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US Mutual Fund Expense Ratios: A Steady, Substantial Decline

ICI Explains

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ICI Research has been tracking US mutual fund expense ratios since 1996, and they've been steadily declining ever since. This video looks broadly at the latest data across major types of US mutual funds and the three key factors driving the decline.

Transcript

US mutual funds provide their investors with a wide range of services, including portfolio management, administration and compliance, recordkeeping, distribution, and more. Investors incur expenses to pay for these services.

ICI research shows that the average ongoing expenses paid by investors in US mutual funds, as a percentage of fund assets, have fallen for nearly a quarter century—steadily, substantially, and across every major type of mutual fund.

From 1996 to 2020, the average expense ratio paid by investors in equity mutual funds fell from 104 basis points to 50—or about 52 percent. Similarly, the average paid by investors in bond mutual funds fell 50 percent, and the average paid by investors in hybrid mutual funds fell 38 percent. Money market funds experienced the steepest decline, at 58 percent.

Three key factors have fueled this trend:

- Cost-conscious investors, who have increasingly concentrated their assets in the lowest-cost funds and share classes
- An increasingly competitive marketplace, where funds entering the market have generally carried lower costs than similar funds exiting the market
- And the prodigious growth of the US mutual fund industry, which has enabled funds to achieve greater economies of scale, as fixed costs have shrunk as a percentage of their net assets.

Learn more about fees and expenses.

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