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Trends in the Expenses and Fees of Funds, 2022

KEY FINDINGS

- **On average, expense ratios for long-term mutual funds have declined substantially over the past 26 years.** From 1996 to 2022, average equity mutual fund expense ratios dropped by 58 percent and average bond mutual fund expense ratios dropped by 56 percent.
- **In 2022, the average expense ratio for equity mutual funds fell 3 basis points to 0.44 percent.** The average expense ratio for bond mutual funds fell 2 basis points to 0.37 percent.
- **The long-running decline in average mutual fund expense ratios primarily reflects a shift toward no-load funds.** In 2022, 91 percent of gross sales of long-term mutual funds went to no-load funds without 12b-1 fees, compared with 46 percent in 2000. This shift stems from more mutual fund investors paying for advice and assistance directly out of their pockets rather than indirectly through 12b-1 fees, in addition to the widespread use of retirement accounts, which often invest in institutional no-load share classes.
- **Investors using target date mutual funds—a popular option in retirement plans—have benefited from a substantial decline in their average expense ratios.** From 2008 to 2022, average expense ratios of target date mutual funds decreased by 52 percent to 0.32 percent.
- **Investor interest in lower-cost equity mutual funds has helped fuel declines in average expense ratios for both actively managed and index equity mutual funds.** In 2022, the average expense ratio of actively managed equity mutual funds fell to 0.66 percent, down from 1.08 percent in 1996. Average index equity mutual fund expense ratios fell from 0.27 percent in 1996 to 0.05 percent in 2022.

Key findings continued »

What's Inside

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For a complete set of data files for each figure in this report, see www.ici.org/files/2023/per29-03-data.xlsx.

The following conditions, unless otherwise specified, apply to all data in this report: (1) funds of funds are excluded from the data to avoid double counting; (2) mutual funds available as investment choices in variable annuities are excluded; (3) long-term mutual funds include equity, hybrid, and bond mutual funds; (4) dollars and percentages may not add to the totals presented because of rounding; and (5) this report calculates average expense ratios on an asset-weighted basis (see note 1 on page 25).

Key findings continued »

- **Economies of scale and competition are putting downward pressure on expense ratios of exchange-traded funds (ETFs).** From 2009 to 2022, average index equity ETF expense ratios declined by 53 percent and average index bond ETF expense ratios fell by 56 percent.
- **In 2022, the average expense ratio for index equity ETFs declined 1 basis point to 0.16 percent.** The average expense ratio for index bond ETFs declined 1 basis point to 0.11 percent in 2022.
- **Despite fewer expense waivers in 2022, the average expense ratio for money market funds rose only 2 basis points to 0.13 percent.**

Mutual Fund Expense Ratios Have Declined Substantially over the Past 26 Years

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 shown in the fund's prospectus and shareholder reports, is the fund's total annual expenses expressed as a percentage of its net assets. Unlike sales loads, fund expenses are paid from fund assets.

Many factors affect a mutual fund's expense ratio, including its investment objective, its assets, the range of services it offers, fees that investors may pay directly, and whether the fund is a load or no-load fund.

On an asset-weighted basis, average expense ratios incurred by mutual fund investors have fallen substantially over the past 26 years (Figure 1).[1, 2] In 1996, equity mutual fund investors incurred expense ratios of 1.04 percent, on average, or $1.04 for every $100 in assets. By 2022, that average had fallen to 0.44 percent.[3, 4] Average expense ratios of hybrid and bond mutual funds, as well as money market funds, have also declined meaningfully since 1996.

FIGURE 1

Average Expense Ratios for Long-Term Mutual Funds Have Fallen

Percent

Year	Equity	Hybrid	Bond	Money market
1996	1.04	0.95	0.84	0.52
1997	0.99	0.92	0.82	0.51
1998	0.96	0.89	0.80	0.50
1999	0.98	0.90	0.77	0.50
2000	0.99	0.89	0.76	0.49
2001	0.99	0.89	0.75	0.46
2002	1.00	0.89	0.73	0.44
2003	1.00	0.90	0.75	0.42
2004	0.95	0.85	0.72	0.42
2005	0.91	0.81	0.69	0.42
2006	0.88	0.78	0.67	0.40
2007	0.86	0.77	0.64	0.38
2008	0.83	0.77	0.61	0.35
2009	0.87	0.84	0.64	0.33
2010	0.83	0.82	0.63	0.24
2011	0.79	0.80	0.62	0.21
2012	0.77	0.79	0.61	0.18
2013	0.74	0.80	0.61	0.17
2014	0.70	0.78	0.57	0.13
2015	0.67	0.76	0.54	0.13
2016	0.63	0.73	0.51	0.20
2017	0.59	0.70	0.48	0.25
2018	0.54	0.66	0.47	0.25
2019	0.51	0.63	0.46	0.24
2020	0.50	0.61	0.42	0.21
2021	0.47	0.59	0.39	0.11
2022	0.44	0.59	0.37	0.13

Note: Expense ratios are measured as asset-weighted averages.

Sources: Investment Company Institute, Lipper, and Morningstar

The decrease in the average expense ratios of equity, hybrid, and bond mutual funds in 2022 primarily reflects a long-running shift by investors toward lower-cost funds or fund share classes. In particular, investors have been moving toward no-load share classes—those that had neither a front-end load fee, nor a back-end load fee, nor a 12b-1 fee of more than 0.25 percent.

In general, asset-weighted average expense ratios of mutual funds may fall for one or more of several reasons:

» Expense ratios of individual funds may have fallen.

» Assets may have shifted to lower-cost funds.

» New lower-cost funds may have entered the market.

» Higher-cost funds may have left the market.

In recent years, assets moving toward lower-cost funds has been a significant factor driving down the asset-weighted average expense ratios of equity, hybrid, and bond mutual funds. This does not mean, however, that the expense ratios of individual equity, hybrid, and bond mutual funds have been unchanged. In 2022, 28 percent of equity mutual fund share classes saw their expense ratios decrease, while 25 percent saw their expense ratios increase (Figure 2).

Equity Mutual Funds

In 2022, the average expense ratio for equity mutual funds was 0.44 percent, down from 0.47 percent in 2021, and significantly below its level of 1.04 percent in 1996. Many elements have contributed to the long-term decline in average expense ratios for equity and other long-term mutual funds. For example, some fund costs—such as transfer agency fees, accounting and audit fees, and director fees—are relatively fixed in dollar terms, regardless of fund size. As a result, when fund assets rise, these relatively fixed costs make up a smaller proportion of a fund's expense ratio.

Consequently, asset growth tends to contribute to changes in fund expense ratios. During the 2007–2009 financial crisis, actively managed domestic equity mutual fund assets decreased markedly (Figure 3), leading their expense ratios to rise in 2008 and 2009.[5] As the stock market recovered, however, actively managed domestic equity mutual fund assets rebounded, and their expense ratios fell. Since 2009, expense ratios of these funds have fallen significantly—primarily in years when their assets were expanding from rising stock prices, but their expense ratios have also fallen when their assets contracted from declining stock prices.

FIGURE 2

More Than Half of Mutual Fund Share Classes Saw Their Expense Ratios Change

2022

	Percentage of total share classes for which expense ratios in 2022:		
Category	*Fell*	*Were unchanged*	*Rose*
Equity	28	47	25
Hybrid	34	46	21
Bond	30	48	22

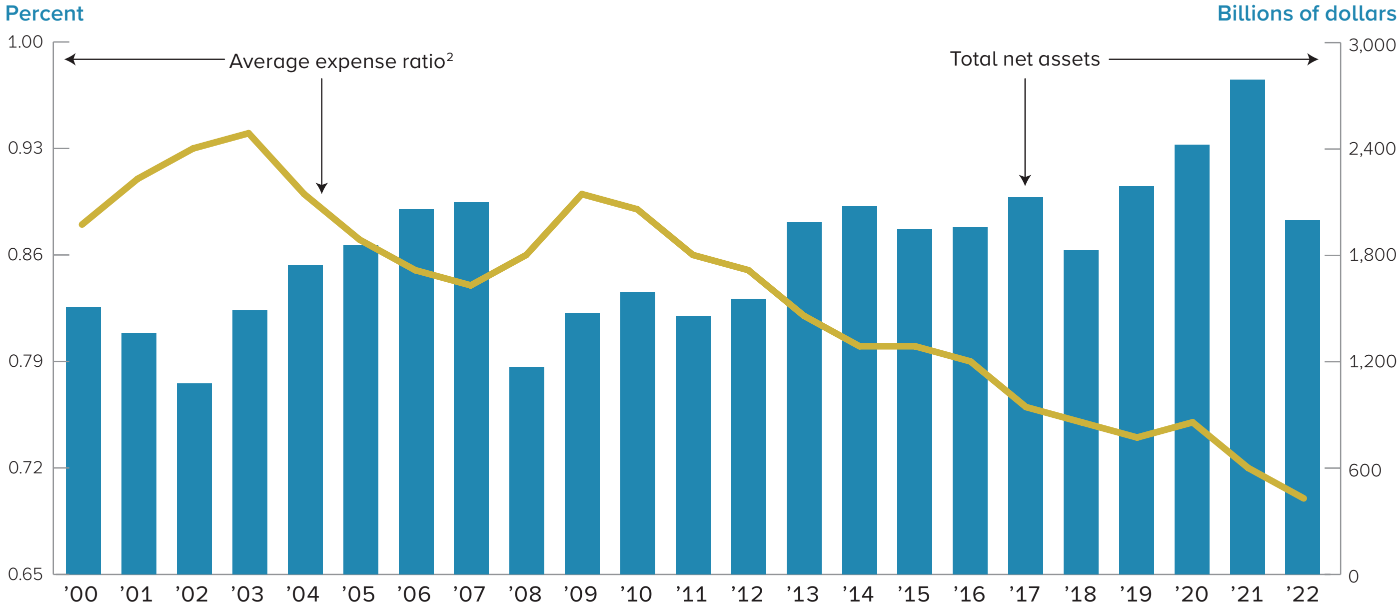
Note: Calculations are based on a consistent sample; that is, a share class must have existed in both 2021 and 2022.

Sources: Investment Company Institute and Morningstar

FIGURE 3

Mutual Fund Expense Ratios Tend to Fall as Fund Assets Rise

Share classes of actively managed domestic equity mutual funds continuously in existence since 2000[1]



[1] Calculations are based on a fixed sample of share classes. Data exclude index mutual funds.

[2] Expense ratios are measured as asset-weighted averages.

Sources: Investment Company Institute, Lipper, and Morningstar

Additional factors have contributed to the decades-long trend of lower average expense ratios of equity and other long-term mutual funds. First, the average expense ratio of equity mutual funds has declined as a result of growth in index fund investing (see Expense Ratios of Index Mutual Funds and Index ETFs on page 10).

Second, since 2000, fund investors have increasingly compensated financial professionals for assistance through payments outside of funds (see Mutual Fund Load Fees on page 6). An important aspect of this development has been that an increasing share of fund assets are held in no-load share classes, which tend to have below-average expense ratios.

Mutual Fund Load Fees

Many mutual fund investors pay for the services of a financial professional.[6] These professionals typically devote time and attention to prospective investors before the investors make an initial purchase of funds and other securities. Usually, the professional 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. Financial professionals may also provide ongoing services, such as periodically reviewing investors' portfolios, adjusting asset allocations, and responding to customer inquiries.

Traditionally, fund shareholders usually compensated financial professionals through a front-end load fee—a onetime, up-front payment for current and future services. Over the past 30 to 40 years, the way in which investors compensate financial professionals—also known as distribution structures—has increasingly shifted toward the use of asset-based fees.[7]

Asset-based fees are assessed as a percentage of the assets that a financial professional manages for an investor, rather than as a percentage of the dollars initially invested. 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 financial professionals. Alternatively, investors may pay the professional an asset-based fee directly. In such cases, the financial professional typically would recommend the purchase of some mix of ETFs and no-load mutual funds (no-load mutual funds have neither a front-end load fee, nor a back-end load fee, nor a 12b-1 fee of more than 0.25 percent).

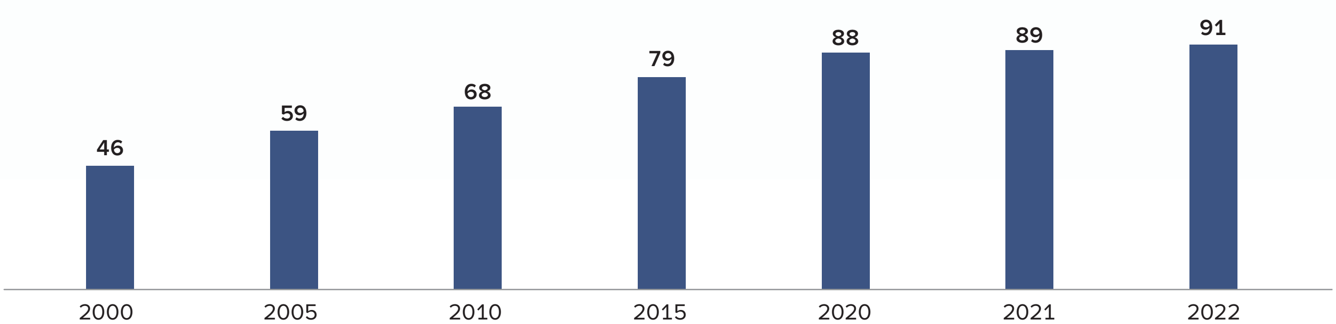
The shift toward no-load share classes has been an important force in driving down the average expense ratio of mutual funds. Some movement toward no-load funds can be attributed to "do-it-yourself" investors who invest through discount brokers or directly with fund companies. Another factor is an ongoing shift to compensate financial professionals with asset-based fees outside mutual funds (for example, through fee-based professionals and full-service brokerage platforms). Additionally, assets and flows to no-load share classes have been bolstered by 401(k) plans and other retirement accounts. Gross sales to no-load mutual funds without 12b-1 fees have grown substantially since 2000 and were 91 percent of total gross sales to long-term mutual funds in 2022 (Figure 4).

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 the supplemental data tables at www.ici.org/files/2023/per29-03-data.xls.

FIGURE 4

The Majority of Long-Term Mutual Fund Gross Sales Went to No-Load Mutual Funds Without 12b-1 Fees

Percentage of long-term mutual fund gross sales, annual



Sources: Investment Company Institute, Lipper, and Morningstar

In addition to varying from year to year, fund expense ratios can also vary by fund type (Figure 5).[8] For example, bond and money market mutual funds tend to have lower expense ratios than equity and hybrid mutual funds. Among equity mutual funds, expense ratios tend to be higher for funds that specialize in a given sector—such as healthcare or real estate—or those that invest in equities around the world, because the assets such funds hold tend to be more costly to manage. Even within a particular investment objective, mutual fund expense ratios can vary considerably. For example, 10 percent of equity mutual funds that focus on growth stocks have expense ratios of 0.61 percent or less, while 10 percent have expense ratios of 1.78 percent or more. This variation reflects, among other things, the fact that some growth funds focus more on small- or mid-cap stocks and others focus more on large-cap stocks. Portfolios of small- and mid-cap stocks tend to cost more to manage because information about these types of stocks is less readily available, which means that active portfolio managers must spend more time doing research.

FIGURE 5

Mutual Fund Expense Ratios Vary Across Investment Objectives

Percent, 2022

Investment objective	10th percentile	Median	90th percentile	Asset-weighted average	Simple average
Equity mutual funds	**0.55**	**1.03**	**1.88**	**0.44**	**1.12**
Growth	0.61	1.00	1.78	0.63	1.08
Sector	0.68	1.15	2.00	0.63	1.24
Value	0.61	0.99	1.78	0.56	1.07
Blend	0.28	0.87	1.70	0.25	0.93
World	0.65	1.09	1.94	0.58	1.17
Hybrid mutual funds	**0.53**	**1.06**	**1.96**	**0.59**	**1.18**
Bond mutual funds	**0.35**	**0.71**	**1.54**	**0.37**	**0.82**
Investment grade	0.28	0.60	1.38	0.26	0.69
World	0.51	0.89	1.72	0.41	0.98
Government	0.16	0.63	1.53	0.25	0.73
High-yield	0.55	0.85	1.72	0.65	0.96
Municipal	0.39	0.65	1.51	0.43	0.77
Money market funds	**0.06**	**0.15**	**0.39**	**0.13**	**0.19**
Memo:					
Index equity mutual funds	**0.04**	**0.25**	**1.51**	**0.05**	**0.54**
Target date mutual funds*	**0.25**	**0.60**	**1.24**	**0.32**	**0.68**

* Data include mutual funds that invest primarily in other mutual funds. Ninety-seven percent of target date mutual funds invest primarily in other mutual funds.

Note: Each fund's share class is weighted equally for the simple average and the median, 10th, and 90th percentiles.

Sources: Investment Company Institute and Morningstar

Bond Mutual Funds

From 2009 to 2021, generally attractive returns on bonds and strong demand for bond funds—likely boosted by the aging of the population—have fueled growth in bond mutual fund assets and helped pull down average expense ratios on bond mutual funds by 39 percent. In 2022, however, bond prices experienced steep losses, even after accounting for interest income,[9] and demand for bond mutual funds fell sharply. Bond mutual funds experienced $542 billion in net outflows and their total net assets decreased 20 percent from $5.6 trillion to $4.5 trillion. Despite this significant decline in net assets, the average expense ratio fell 2 basis points in 2022 as investors withdrew proportionately more from higher-cost funds and continued to invest in index funds.

As a percentage of net assets, net outflows were strongest in high-yield and multi-sector bond mutual funds. This helped to lower the asset-weighted average expense ratio of bond mutual funds in 2022 because such funds tend to have higher expense ratios than other types of bond mutual funds. In 2022, high-yield and multi-sector bond mutual funds had average expense ratios of 0.65 percent and 0.54 percent, respectively—higher than the asset-weighted average expense ratio of 0.37 percent for all bond mutual funds. Additionally, investor interest in index bond mutual funds, which tend to have below-average expense ratios, remained positive in 2022, with net inflows of $7 billion (see Expense Ratios of Index Mutual Funds and Index ETFs on page 10).

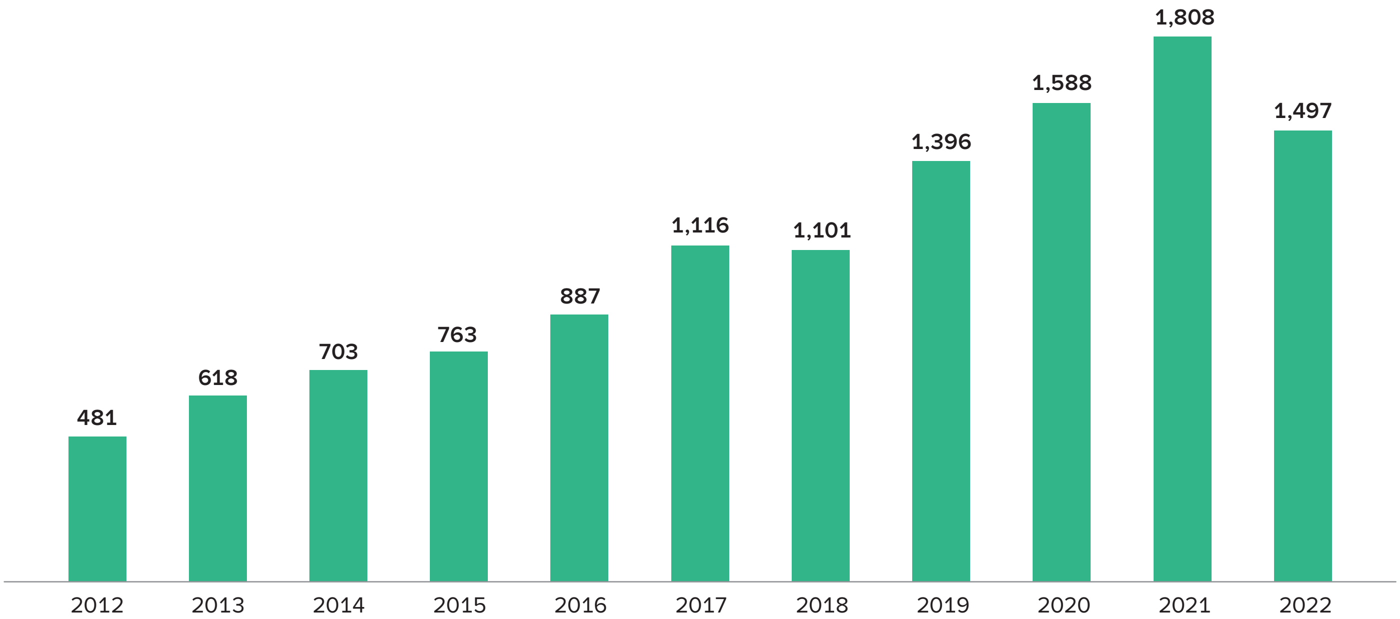
Target Date Mutual Funds

Much of the growth in funds of funds stems from investor interest in target date mutual funds. Target date mutual funds usually invest through a fund-of-funds structure, meaning that they primarily hold and invest in shares of other mutual funds and ETFs—97 percent of target date mutual funds are funds that invest primarily in other mutual funds, and 44 percent of funds of funds are target date mutual funds. A target date (also known as *lifecycle*) mutual fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. This change in investment mix over time is typically referred to as the *glide path* for the fund. At year-end 2022, target date mutual funds had $1.5 trillion in total net assets (Figure 6).

FIGURE 6

Target Date Mutual Fund Assets Fell in 2022

Total net assets in billions of dollars, year-end



Number of target date mutual funds

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
430	493	544	602	644	642	695	689	644	671	631

Note: Data include mutual funds that invest primarily in other mutual funds.
Source: Investment Company Institute

The strong investor demand for target date mutual funds likely reflects a number of factors. Investors value the features of target date mutual funds, including diversification and the glide path; these are especially attractive for individuals saving for retirement in 401(k) plans and individual retirement accounts (IRAs).[10] Additionally, target date funds are often used as a qualified default option[11] for 401(k) plans.[12] As a result, newly hired employees who do not select any investment choices will often have their 401(k) contributions invested in target date funds. At year-end 2020 (the latest data available), for example, about half of the account balances of 401(k) plan participants in their twenties were invested in target date funds.[13]

The average expense ratio of target date mutual funds has declined sharply in recent years. In 2008, investors on average paid 0.67 percent to invest in target date mutual funds (Figure 7).[14] By 2022, the average expense ratio had fallen by more than half to 0.32 percent.

FIGURE 7

Expense Ratios of Target Date Mutual Funds Have Fallen Steadily Since 2008

Percent

Year	Asset-weighted average	Simple average	Median
2008	0.67	1.23	1.18
2009	0.67	1.20	1.14
2010	0.65	1.14	1.11
2011	0.61	1.12	1.09
2012	0.59	1.07	1.04
2013	0.58	1.04	1.01
2014	0.57	1.03	0.96
2015	0.53	0.91	0.87
2016	0.50	0.87	0.82
2017	0.44	0.81	0.74
2018	0.42	0.78	0.71
2019	0.39	0.74	0.66
2020	0.37	0.70	0.64
2021	0.33	0.68	0.61
2022	0.32	0.68	0.60

Note: Data include mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute, Lipper, and Morningstar

Expense Ratios of Index Mutual Funds and Index ETFs

An index fund generally seeks to replicate the return on a specified financial market index. Under this approach, often referred to as *passive management*, portfolio managers buy and hold all, or a representative sample of, the securities in their target indexes. This approach to portfolio management is a primary reason that index funds—whether mutual funds or ETFs—tend to have below-average expense ratios. By contrast, under an active management approach, managers have more discretion to increase or reduce exposure to sectors or securities within their funds' investment mandates. Active managers may also undertake significant research about individual stocks or bonds, market sectors, or geographic regions. This approach offers investors the chance to earn superior returns or to meet other investment objectives such as limiting downside risk, managing volatility, under- or over-weighting various sectors, and altering asset allocations in response to market conditions. These characteristics tend to make active management more costly than management of an index fund.

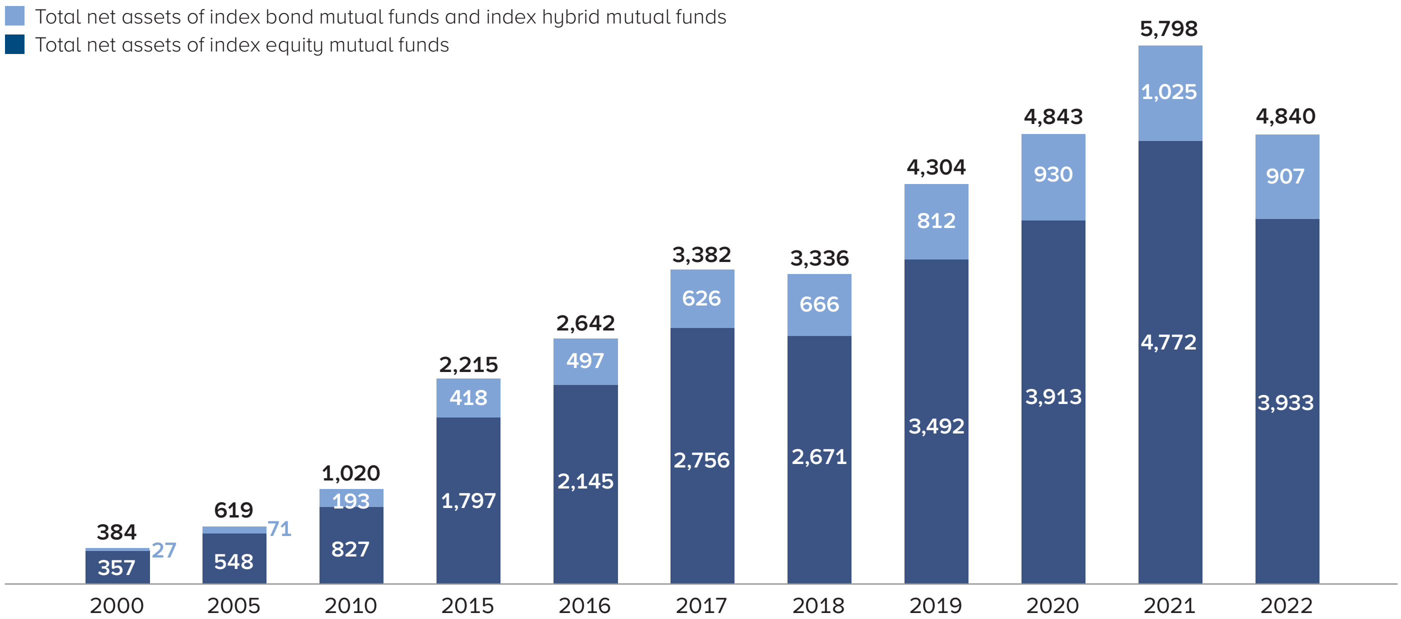
Index Mutual Funds

Growth in index mutual funds has contributed to the decline in asset-weighted average expense ratios of long-term mutual funds. From year-end 2000 to year-end 2022, index mutual fund total net assets increased significantly, from $384 billion to $4.8 trillion (Figure 8). This rapid growth contributed to a rise in index mutual funds' share of long-term mutual fund total net assets, which has more than tripled from 7.5 percent at year-end 2000 to 27.9 percent by year-end 2022 (Figure 9). Within index mutual funds, index equity mutual funds accounted for the lion's share (81 percent) of index mutual fund total net assets at year-end 2022.

FIGURE 8

Total Net Assets of Index Mutual Funds Fell in 2022

Billions of dollars, year-end



Number of index mutual funds

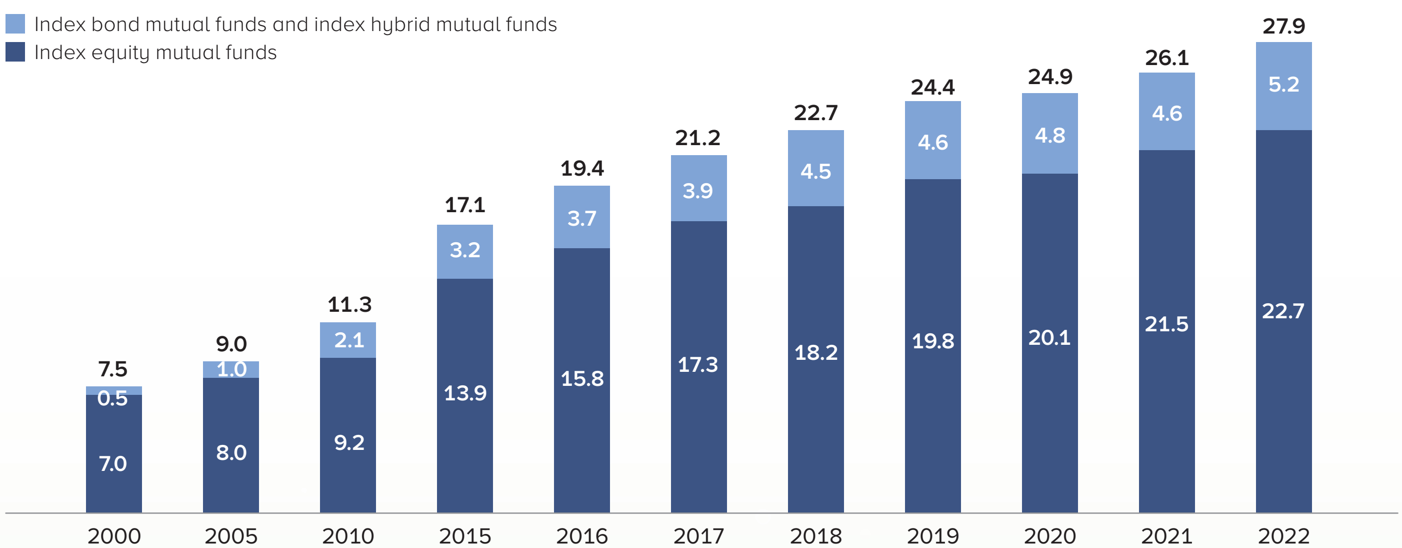
271	322	372	412	425	457	501	501	498	503	517

Source: Investment Company Institute

FIGURE 9

Index Mutual Funds' Share Continued to Rise

Percentage of long-term mutual funds' total net assets, year-end



Source: Investment Company Institute

Index mutual funds tend to have below-average expense ratios for several reasons. First, their approach to portfolio management—in which managers generally seek to replicate the return on a specified index by buying and holding all, or a representative sample of, the securities in their target indexes—lends itself to being less costly. This is because index funds' portfolios tend not to change frequently and therefore have low turnover rates.

Second, the investment focus of index mutual funds helps keep their expense ratios low. Assets of index equity mutual funds are concentrated more heavily in large-cap blend funds that target US large-cap indexes, such as the S&P 500. Assets of actively managed equity mutual funds, on the other hand, are more widely distributed across stocks of varying market capitalization, international regions, or specialized business sectors. Managing portfolios of small- or mid-cap, international, or sector stocks is generally acknowledged to be more expensive than managing portfolios of US large-cap stocks.

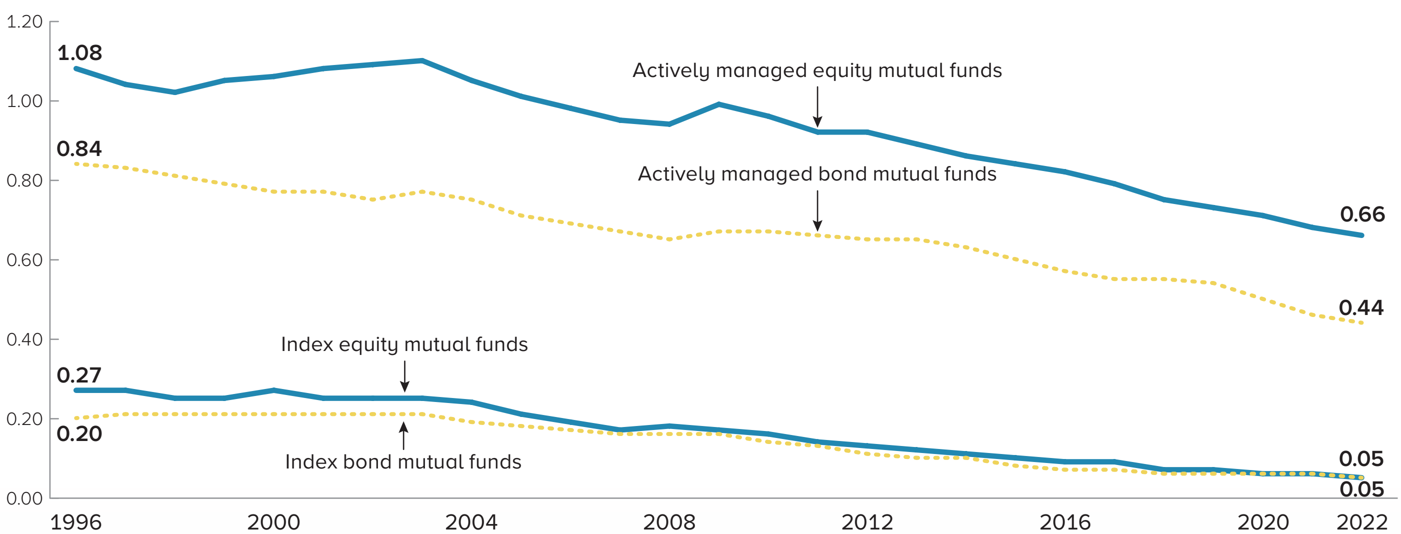
Finally, index mutual funds are larger on average than actively managed mutual funds, which, through economies of scale, helps reduce fund expense ratios. At year-end 2022, the average index equity mutual fund ($9.1 billion) was substantially larger than the average actively managed equity mutual fund ($1.9 billion).

These reasons, among others, help explain why index mutual funds generally have lower expense ratios than actively managed mutual funds. It is important to note, however, that average expense ratios of both index and actively managed mutual funds have decreased—contributing to the overall decline in the average expense ratio of mutual funds (Figure 10).

FIGURE 10

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

The downward trend in the average expense ratios of both index and actively managed mutual funds reflects, in part, investors' increasing tendency to buy lower-cost funds. Investor demand for index mutual funds is disproportionately concentrated in funds with the lowest costs. At year-end 2022, for example, 85 percent of the total net assets of index equity mutual funds were in funds with expense ratios that were among the lowest 25 percent of all index equity mutual funds.

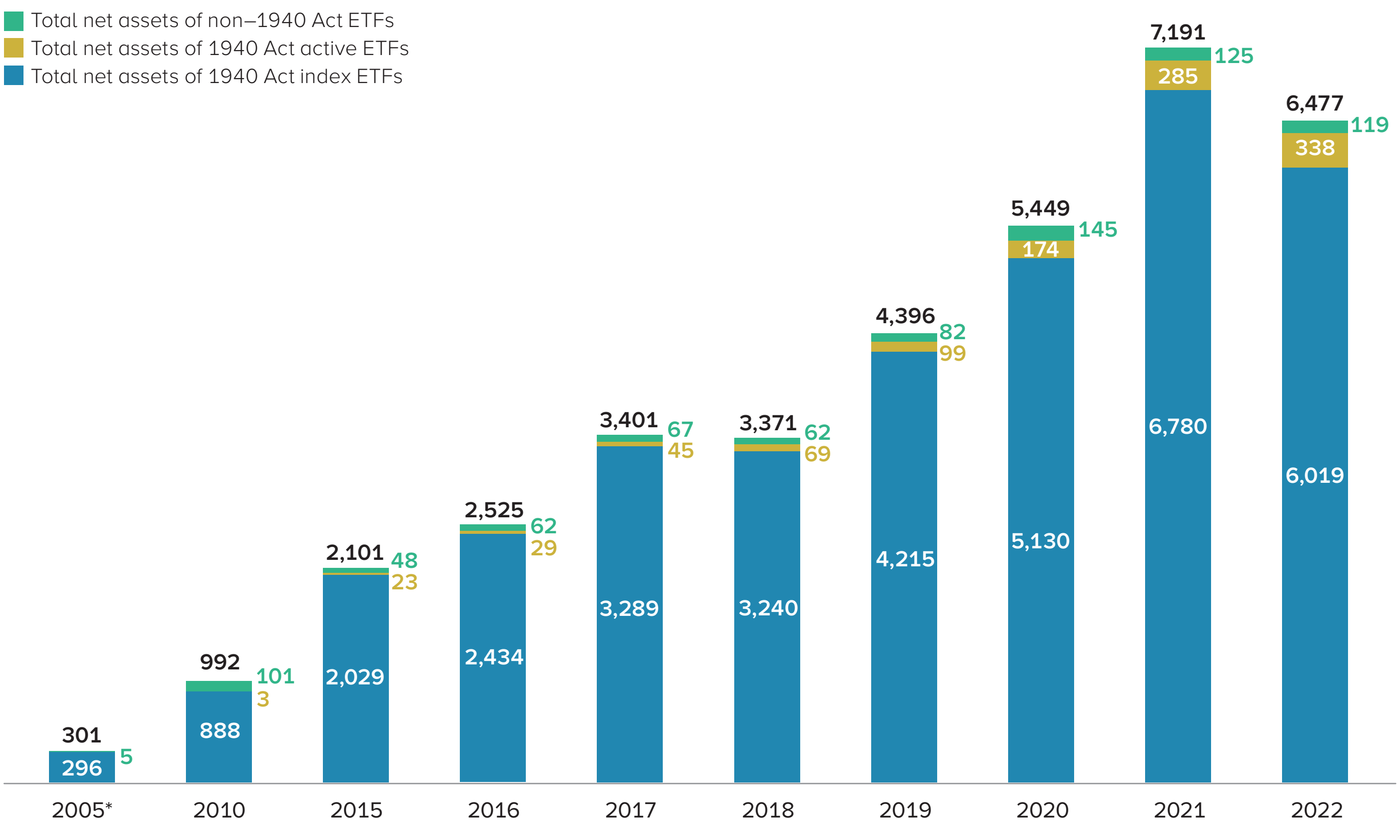
Index Exchange-Traded Funds

ETFs have grown in popularity over the past decade as investors are increasingly attracted to the specific features of these funds. General trends in investing and money management have also bolstered the demand for ETFs.[15] ETF total net assets have grown rapidly in recent years, from $301 billion at year-end 2005 to $6.5 trillion at year-end 2022 (Figure 11).

FIGURE 11

ETF Total Net Assets Decreased in 2022 While Number of ETFs Continued to Increase

Billions of dollars, year-end



Number of ETFs

2005*	2010	2015	2016	2017	2018	2019	2020	2021	2022
204	923	1,597	1,717	1,836	1,989	2,096	2,203	2,570	2,844

* In 2005, there were no actively managed ETFs registered under the Investment Company Act of 1940.
Source: Investment Company Institute

ETFs are largely index-based and registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. Actively managed ETFs registered under the 1940 Act represented 5.2 percent of ETF total net assets at year-end 2022, and ETFs not registered under the 1940 Act represented 1.8 percent.[16] Like index mutual funds, most of the assets in ETFs are in funds that focus on equities. Equity ETFs accounted for 78 percent of the total net assets of ETFs at year-end 2022.

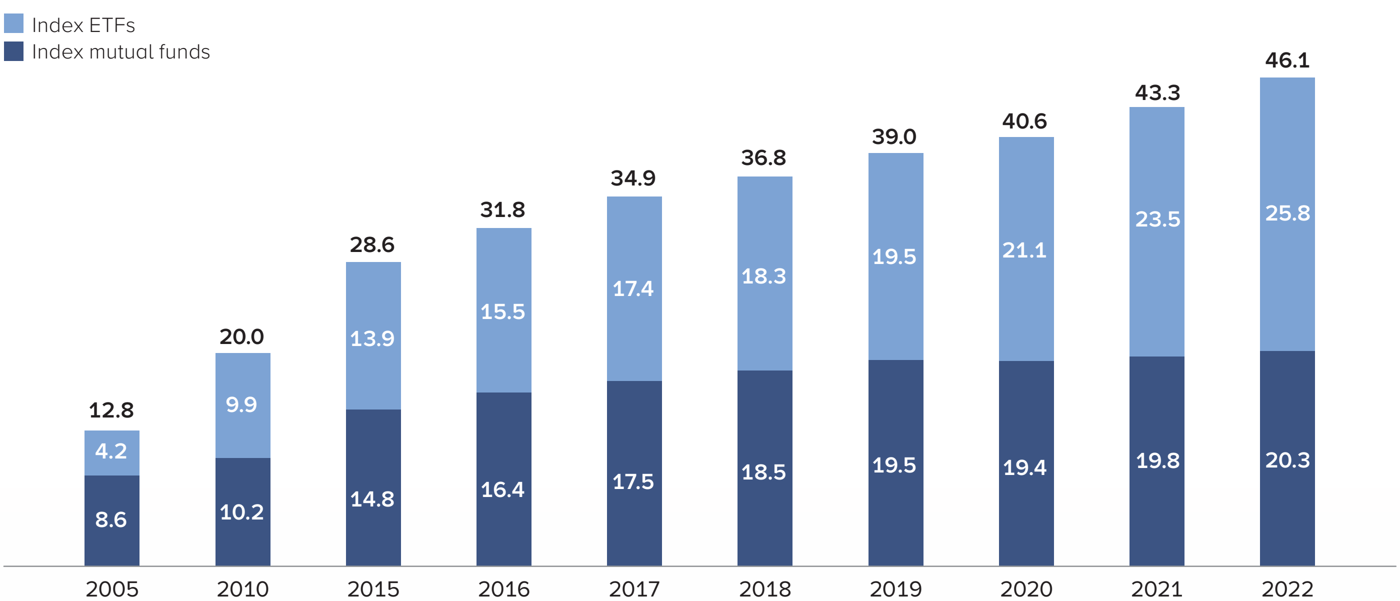
As index funds have grown in popularity, their share of the assets in long-term funds has also grown. At year-end 2005, index ETFs and index mutual funds accounted for nearly 13 percent of the total net assets in long-term funds. That share rose to 46 percent by year-end 2022 (Figure 12). Over the same time, the share attributable to index ETFs has increased significantly. In 2005, just 4 percent of the total net assets of long-term funds were in index ETFs, and by 2022 that share had risen to 26 percent.

ETFs fit well within the business model of compensating financial professionals through an asset-based fee. Compensation to financial professionals for distribution or account servicing and maintenance will typically be paid by the investor directly (rather than indirectly through a 12b-1 fee charged by the fund). Although some ETFs do bundle distribution fees in their expense ratios to cover marketing and distribution expenses, these fees are usually very small, typically less than or equal to 0.04 percent. Also, financial professionals often provide programs that offer investors a suite of ETFs suited to their investment goals. In such cases, investors would typically pay financial professionals an asset-based fee in addition to the ETF expense ratios in the suite of ETFs selected.

FIGURE 12

Market Shares of Index Mutual Funds and Index ETFs Have Grown

Percentage of long-term mutual fund and ETF total net assets, year-end



Source: Investment Company Institute

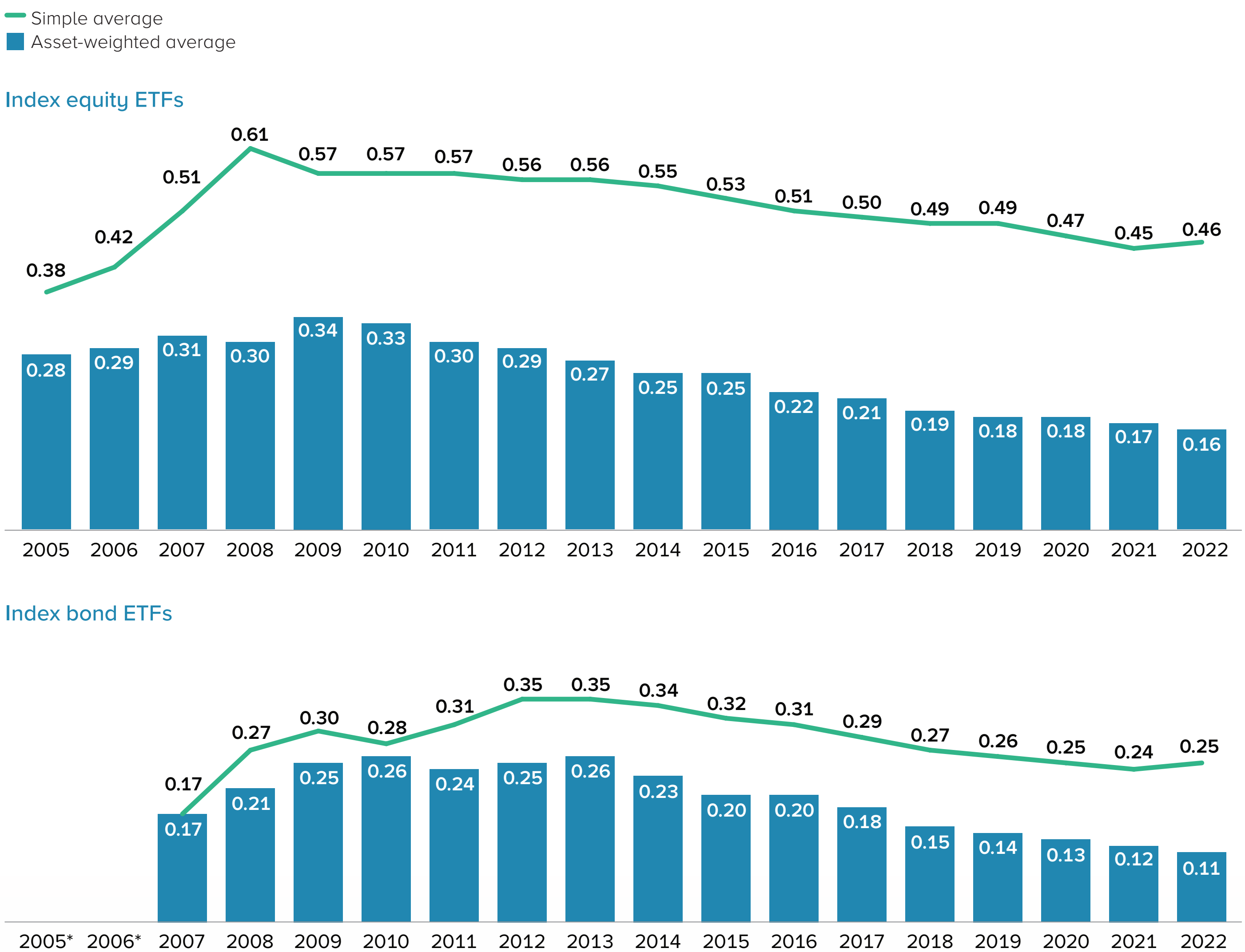
Because ETFs are generally index funds and typically do not bundle distribution and account servicing or maintenance fees in their expense ratios, their expense ratios are typically low.

In 2022, the asset-weighted average equity ETF expense ratio declined 1 basis point to 0.16 percent, down from a peak of 0.34 percent in 2009 (Figure 13). The asset-weighted average bond ETF expense ratio also declined 1 basis point—to 0.11 percent in 2022—and is down from a recent peak of 0.26 percent in 2013.

FIGURE 13

Expense Ratios Incurred by Index ETF Investors Have Declined in Recent Years

Percent



* Data for bond ETFs are excluded prior to 2007 because of a limited number of funds.

Note: Data exclude ETFs not registered under the Investment Company Act of 1940.

Sources: Investment Company Institute and Morningstar

In recent years, competition and economies of scale within the ETF industry appear to have put downward pressure on both equity and bond ETF expense ratios. New ETF sponsors have entered the marketplace to compete for market share and the number of equity and bond ETFs has skyrocketed. Even with the steady stream of new types of equity and bond ETF offerings—that tend to have different expense ratios depending on the investment objective (Figure 14)[17]—the rapid growth in ETF total net assets has allowed many funds to increase in size and reduce their expense ratios because of economies of scale.[18]

FIGURE 14

Index ETF Expense Ratios Vary Across Investment Objectives

Percent, 2022

Investment objective	10th percentile	Median	90th percentile	Asset-weighted average	Simple average
Index equity ETFs	**0.10**	**0.45**	**0.87**	**0.16**	**0.46**
Growth	0.06	0.29	0.61	0.15	0.31
Sector	0.11	0.50	0.95	0.23	0.54
Value	0.07	0.29	0.60	0.18	0.33
Blend	0.06	0.30	0.94	0.10	0.39
World	0.15	0.50	0.80	0.24	0.50
Index hybrid ETFs	**0.45**	**0.60**	**0.89**	**0.52**	**0.66**
Index bond ETFs	**0.05**	**0.18**	**0.50**	**0.11**	**0.25**
Corporate	0.04	0.10	0.23	0.06	0.14
World	0.18	0.35	0.57	0.19	0.38
Government	0.04	0.12	0.95	0.11	0.24
High-yield	0.15	0.35	0.56	0.37	0.37
Municipal	0.16	0.18	0.32	0.12	0.21
Memo:					
Active equity ETFs	**0.25**	**0.75**	**0.95**	**0.44**	**0.68**

Note: Each fund's share class is weighted equally for the simple average and the median, 10th, and 90th percentiles. Data exclude ETFs not registered under the Investment Company Act of 1940.

Sources: Investment Company Institute and Morningstar

Understanding the Differences in Index Mutual Fund and Index ETF Expense Ratios

When compared to index mutual funds, average index ETF expense ratios are somewhat higher. In 2022, index equity mutual funds had an asset-weighted average expense ratio of 0.05 percent (Figure 10) compared with 0.16 percent for index equity ETFs (Figure 13). Similarly, index bond mutual funds had an asset-weighted average expense ratio of 0.05 percent in 2022 compared with 0.11 percent for index bond ETFs. Two factors largely explain these differences.

First, total net assets in index mutual funds are more highly concentrated in categories that, by their nature, tend to have lower-than-average expense ratios—for example, expense ratios of domestic equity funds (for both mutual funds and ETFs) tend to be lower than those of funds that target specific markets, regions, or sectors. This is important because 83 percent of the total net assets of index equity mutual funds as of 2022 were in index domestic equity mutual funds (excluding sector equity). By contrast, domestic equity ETFs (excluding sector equity ETFs) represented a smaller share (64 percent) of index equity ETF total net assets in 2022.

Second, average fund size plays a role in reducing fund expense ratios through economies of scale. In 2022, the average fund size for long-term index mutual funds was $9.4 billion, nearly three times the average fund size of index ETFs ($3.3 billion). Even for domestic equity funds (excluding sector funds), there is a significant difference in average fund size ($10.9 billion for index mutual funds compared with $6.2 billion for index ETFs). Compared to the market for index mutual funds, the index ETF market is still relatively young. As the ETF market continues to mature and existing ETFs become larger, the gap between the asset-weighted average expense ratio for index ETFs and index mutual funds seems likely to close.

Fund Flows Are Concentrated in the Lowest-Cost Fund Share Classes

In recent years, fund investors have moved toward lower-cost funds or fund share classes in both actively managed and index funds. One way to see this is to examine how fund flows respond to fund expense ratios. Figure 15 plots the sum of net new cash flow or net share issuance into funds that have been sorted and grouped into quartiles based on their expense ratios. The lowest quartile of expense ratios is further split into three ranges—funds with expense ratios below the 5th percentile, those between the 5th and the 10th percentiles, and those between the 10th and the 25th percentiles. Additionally, the expense ratios representing these quartiles are different for active and index funds, and for each investment category. For example, 25 percent of actively managed domestic equity funds have an expense ratio less than 0.75 percent, compared with 0.17 percent for index domestic equity funds.*

Actively managed domestic and world equity funds only experienced inflows in the lowest-cost funds in 2022, while actively managed bond funds saw outflows in each quartile. Index funds, on the other hand, generally saw inflows across all expense quartiles for all investment objectives. For domestic and world index equity funds, these inflows were concentrated among funds with expense ratios in the lowest quartile while index bond funds saw substantial inflows into funds with expense ratios below the median.

Continued on the next page

* For detail on the expense ratios that define the ranges between the different percentiles in Figure 15, see the appendix on page 24.

Fund Flows Are Concentrated in the Lowest-Cost Fund Share Classes, continued

FIGURE 15

Fund Inflows Tend to Be Concentrated in Funds with Lower Expense Ratios

Net new cash flow to and net share issuance of mutual funds and ETFs in billions of dollars, by expense ratio quartiles, 2022

Note: Data include mutual funds and ETFs but exclude new funds without reported expense ratios and funds with missing expense ratios.

Sources: Investment Company Institute and Morningstar

Money Market Funds

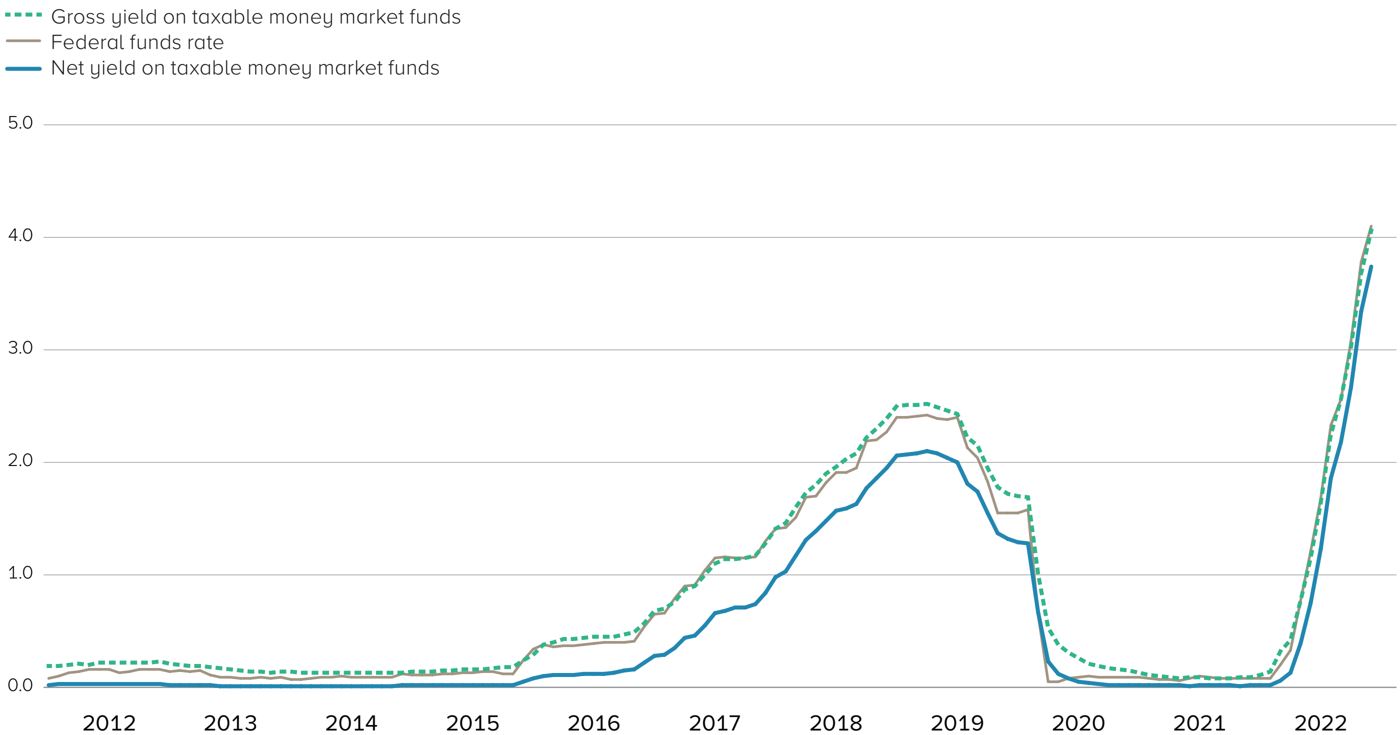
The average expense ratio of money market funds increased 2 basis point to 0.13 percent in 2022 (Figure 1). Over the past 15 years, developments that stemmed from changes in short-term interest rates have been the primary factors affecting average money market fund expense ratios.[19]

Over 2008–2009, the Federal Reserve sharply reduced short-term interest rates. By 2009, the federal funds rate was hovering at a little more than zero. Gross yields on taxable money market funds (the yield before deducting the fund's expense ratio)—which closely track short-term interest rates—fell to all-time lows. This situation remained in stasis from 2010 to late 2015 (Figure 16).

FIGURE 16

Taxable Money Market Fund Yields

Percent; monthly, January 2012–December 2022



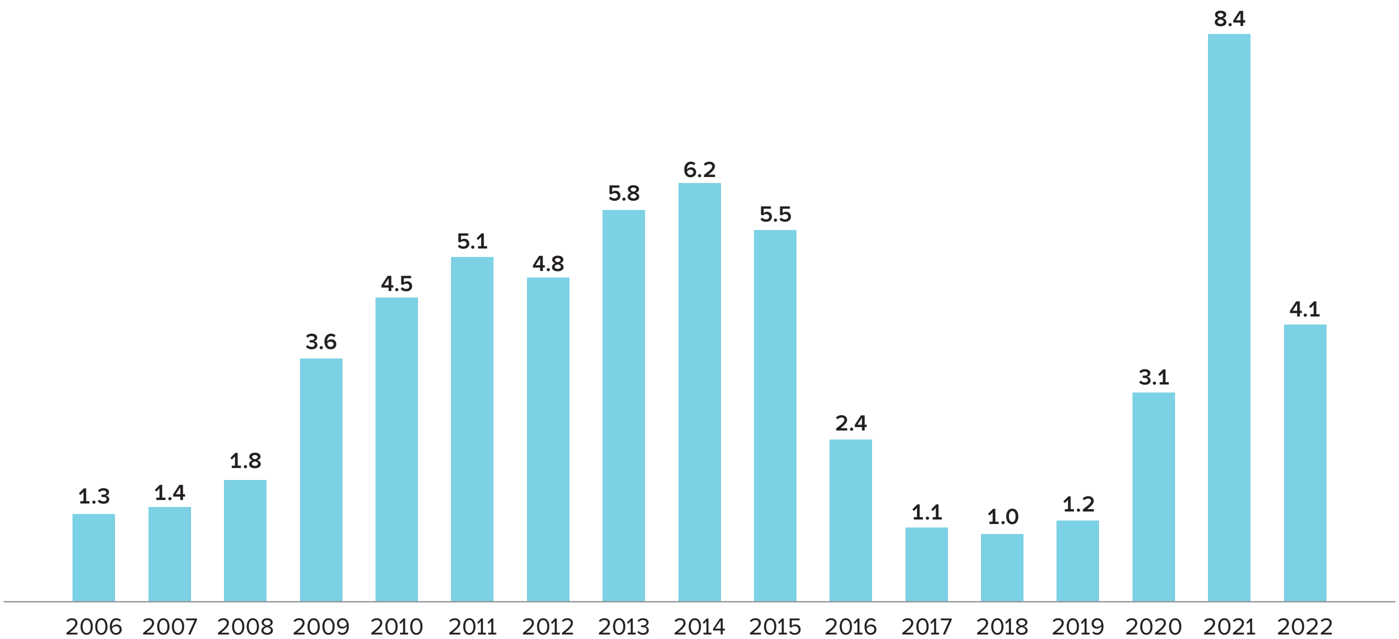
Sources: Crane Data and Federal Reserve Board

In this environment, most money market funds adopted expense waivers[20] to ensure that net yields (the yield on a fund after deducting fund expenses) did not fall below zero.[21] With an expense waiver, a fund's adviser agrees to absorb the cost of all or a portion of a fund's fees and expenses for some time. The expense waiver, by reducing the fund's expense ratio, boosts the fund's net yield. These expense waivers are costly for fund advisers, reducing their revenues and profits. From 2009 to 2015, advisers waived an estimated $36 billion in money market fund expenses (Figure 17). It was expected that when short-term interest rates rose and pushed up gross yields on money market funds, advisers would reduce or eliminate expense waivers, causing the expense ratios of money market funds to rise somewhat.[22]

FIGURE 17

Money Market Funds' Use of Expense Waivers Decreased in 2022

Money market fund expenses waived, billions of dollars



Source: Investment Company Institute tabulations of iMoneyNet data

That, ultimately, is what happened. In December 2015, the Federal Reserve raised the federal funds rate by 0.25 percent, signifying a strengthening economy; it was raised eight more times from 2016 to 2018, each time by 0.25 percent.[23] In 2019, however, this trend reversed—as global trade tensions grew more uncertain and expectations around future global growth fell, the Federal Reserve lowered the federal funds rate three times. These actions were reflected in short-term interest rates and gross yields on money market funds.

In 2020, the Federal Reserve slashed the federal funds rate back to near-zero territory as the COVID-19 pandemic effectively shut down the global economy. With short-term interest rates at nearly zero by the end of April 2020, it became more likely that the net yields of money market funds could fall below zero. Consequently, advisers reinstituted the expense waivers they had provided to their money market funds in the ultralow interest rate environment that persisted from 2009 through 2015.

In 2022, the Federal Reserve responded to rising inflation by raising the federal funds rate seven times and bringing it to between 4.25 and 4.50 percent.[24] As a result, fewer money market funds found it necessary to provide expense waivers to prevent yields from falling below zero as was the case in 2021. Total money market fund waivers decreased sharply from $8.4 billion in 2021 to $4.1 billion in 2022. In addition, the percentage of money market funds offering waivers declined from 96 percent in February 2022 (just prior to when the Federal Reserve started tightening monetary policy) to 74 percent in December 2022. Despite fewer expense waivers in 2022, the average expense ratio for money market funds rose only 2 basis points to 0.13 percent.

Small Fund Complexes: Bringing Diversity and Choice to the Fund Industry

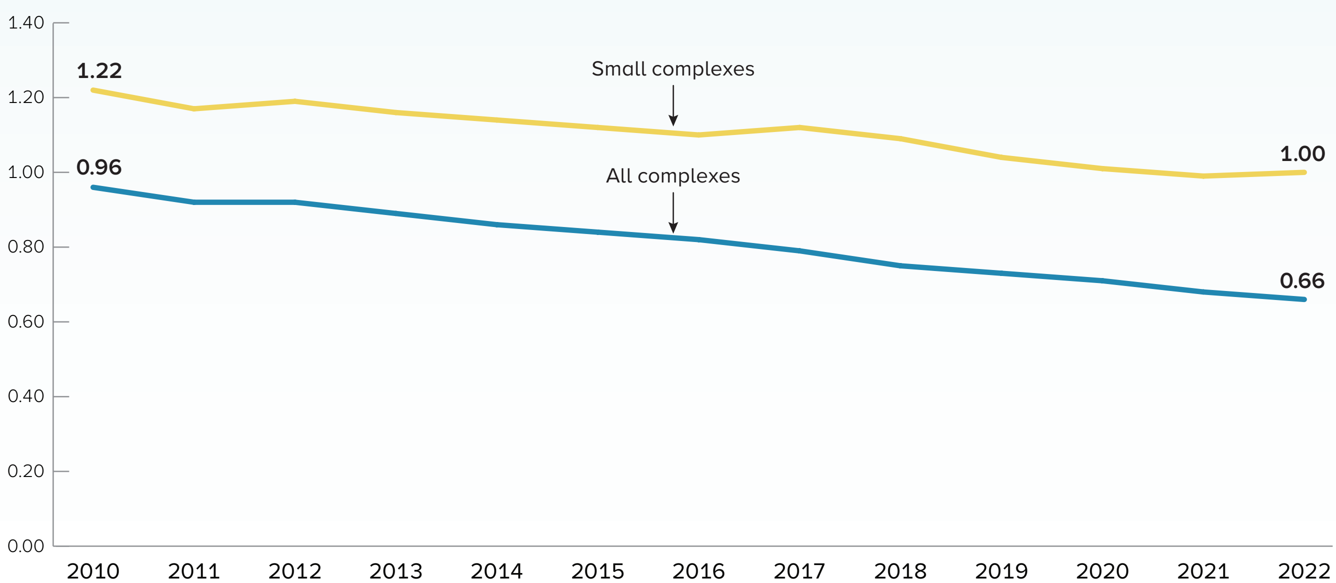
At year-end 2022, more than 280 mutual fund complexes and series trusts[25] competed for investor dollars, of which nearly two-thirds had less than $10 billion in net assets. These "small" fund complexes are a valuable segment of an industry that has seen growing concentration among the largest 25 complexes.[26] Small fund complexes are often a source of innovation in the fund industry as they tend to offer more niche fund products to investors to differentiate themselves from larger fund complexes that may not have such offerings. For example, 16.4 percent of net assets at small fund complexes were in small-cap equity funds in 2022 compared with just 6.0 percent at large fund complexes.

Small fund complexes, however, have to spread their fixed costs over a smaller asset base and don't earn the same economies of scale achieved by larger fund complexes. The average fund size for actively managed equity funds at small fund complexes was $277 million at year-end 2022, far lower than the average fund size of $2.3 billion at larger fund complexes. As a result, average expense ratios at small fund complexes tend to be higher than the industry average. At year-end 2022, the average expense ratio of actively managed domestic equity mutual funds at small fund complexes was 1.00 percent, higher than the industry average of 0.66 percent (Figure 18). The average expense ratio of these funds at small fund complexes, however, has fallen over time alongside the industry average.

FIGURE 18

Average Expense Ratios of Small Fund Complexes Have Decreased Since 2010

Percent



Note: Data only include actively managed equity funds.

Sources: Investment Company Institute, Lipper, and Morningstar

Conclusion

Expense ratios of equity and bond mutual funds declined in 2022 as investors continued to shift toward no-load funds and other lower-cost funds. Competitive pressures, fueled by individuals saving for retirement despite broad-based losses in equity and bond markets, continued to put downward pressure on target date mutual fund expense ratios. Average expense ratios for index ETFs decreased in 2022, reflecting a market that is characterized by economies of scale and competition. Despite fewer expense waivers in 2022, the average expense ratio for money market funds rose only 2 basis points to 0.13 percent.

Additional Reading

- The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2021
  www.ici.org/files/2022/per28-06.pdf
- Understanding Exchange-Traded Funds: How ETFs Work
  www.ici.org/pdf/per20-05.pdf
- *2023 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry* (forthcoming)
  www.ici.org/fact-book
- Ongoing Charges for UCITS in the European Union, 2021
  www.ici.org/files/2022/per28-08.pdf
- ICI Resources on 401(k) Plans
  www.ici.org/401k
- ICI Resources on 12b-1 Fees
  www.ici.org/rule12b1fees

Appendix

Additional Information on Fund Flows by Expense Ratio Quartiles

Figure A1 shows additional detail for Figure 15 (page 18); it presents the data in tabular form and includes the expense ratios that define the ranges for each percentile or quartile.

FIGURE A1

Low-Cost Funds Tend to Receive Majority of Inflows

Mutual funds and ETFs ranked from lowest to highest expense ratios, net flow in billions of dollars, 2022

Domestic equity

	Percentile of expense ratios					
Type of fund	< 5th	≥ 5th to < 10th	≥ 10th to < 25th	≥ 25th to < 50th	≥ 50th to < 75th	≥ 75th
Actively managed						
Expense ratio	< 0.44%	≥ 0.44% to < 0.57%	≥ 0.57% to < 0.75%	≥ 0.75% to < 0.98%	≥ 0.98% to < 1.33%	≥ 1.33%
Net flow	$14	-$27	-$88	-$77	-$47	-$9
Index						
Expense ratio	< 0.04%	≥ 0.04% to < 0.07%	≥ 0.07% to < 0.17%	≥ 0.17% to < 0.39%	≥ 0.39% to < 0.68%	≥ 0.68%
Net flow	$156	$69	$6	$32	$12	$21

World equity

	Percentile of expense ratios					
Type of fund	< 5th	≥ 5th to < 10th	≥ 10th to < 25th	≥ 25th to < 50th	≥ 50th to < 75th	≥ 75th
Actively managed						
Expense ratio	< 0.48%	≥ 0.48% to < 0.67%	≥ 0.67% to < 0.88%	≥ 0.88% to < 1.09%	≥ 1.09% to < 1.41%	≥ 1.41%
Net flow	$12	-$7	-$32	-$53	-$23	-$3
Index						
Expense ratio	< 0.07%	≥ 0.07% to < 0.09%	≥ 0.09% to < 0.25%	≥ 0.25% to < 0.49%	≥ 0.49% to < 0.65%	≥ 0.65%
Net flow	$28	$24	-$2	$15	$5	$2

Bond and hybrid

	Percentile of expense ratios					
Type of fund	< 5th	≥ 5th to < 10th	≥ 10th to < 25th	≥ 25th to < 50th	≥ 50th to < 75th	≥ 75th
Actively managed						
Expense ratio	< 0.25%	≥ 0.25% to < 0.37%	≥ 0.37% to < 0.54%	≥ 0.54% to < 0.76%	≥ 0.76% to < 1.16%	≥ 1.16%
Net flow	-$110	-$32	-$183	-$156	-$88	-$17
Index						
Expense ratio	< 0.03%	≥ 0.03% to < 0.04%	≥ 0.04% to < 0.07%	≥ 0.07% to < 0.18%	≥ 0.18% to < 0.35%	≥ 0.35%
Net flow	$29	$28	$39	$114	-$7	-$13

Note: Data include mutual funds and ETFs but exclude new funds without reported expense ratios and funds with missing expense ratios.
Sources: Investment Company Institute and Morningstar

Notes

[1] ICI uses asset-weighted averages to summarize the expenses and fees that shareholders pay through 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. ICI weights the expense ratio of each fund share class by its year-end total net assets.

[2] The fund investment categories used in this report are broad and encompass diverse investment styles (e.g., active and index), a range of general investment types (e.g., equity, bond, and hybrid funds), and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). This material is intended to provide general information on fees incurred by investors through funds as well as insight into average fees across the marketplace. It is not intended for benchmarking fees and expenses incurred by a particular investor or charged by a particular fund or other investment product.

[3] Mutual funds that invest primarily in other mutual funds are not included.

[4] To assess the expenses and fees incurred by individual shareholders in long-term mutual funds, this report 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 mutual funds represent investments made on behalf of retail investors, such as through defined contribution plans, IRAs, broker-dealers investing on behalf of retail clients, 529 plans, and other accounts (such as omnibus accounts).

[5] Data are based on a fixed sample of actively managed domestic equity mutual fund share classes continuously in existence since 2000.

[6] Among households owning mutual fund shares outside employer-sponsored retirement plans, 67 percent own fund shares through investment professionals. See Holden, Schrass, and Bogdan 2022.

[7] See, for example, Damato and Pessin 2010.

[8] Use of Morningstar data requires the following disclaimer: *© 2023 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.*

[9] The year-over-year change in the FTSE US Broad Investment Grade Bond Index was 13.3 percent in 2022.

[10] As of December 2022, 85 percent of target date mutual fund assets were held in IRAs and defined contribution retirement plans. See Investment Company Institute 2023a.

[11] When 401(k) plan participants are enrolled automatically or otherwise do not specify how their contributions should be allocated among plan investment choices, the plan sponsor may invest the contributions in a qualified default investment alternative (QDIA). The Pension Protection Act of 2006 required that QDIAs include a mix of asset classes consistent with capital preservation, long-term capital appreciation, or both. The Department of Labor (DOL) QDIA regulation (29 CFR 2550.404c- 5) allows three types of investments to be used as long-term QDIAs: target date funds (also called lifecycle funds), balanced funds, and managed accounts. These may be mutual funds, collective investment trusts, or separately managed accounts. This section focuses only on target date mutual funds.

[12] See Exhibit 2.10 in BrightScope and Investment Company Institute 2022, which shows the increased use of target date funds in 401(k) plans.

[13] The latest available data from the DOL are for plan year 2020. In the EBRI/ICI 401(k) database, from which this statistic was generated, funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. See Holden, Bass, and Copeland 2022.

[14] See note 8.

[15] For a discussion on understanding ETFs and the features that make them attractive to investors, see Antoniewicz and Heinrichs 2014.

[16] Actively managed ETFs are excluded from the analysis in this report except when indicated. The analysis also excludes ETFs not registered under the Investment Company Act of 1940 (which are ETFs that invest primarily in commodities, currencies, and futures).

[17] See note 8.

[18] For a more in-depth look at the factors influencing equity and bond ETF expense ratios over time, see Duvall and Johnson 2021.

[19] Prior to this, between 2000 and 2009, a combination of two factors played a significant role in reducing average expense ratios of money market funds. First, the market share of institutional share classes (which tend to have larger average account balances, and therefore tend to have lower expense ratios) rose to two-thirds of money market fund total net assets. Second, expense ratios of retail money market fund share classes declined 21 percent over this period. For further discussion, see Gallagher 2014.

[20] ICI uses the term expense waivers to refer to fee waivers and/or expense reimbursements.

[21] See Gallagher 2014.

[22] See Gallagher 2014.

[23] See www.federalreserve.gov/monetarypolicy/openmarket.htm.

[24] See www.federalreserve.gov/monetarypolicy/openmarket.htm.

[25] A series trust is an arrangement where a third-party provides certain services (e.g., audit, trustee, some legal) to a number of independent fund sponsors under a single complex that serves as an "umbrella." This can be cost-efficient because the costs of operating funds are spread across the combined assets of a number of funds in the series trust.

[26] See Investment Company Institute 2023b.

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