Expense Ratios of Actively Managed and Index Funds Have Declined for More Than Two Decades

Expense Ratios of Actively Managed and Index Funds Have Declined for More Than Two Decades

Washington, DC; March 21, 2019—The average expense ratios of equity, hybrid, and bond mutual funds—including both actively managed and index equity and bond mutual funds—have trended downward for more than two decades, according to a new research report from the Investment Company Institute (ICI).

ICI's "Trends in the Expenses and Fees of Funds, 2018" cites three factors that are contributing to the long-term decline: investors shifting toward lower-cost funds or fund share classes, increased industry competition, and increasing economies of scale.

"Industry competition continues to push down the expense ratios of mutual funds and exchange-traded funds (ETFs), as the fund industry meets investors' demand for lower cost funds," said Shelly Antoniewicz, ICI's senior director of industry and financial analysis. "This demand is driven by a major shift in the industry's business model, as more investors pay directly for investment advice and assistance from investment professionals, rather than indirectly through fund fees."

ICI analyzes fee trends using asset-weighted averages to summarize the expenses that shareholders actually pay through funds, which takes into account both the decline in funds' expense ratios and the increasing shift of investor assets toward lower-cost funds. A fund's expense ratio is the fund's total annual expenses expressed as a percentage of its total net assets. The report shows that when comparing 2018 expense ratios with those in 1997, investors paid, on average

- 44 percent less for equity mutual funds;
- 41 percent less for bond mutual funds; and
- 28 percent less for hybrid mutual funds.

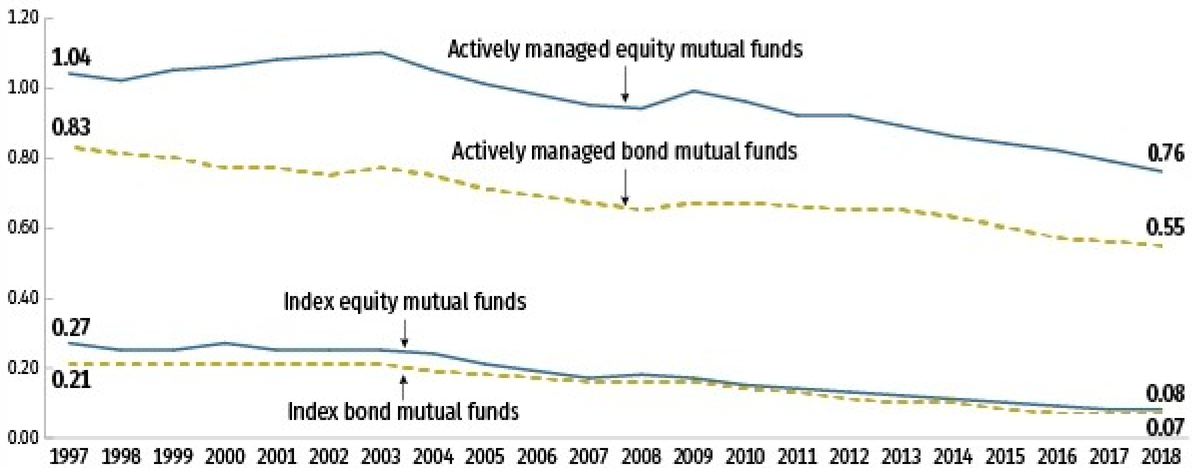
Expense Ratios for Actively Managed Mutual Funds Declined in 2018

ICI's report shows an overall decline in the average expense ratios for both actively managed and index equity and bond mutual funds. For example, from 1997 to 2018, the average expense ratio of actively managed and index equity mutual funds fell by 27 percent and 70 percent, respectively. Similarly, the average expense ratio of actively managed bond mutual funds decreased by 34 percent from 1997 to 2018, while the average expense ratio for index bond mutual funds declined by 67 percent during that time.

In 2018, the average expense ratio of actively managed equity mutual funds fell to 0.76 percent, from 0.79 percent in 2017; and the average expense ratio for actively managed bond mutual funds fell to 0.55 percent in 2018, from 0.56 percent in 2017. Over the same period, the average expense ratios for index equity and bond mutual funds remained unchanged at 0.08 percent and 0.07 percent, respectively.

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

When looking at expense ratios for target date mutual funds, which usually invest through a fund-of-funds structure, investors paid, on average, 40 percent less for them in 2018 than they did in 2008—the earliest year for which ICI has data. In 2018, investors in target date mutual funds paid an average expense ratio of 0.40, compared with 0.44 percent in 2017 (Figure 11 in the report).

Inflows to Actively Managed and Index Funds Are Concentrated in Lower-Cost Funds

Fund investors showed strong demand for lower-cost funds, in both actively managed and index funds, in 2018 (see pages 22 and 23, including Figure 19, in the report). For example, ICI's report shows that the 5 percent of actively managed world equity funds and bond and hybrid funds with the lowest expense ratios received $26 billion and $51 billion in inflows, respectively. Meanwhile, index domestic equity funds, index world equity funds, and index bond and hybrid funds with expense ratios in the lowest quartile received inflows.

Index ETF Expense Ratios Decreased in 2018

ETFs are generally index funds and typically do not bundle distribution, account servicing, or maintenance fees in their expense ratios. As such, their expense ratios are typically low. In 2018, the average expense ratio of index equity ETFs fell to 0.20 percent, down from 0.21 percent in 2017; and the average bond ETF expense ratio was 0.16 percent in 2018, down from 0.18 in 2017. The declining expense ratios in index ETFs are largely attributable to a maturing ETF industry, as competition and economies of scale continue to put downward pressure on their expense ratios (Figure 17 in the report).

Data for all figures in the report are accessible here.
