

## The Real Cost of Owning Mutual Funds in Canada and the U.S.

Do Canadians pay more to own their mutual funds than fund investors in other countries?

Statements by some analysts, most notably Morningstar, claim they do, but research tells us otherwise.

The problem stems from the fact that expense ratios are calculated differently in different countries, and some do not reflect the true cost of ownership.

In Canada, a fund's Management Expense Ratio (MER) typically includes all costs of ownership, including costs of distribution. Approximately 85% of all fund assets in Canada use a 'bundled' fee structure where advice is paid for through fees charged to the fund (included in the MER).

In contrast, in the U.S. and many other countries, distribution costs generally are paid for separately and not included in a fund's expense ratio.

Independent research<sup>1</sup> accounting for these differences finds that the cost of owning funds

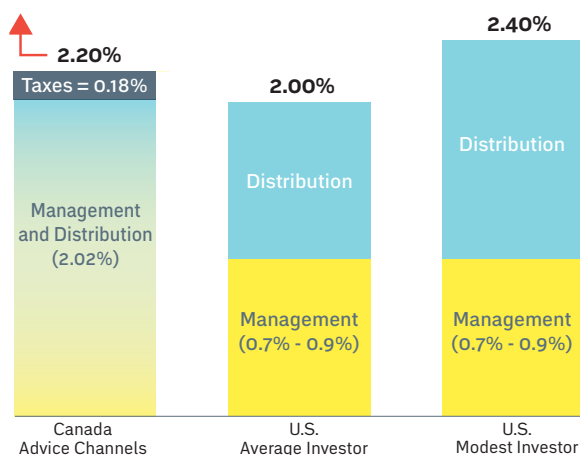
in Canada and the U.S. are comparable when all costs are included.

As the chart below indicates, the total cost of ownership is 2.00% in the U.S. and 2.02% in Canada excluding GST/HST. (In the U.S., there is no comparable tax on mutual funds.)

For modest investors (those with fewer dollars to invest)<sup>2</sup>, the cost of ownership is higher in the U.S. than it is in Canada.

### The Cost of Owning Mutual Funds

Excluding taxes, the cost in Canada would be **2.02%**.



<sup>1</sup> *Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Canada-U.S. Perspective 2015 Update*, Investor Economics

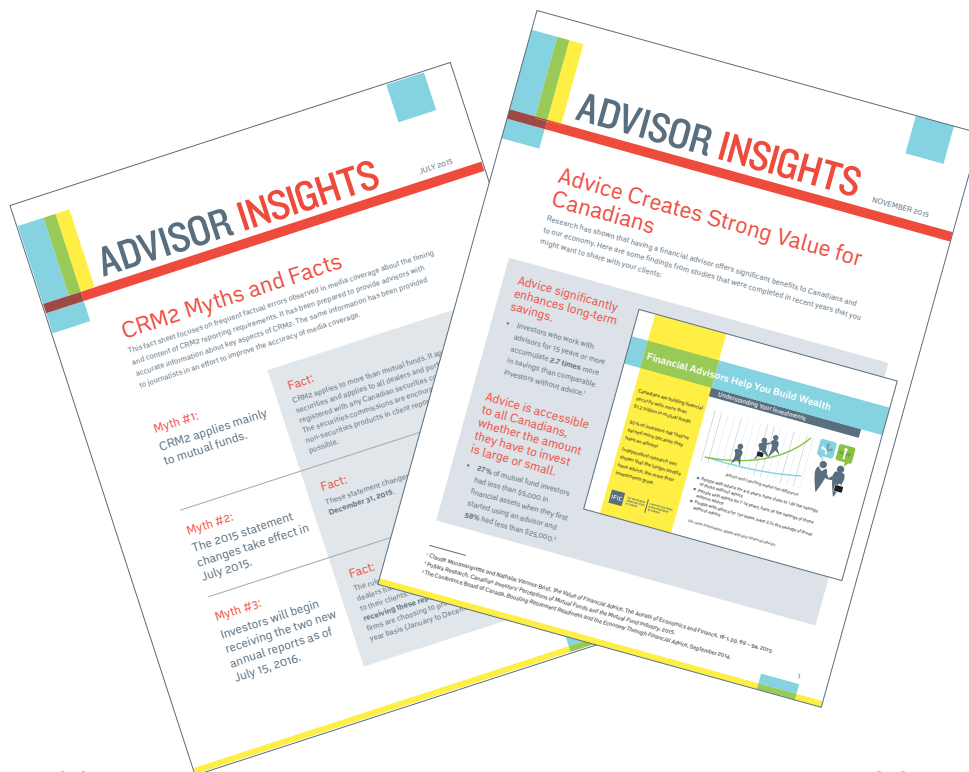
<sup>2</sup> "Modest investor" refers to a person with less than \$100,000 to invest.

## More Tools Available from IFIC

IFIC has developed a series of tools to help dealers and advisors prepare to implement CRM2 effectively. This includes clear summaries of regulatory requirements, as well as a series of plain language tools that advisors can share with investors to help them understand their investments, so that they are able to make more informed decisions.

Successful implementation of the CRM2 disclosure requirements is one of the most important challenges the industry is facing, as the outcome will lay the groundwork for regulatory direction for years to come. To be successful, the industry must embrace not only the rules of CRM, but also the intent of the rules, which is to strengthen investors' understanding of their investment products and their confidence to make decisions that will help them achieve their financial goals.

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