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Mutual Fund Expense Ratios Have Declined Substantially over the Past 27 Years

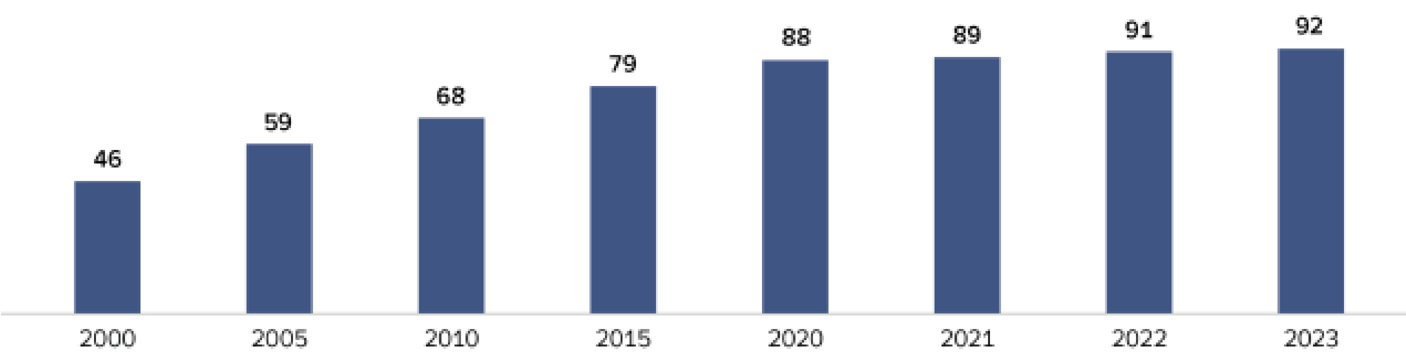
Washington, DC, March 21, 2024—The latest research from the Investment Company Institute (ICI) shows that the average expense ratio for equity mutual funds declined for the fourteenth straight year in 2023, while the average expense ratio for bond mutual funds remained unchanged from its level in 2022. The report, "Trends in the Expenses and Fees of Funds, 2023," found that the average expense ratio for equity mutual funds fell 2 basis points to 0.42percent, and the average expense ratio for bond mutual funds remained steady at 0.37 percent.

On average, expense ratios for long-term mutual funds have declined substantially over the past 27 years. From 1996 to 2023, average equity mutual fund expense ratios dropped by 60percent and average bond mutual fund expense ratios dropped by 56percent. The long-running decline in average mutual fund expense ratios primarily reflects a shift toward lower-cost funds, which includes movement to no-load fund share classes. In 2023, 92percent of gross sales of long-term mutual funds went to no-load funds without 12b-1 fees, compared with 46percent in 2000.

"The ongoing shift toward no-load funds, which is bolstered by the popularity of 401(k) plans and other retirement accounts, continues to be an important factor affecting average mutual fund expense ratios in 2023," explained James Duvall, ICI economist. "Sustained growth of index mutual funds and competition from ETFs also played a major role."

Long-Term Mutual Fund Investors Have Increasingly Purchased No-Load Mutual Funds Without 12b-1 Fees

Percentage of long-term mutual fund gross sales, annual



Note: 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 Figures S8, S9, and S10 in the statistical appendix.
Sources: Investment Company Institute, Lipper, and Morningstar

In 2023, the average expense ratio for index equity ETFs declined 1 basis point to 0.15percent. The average expense ratio for index bond ETFs remained unchanged at 0.11 percent. In recent years, competition and economies of scale have influenced trends in average ETF expense ratios. Competitive pressure from the influx of new sponsors and the rapid growth of ETF net assets allowing many funds to increase in size are pushing down average ETF expense ratios.

ICI's report also shows that the average expense ratio of money market funds increased from 0.13 percent in 2022 to 0.22 percent in 2023. Over the past 15 years, fluctuations in short-term interest rates have been the key drivers of changes in average money market fund expense ratios. In 2022 and 2023, the substantial increase in short-term interest rates caused more money market fund sponsors to relax the expense waivers they had previously offered to their funds. The reduced amount of expense waivers contributed to the uptick in the average expense ratio for money market funds in 2023.

A bite-sized summary exploring five key facts about mutual fund expense ratios can be found here. Data for all figures in the report are accessible here.