mid- or small-cap, international, or sector funds.

FIGURE 6

Percentage of Total Net Assets Held in Funds with Expense Ratios in the Lowest Decile
1997–2011



Note: The lowest decile is based on the distribution of fund expense ratios in 2011 and is fixed across time.

Sources: Investment Company Institute and Lipper

Money Market Funds

The average expense ratio of money market funds was 21 basis points in 2011, a drop of 3 basis points from 2010 (Figure 2).⁶

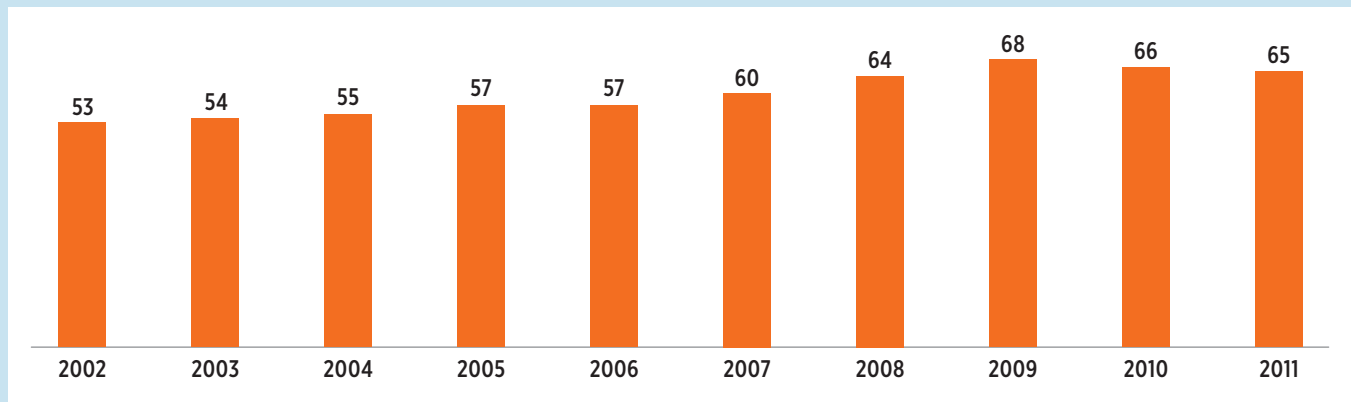
Until 2009, the declining average expense ratio of money market funds largely reflected an increase in the market

share of institutional share classes of money market funds (Figure 7). Because institutional share classes serve fewer investors with larger average account balances, they tend to have lower expense ratios than retail share classes of money market funds (Figure 8). Thus, the increase in the institutional market share helped reduce the industrywide average expense ratio of all money market funds.

FIGURE 7

Market Share of Institutional Share Classes of Money Market Funds

Percentage of assets of all money market funds, 2002–2011

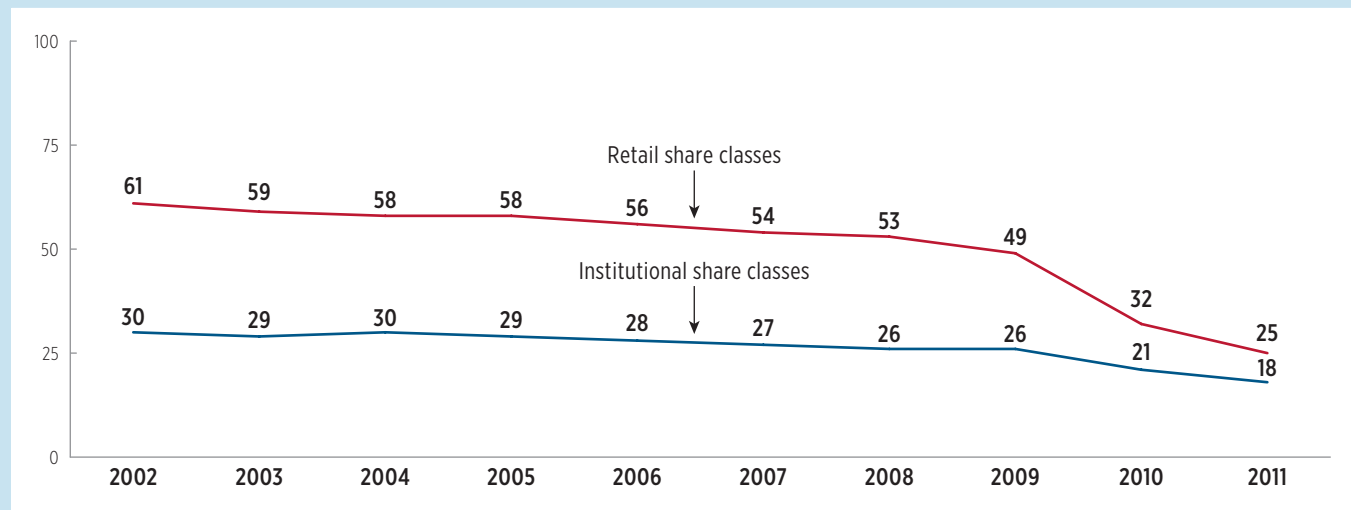


Source: Investment Company Institute

FIGURE 8

Expense Ratios of Institutional and Retail Money Market Fund Share Classes

Basis points, 2002–2011



Note: Expense ratios are measured as an asset-weighted average; figure excludes mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

By contrast, the market share of institutional share classes of money market funds dropped slightly in 2010 and 2011 (to 65 percent from 68 percent in 2009), indicating that other factors pushed expenses down. Primarily, the steep decline in the average expense ratio of money market funds reflects developments stemming from the current low interest rate environment.

In 2007 and 2008, to stimulate the economy and respond to the financial crisis, the Federal Reserve sharply reduced short-term interest rates, so that by early 2009 the federal funds rates and U.S. Treasury bill rates hit historic lows, both hovering just above zero. Yields on money market funds, which closely track short-term interest rates, also tumbled (Figure 9). In 2011, the average gross yield (the yield before deducting fund expense ratios) on taxable money market funds was at a record low.

In this setting, money market fund advisers increased expense waivers to ensure that fund net yields (the yields after deducting fund expense ratios) did not fall below zero.

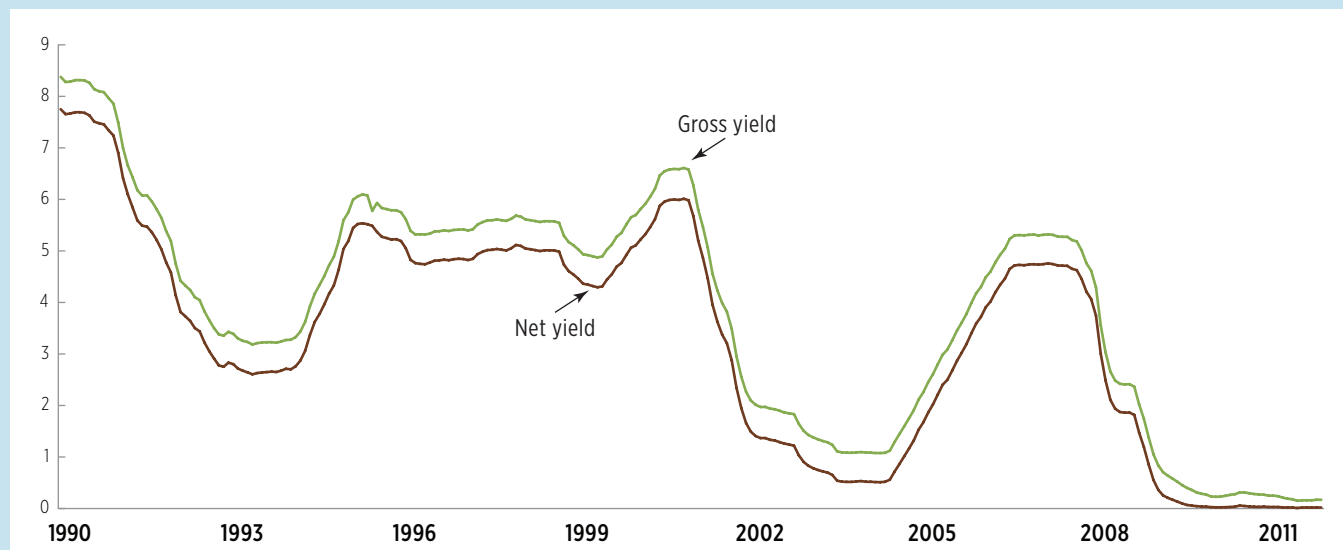
Waivers raise a fund's net yield by reducing the expense ratio that investors incur. Historically, money market funds have often waived expenses, usually for competitive reasons. For example, in 2006, before the onset of the financial crisis, 60 percent of money market fund share classes were waiving expenses. By the end of 2011, 98 percent of money market fund share classes were waiving at least some expenses (Figure 10).

Expense waivers are paid for by money market fund advisers and their distributors, who forgo profits and bear more, if not all, of the costs of running money market funds. Money market funds waived an estimated \$5.2 billion in expenses in 2011, four times the amount waived in 2006 (Figure 11). These waivers substantially reduced revenues of fund advisers, and if gross yields on money market funds rise, advisers may reduce or eliminate waivers, which could cause expense ratios on money market funds to rise somewhat.

FIGURE 9

Taxable Money Market Fund Yields

Percent, selected years, 1990–2011

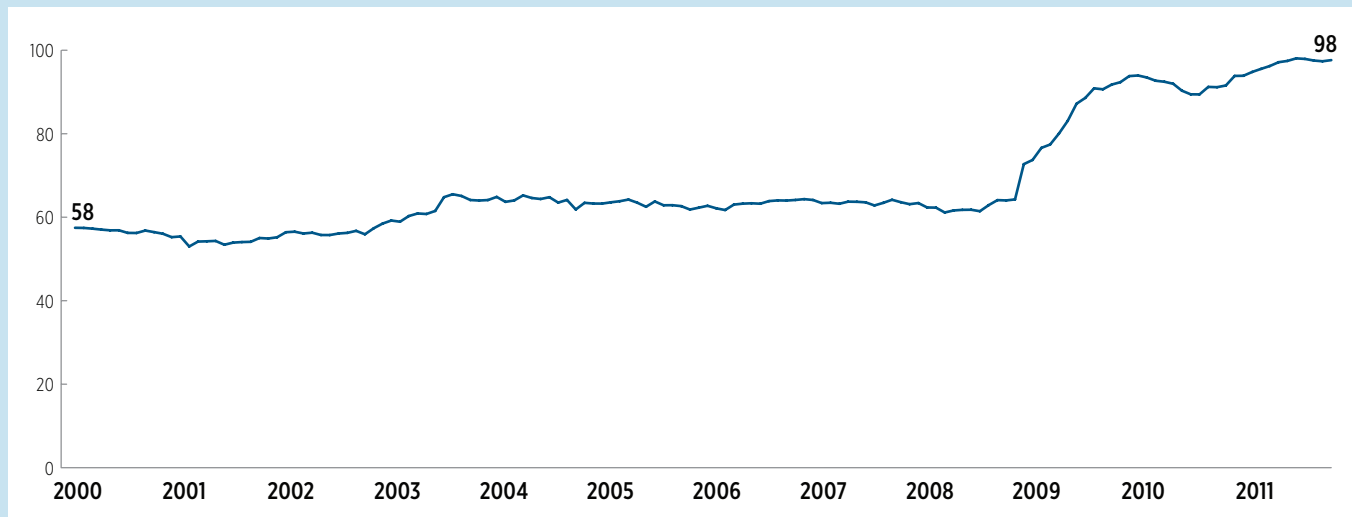


Sources: Investment Company Institute and iMoneyNet

FIGURE 10

Percentage of Money Market Fund Share Classes That Waive Expenses Has Risen Substantially

Percent, January 2000–December 2011

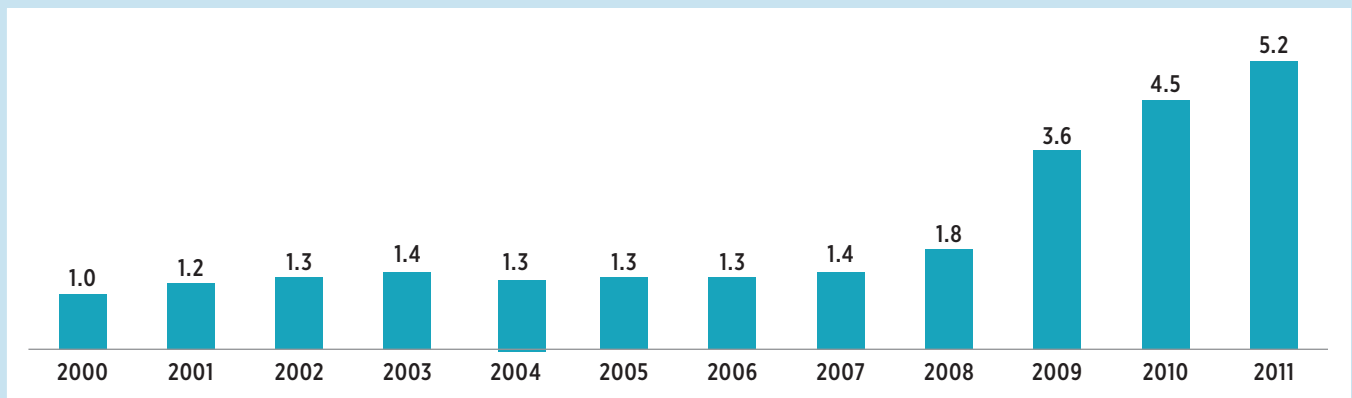


Sources: Investment Company Institute and iMoneyNet

FIGURE 11

Money Market Funds Waived an Estimated \$5.2 Billion in Expenses in 2011

Expense waivers, billions of dollars, 2000–2011



Sources: Investment Company Institute and iMoneyNet

Funds of Funds

Funds of funds are mutual funds that invest in other mutual funds.⁷ The market for funds of funds has expanded considerably in recent years. By the end of 2011, there were 1,047 funds of funds with more than \$1,046 billion in assets (Figure 12). Approximately 89 percent of the assets of funds of funds are in hybrid funds of funds, which are funds that invest in a mix of stock, bond, and hybrid mutual funds.

Much of the growth in funds of funds stems from investor interest in lifestyle and target date funds. Lifestyle funds, also known as “target risk” funds, seek to maintain pre-determined asset allocations and usually contain “conservative,” “moderate,” or “aggressive” in the funds’ names. Target date funds adjust their asset allocations over time in a pre-specified way. Typically, a target date fund provides investors more exposure to fixed income and cash as it approaches and passes the target date, which is usually mentioned in the fund’s name.

FIGURE 12

Funds of Funds Have Grown Rapidly in Recent Years*Number of funds of funds, 1997–2011*

Year-end	Total	Equity	Hybrid	Bond	Memo	
					Lifestyle ¹	Target date ²
1997	94	41	48	5	30	3
1998	175	75	91	9	60	7
1999	212	83	115	14	78	8
2000	215	75	131	9	88	9
2001	213	73	137	3	86	15
2002	269	84	180	5	115	15
2003	302	89	207	6	115	26
2004	380	88	288	4	123	64
2005	475	100	367	8	160	91
2006	608	131	469	8	201	154
2007	720	137	577	6	222	220
2008	860	139	711	10	245	286
2009	929	123	797	9	233	339
2010	961	132	813	16	229	345
2011	1,047	137	890	20	223	386

Total net assets of funds of funds, billions of dollars, 1997–2011

Year-end	Total	Equity	Hybrid	Bond	Memo	
					Lifestyle ¹	Target date ²
1997	\$21.4	\$7.6	\$13.8	\$0.1	\$5.9	\$0.3
1998	35.2	12.2	22.9	0.1	11.8	2.8
1999	48.1	18.6	29.4	0.2	17.0	5.4
2000	56.7	14.4	42.2	0.1	20.0	7.2
2001	63.2	13.3	49.7	0.1	21.5	10.7
2002	68.7	12.3	55.9	0.4	24.4	13.5
2003	122.7	23.7	98.3	0.8	43.0	23.7
2004	199.1	34.7	163.5	0.9	71.9	40.5
2005	305.4	49.6	255.5	0.4	116.1	66.0
2006	468.8	83.5	384.6	0.8	171.2	108.1
2007	636.0	103.7	531.4	0.8	220.2	174.9
2008	485.4	66.4	417.8	1.2	164.3	153.4
2009	671.4	53.6	616.0	1.8	217.0	242.5
2010	926.7	97.8	816.8	12.2	249.0	320.7
2011	1,046.5	97.6	929.9	19.0	243.4	357.5

¹ A lifestyle mutual fund is a hybrid fund that maintains a predetermined asset allocation and generally contains “conservative,” “aggressive,” or “moderate” in its name.

² A target date mutual fund is a hybrid fund that typically rebalances to an increasingly conservative portfolio as it approaches and passes the fund’s target date, which is usually included in the fund’s name.

Note: Components may not add to the total because of rounding.

Source: Investment Company Institute

These features have made lifestyle and target date funds especially attractive for individuals saving for retirement in 401(k) plans and IRAs.⁸ Lifestyle and target date funds of funds account for 58 percent of the total number and 57 percent of the total assets of funds of funds. From 2005 to 2011, the average expense ratio of funds of funds fell from 101 basis points to 83 basis points, a decline of nearly 18 percent (Figure 13).⁹

Mutual Fund Load Fees

Many mutual fund investors pay for the services of a professional financial adviser. Financial advisers typically devote time and attention to prospective investors before investors make an initial purchase of funds and other securities. The adviser generally 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. Advisers also provide ongoing services, such as periodically reviewing investors’ portfolios, adjusting asset allocations, and responding to customer inquiries.

FIGURE 13

Total Expense Ratios of Funds of Funds

Basis points, 2005–2011

	Asset-weighted average	Simple average	Median
2005	101	156	152
2006	96	144	139
2007	94	144	135
2008	89	140	134
2009	91	139	131
2010	87	133	128
2011	83	131	125

Note: Morningstar is the data source for 2005–2007 information. Investment Company Institute is the data source for 2008–2011 assets. Lipper is the data source for 2008–2011 expense ratios.

Sources: Investment Company Institute, Lipper, and Morningstar

Understanding Mutual Fund Load Fees

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 (front-end loads) or when shares are redeemed (back-end loads).

Funds with load fees (load funds) are sold through financial professionals such as brokers and registered investment advisers. These professionals help investors define their investment goals, select appropriate funds, and provide ongoing service. Financial professionals are compensated for providing these services through some combination of front- and back-end loads, also known as contingent deferred sales loads (CDSL), and 12b-1 fees, the latter of which are included in a fund's expense ratio. Investors who pay their financial advisers directly for services or who do not use a financial adviser purchase no-load funds, which have neither front- nor back-end load fees and have low or no 12b-1 fees.

Various factors affect the load fees that an investor pays. For example, many load funds offer at least three share classes within the same fund, most commonly A, B, and C share classes. To invest in A shares, the investor typically pays a higher front-end load but incurs a lower expense ratio because the share class either has a low or no 12b-1 fee. With a B share, an investor pays no front-end load, but for a number of years incurs a higher expense ratio because the share class has a higher 12b-1 fee. In addition, if the shareholder redeems his or her shares before a number of years (generally seven to eight years), the shareholder may be required to pay a load fee (a back-end load). With C shares, an investor typically pays neither a front-end load nor back-end load, but incurs a higher ongoing expense ratio because the share class has a higher 12b-1 fee.

Front-end load fees are also influenced by the size of an investor's initial purchase. For example, an investor who wishes to purchase the front-end load share class of a fund might expect to pay a front-end load fee of 5.75 percent of the initial purchase, if the initial purchase is less than \$50,000 (Figure 14). This would commonly decline to 4.5 percent for an initial purchase of \$50,000 to \$99,999, or for purchases that over time cumulate to those amounts. Typically, for initial purchases of \$1 million or more (or cumulative purchases of more than that amount), an investor would pay no front-end load fee in an A share class. Some fund providers also offer to discount load fees when an investor has total balances exceeding a given amount in all of that provider's funds, even if the investor makes a small purchase, such as \$5,000, in one of the provider's funds that the investor previously did not own.

FIGURE 14

Front-End Load Fees and Associated Fee Breakpoints

Most frequently occurring values,¹ 2011

Cumulative dollar purchases Fee breakpoints	Front-end load fee ²
\$0 to \$49,999	5.75
\$50,000 to \$99,999	4.50
\$100,000 to \$249,999	3.50
\$250,000 to \$499,999	2.50
\$500,000 to \$999,999	2.00
\$1,000,000 or more	0.00

¹ "Most frequently occurring values" are modal values for load fees and breakpoints among all domestic equity (excluding sector funds) that charged a front-end load fee.

² The front-end load fee is a percentage of the purchase amount.

Sources: Investment Company Institute and Morningstar

Thirty years ago, fund shareholders usually compensated financial advisers for their assistance through a front-end load—a one-time, up-front payment for current and future services. That structure has changed significantly in a number of ways since then.

One important element has been a marked decline in load fees paid by mutual fund investors. The maximum front-end load fee that shareholders might pay for investing in mutual funds has remained nearly constant since 1990 (Figure 15). However, front-end load fees that investors *actually* paid have declined from nearly 4 percent in 1990 to 1 percent in 2011. This in part reflects the increasing role of mutual funds in helping investors save for retirement. Purchases made through 401(k) plans have often gone to funds that normally charge front-end load fees, but funds often waive load fees on purchases made through 401(k) plans. Also, front-end load funds offer volume discounts, waiving or reducing load fees for large initial or cumulative purchases (see "Understanding Mutual Fund Load Fees" on the previous page).

Another important element in the changing distribution structure of mutual funds has been a shift toward asset-based fees. Asset-based fees are assessed as a percentage of the assets that the financial professional manages for an investor, rather than as a percent of the dollars initially invested. Over time, brokers and other financial professionals who sell mutual funds have increasingly been compensated through asset-based fees.¹⁰ 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 the financial professionals serving fund investors. Alternatively, investors may pay the professional an asset-based fee directly. In such cases, the professional would normally recommend the purchase of no-load mutual funds, those that have no front-end or back-end load, and a 12b-1 fee of 0.25 percent or less.

FIGURE 15

Front-End Sales Loads That Investors Paid Were Well Below Maximum Front-End Loads That Funds Charged

Percentage of purchase amount, selected years

	Maximum front-end sales load*			Average front-end sales load that investors actually incurred*		
	Equity	Hybrid	Bond	Equity	Hybrid	Bond
1990	5.0	5.0	4.6	3.9	3.8	3.5
1995	4.8	4.7	4.1	2.5	2.4	2.1
2000	5.2	5.2	4.2	1.4	1.4	1.1
2001	5.2	5.2	4.2	1.2	1.2	1.0
2002	5.3	5.3	4.1	1.3	1.3	1.0
2003	5.3	5.1	4.1	1.3	1.3	1.0
2004	5.3	5.1	4.1	1.4	1.4	1.1
2005	5.3	5.3	4.0	1.3	1.3	1.0
2006	5.3	5.2	4.0	1.2	1.2	0.9
2007	5.4	5.2	4.0	1.2	1.1	0.9
2008	5.4	5.2	4.0	1.1	1.1	0.8
2009	5.4	5.2	3.9	1.0	1.0	0.8
2010	5.4	5.2	3.9	1.0	1.0	0.8
2011	5.4	5.2	3.9	1.0	1.0	0.7

*The maximum front-end sales load is a simple average of the highest front-end load that funds may charge as set forth in their prospectus. The average actually incurred is the maximum sales load multiplied by the ratio of total front-end sales loads collected by stock funds as a percentage of new sales of shares by such funds.

Note: Figure excludes mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute, Lipper, and Strategic Insight Simfund

No-load share classes have received substantial inflows in recent years. This inflow is concentrated in institutional no-load share classes. In 2011, for example, institutional no-load share classes received \$190 billion in net new cash flow while front-end, back-end, and level-load share classes saw considerable outflows (Figure 16). Over time, these flows have led to a concentration of long-term fund assets in no-load classes (Figure 17). Some of the shift toward no-load funds is due to do-it-yourself investors. However,

much of the shift represents the change by investors toward compensating financial professionals directly instead of indirectly through mutual funds. Assets and flows to institutional no-load share classes have also been supported by 401(k) plans and other retirement accounts, which are often invested in institutional no-load share classes. The shift toward no-load share classes has been an important factor driving down the average expense ratio of mutual funds over time.

FIGURE 16

Net New Cash Flow Was Greatest in No-Load Institutional Share Classes

Billions of dollars, 2001–2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All long-term funds	\$129	\$121	\$216	\$210	\$192	\$227	\$224	-\$225	\$390	\$228	\$24
Load	45	26	49	49	31	38	15	-145	30	-51	-88
Front-end load ¹	23	19	33	46	41	42	19	-104	2	-58	-102
Back-end load ²	-2	-18	-20	-40	-47	-47	-42	-39	-24	-27	-23
Level load ³	23	24	28	20	17	20	24	-12	30	21	-6
Other load ⁴	1	2	8	22	20	24	15	10	22	13	43
No-load⁵	72	96	125	125	143	165	184	-54	330	272	133
Retail or general purpose	37	47	81	90	66	71	60	-113	128	40	-57
Institutional	35	49	44	35	77	93	124	59	202	231	190
Variable annuities	13	-2	42	36	18	24	25	-26	30	8	-21

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

² Front-end load = 0 percent and CDSL > 2 percent. Primarily includes B shares.

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

⁴ All other load share classes not classified as front-end load, back-end load, or level load. Primarily includes retirement share classes known as R shares.

⁵ Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

Note: Components may not add to the totals because of rounding. Data exclude mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

FIGURE 17

Total Net Assets of Long-Term Funds Were Concentrated in No-Load Shares

Billions of dollars, 2001–2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All long-term funds	\$4,690	\$4,118	\$5,362	\$6,194	\$6,864	\$8,059	\$8,916	\$5,771	\$7,804	\$9,017	\$8,930
Load	1,937	1,552	1,956	2,222	2,409	2,783	2,977	1,844	2,334	2,559	2,442
Front-end load ¹	1,367	1,069	1,360	1,567	1,720	2,014	2,173	1,373	1,745	1,873	1,740
Back-end load ²	407	309	356	334	271	241	204	102	98	78	50
Level load ³	151	149	214	252	284	334	373	235	326	378	372
Other load ⁴	12	24	26	68	133	194	228	134	165	230	280
No-load⁵	2,055	1,976	2,605	3,031	3,416	4,052	4,591	3,073	4,332	5,158	5,227
Retail or general purpose	1,484	1,416	1,853	2,159	2,390	2,785	3,060	1,915	2,641	3,000	2,897
Institutional	571	560	752	873	1,026	1,267	1,532	1,157	1,692	2,157	2,330
Variable annuities	698	591	802	941	1,039	1,225	1,347	855	1,138	1,300	1,261

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

² Front-end load = 0 percent and CDSL > 2 percent. Primarily includes B shares.

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

⁴ All other load share classes not classified as front-end load, back-end load, or level load. Primarily includes retirement share classes known as R shares.

⁵ Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

Note: Components may not add to the totals because of rounding. Data exclude mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

Conclusion

This study examines recent trends in the expenses and fees of mutual funds. Expense ratios of equity, bond, and hybrid funds declined in 2011 owing to declines in the expense ratios of individual funds, an increase in the demand for index funds, and a continuing shift by investors in both actively managed and index funds toward lower cost funds. Expense ratios of money market funds declined sharply as money market funds increased expense waivers in order to help offset the effects of the current low interest rate environment.

Additional Reading

- » **“The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2010.”**
Investment Company Institute.
www.ici.org/pdf/per17-04.pdf
- » ***Defined Contribution/401(k) Fee Study.***
Investment Company Institute.
www.ici.org/pdf/rpt_09_dc_401k_fee_study.pdf
- » **“The U.S. Retirement Market, Fourth Quarter 2011.”** Investment Company Institute.
www.ici.org/research/stats/retirement/ret_11_q4
- » **ICI Resources on 401(k) Plans.** Investment Company Institute.
www.ici.org/401k
- » **ICI Resources on 12b-1 Fees.** Investment Company Institute.
www.ici.org/12b-1fees

Notes

- ¹ ICI uses asset-weighted averages to summarize the expenses and fees that shareholders pay through mutual 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. Note that in this study, fees and expenses shown for years prior to 2010 have been revised slightly because of a change in asset-weighting methodology. Previously, ICI created asset-weighted fee and expense ratio measures by averaging a fund's assets over all months in that fund's fiscal year. Beginning in 2010, to simplify calculations and exposition, as well as to enhance consistency with other ICI publications, ICI began weighting each fund's expense ratio by its end-of-year assets.
- ² Funds that invest primarily in other funds are not included in this section but are analyzed separately.
- ³ To assess the expenses and fees incurred by individual shareholders in long-term funds, the analysis throughout this paper 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 funds represent investments made on behalf of retail investors, such as through defined contribution (DC) plans, individual retirement accounts (IRAs), broker-dealers investing on behalf of retail clients, 529 plans, and other accounts such as "omnibus accounts" (for a definition of omnibus accounts see next note).
- ⁴ When an investor purchases shares of a mutual fund through a brokerage firm, the broker often registers the purchase with the mutual fund under the broker's name in a pooled ("omnibus") account, which is known as registering in "street name." Brokers do this for operational convenience to help reduce costs.
- ⁵ While many market indexes can be invested in through exchange-traded funds (ETFs), these are excluded from this analysis.
- ⁶ Investors generally do not pay sales loads for investing in money market funds.
- ⁷ Some funds of funds also invest in ETFs.
- ⁸ As of September 2011, 43 percent of lifestyle mutual fund assets and 91 percent of target date mutual fund assets were held in IRAs and DC retirement plans. See Investment Company Institute, 2012, "The U.S. Retirement Market, Fourth Quarter 2011."
- ⁹ An SEC rule addressing funds of funds, adopted in 2006, requires a fund of funds to report a total expense ratio in its prospectus fee table that accounts for both direct and indirect expenses. The total expense ratios shown in Figure 13 account for both the expenses that a fund pays directly out of its assets (sometimes called direct expenses), as well as the expense ratios of the underlying funds in which it invests (often called acquired fund fees or indirect expenses).
- ¹⁰ See, for example, Damato and Pessin 2010.

References

Damato, Karen, and Jaime Levy Pessin. 2010. "Shift from Commissions to Fees Has Benefits for Fund Investors." *Wall Street Journal*, February 1.

Investment Company Institute. 2012. "The U.S. Retirement Market, Fourth Quarter 2011" (April). Text available at www.ici.org/research/stats/retirement/ret_11_q4. Data available at www.ici.org/info/ret_11_q4_data.xls.

Rea, John D., and Brian K. Reid. 1998. "Trends in the Ownership Cost of Equity Mutual Funds." *Investment Company Institute Perspective* 4, no. 3 (November). Available at www.ici.org/pdf/per04-03.pdf.



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