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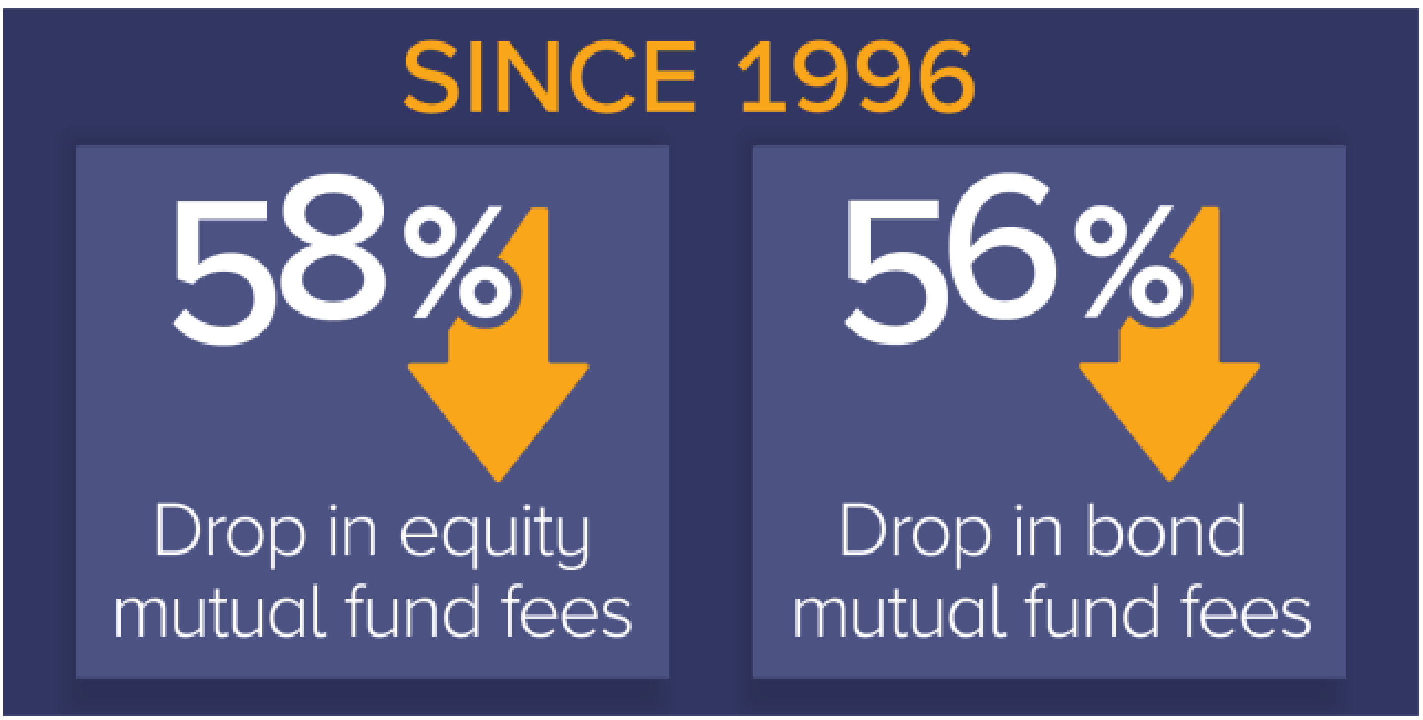
Falling Fund Fees Continue to Benefit America’s Investors

By James Duvall and Shelly Antoniewicz

Demand for lower-cost investment products, competition among the vast number of available funds, and economies of scale have driven down average expense ratios industrywide over the past quarter century. With average expense ratios declining again in 2022, investors will continue to reap the benefits of lower fees.

Even small annual decreases in fund fees and expenses can lead to substantial savings over time, possibly tens of thousands of dollars or more. These savings represent a windfall for middle-class Americans and can bolster their financial security.



Expense Ratios Ratchet Lower

According to the latest ICI research, the average expense ratio of equity mutual funds declined 3 basis points to 0.44 percent in 2022, while that of bond mutual funds decreased 2 basis points to 0.37 percent. Since 1996, average expense ratios for equity and bond mutual funds have fallen by more than half, allowing Americans to keep a greater share of their investment gains.

Target date mutual funds, which are especially popular with younger 401(k) plan participants as well as households saving for college, saw their average expense ratio tick down by one basis point last year. Over the past 14 years, expense ratios for target date funds have tumbled by 52 percent.

Market Forces at Work

One of the driving factors behind the decline in average expense ratios has been the rapid take-up by investors of index mutual funds and exchange-traded funds (ETFs), which tend to be lower cost. These products have also experienced substantial decreases in average expense ratios thanks to economies of scale and increased competition.

Other market forces have also contributed to the downtrend in expense ratios. Investors' increasing preference for compensating financial advisors outside of funds—for instance, by directly paying their advisors a fee that is a percentage of their portfolios' total assets—has led to substantial growth in the sales of "no-load" funds, which do not carry commissions or sales charges. Additionally, asset appreciation over time has diminished the relative impact of funds' fixed costs on expense ratios.

A Windfall for Middle-Income Savers

Nearly 55 percent of US households own funds, and most of these households, according to ICI data, are middle-income earners who use funds largely for retirement saving. Additionally, an overwhelming majority of mutual fund–owning households consider fees and expenses to be "important" when selecting mutual funds.

The downward trend in average expense ratios is an undeniably positive development for Americans' long-term financial health.

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