

## Gold, Frankincense and MER(fees)

Companies that sell mutual funds and segregated funds both charge fees to cover the cost of managing your money. That's just the way it is. The purpose of this article is not to vilify those fees but more so to draw your attention to them.

After being in the financial industry for nearly 14 years it still amazes me as I talk with people about their investments, how many of them are oblivious to the fees they pay on the funds they own. I guess that should come as no surprise really, because for the most part those fees are kept well hidden and as the old saying goes, "Out of sight, out of mind."

For whatever reason, banks, mutual fund companies, and the like are not required to list the MER charges on a clients statement of account. Account statements will only ever display the net returns, which is the amount leftover after all the fees have been deducted.

As an advisor dealing with a variety of different investment products, most of them require that full disclosure of all costs and fees be provided to the client. The challenging part is when a client says to me, "We really like what you had to offer but we decided to go through the bank because they had no fees."

When I inquired, "So you put your money into a GIC then? " and they answer back with, "No, we ended up buying a mutual fund instead." I walk away scratching my head in disbelief.

I gave a presentation once to a client who invited her sister to sit in with us. The sister who was a 10 year employee for a top 5 Canadian bank asked me about the fees on a specific product. After disclosing the fees I asked how that compares with the bank's product.

Without batting an eyelid she stated, "There are no fees."

Questioning further I asked her, "What about the MER?"

"OH, BUT THAT'S NOT REALLY A FEE," she claimed....

Not Really a Fee? Give me a break! .... all mutual funds, segregated funds included, have an MER fee attached to the account. There may be other fees as well such as front end loads, back end loads, trailer fees etc., but for now we are going to focus strictly on the MER Fees.

### What Exactly is an MER?

An MER is the shortened version of Management Expense Ratio. This is a fixed percentage that is siphoned off your account balance on a yearly basis whether you realize it or not . It is used in part to pay for the salaries of the fund managers, to cover the marketing expenses, accounting, record keeping, and legal costs of maintaining the fund.

### How Much is the MER?

MER fees vary from one fund to another but in Canada the average mutual fund MER Fee will range typically somewhere between 2% and 2.5%. When you first purchase a mutual fund the bank or the dealer is required by law to disclose the MER fees.

The sad part of the story is that the fee is seldom if ever translated into a \$ dollar amount, and the fact that there is no further reference to the fees on your account statements means that they are quickly forgotten about. Could that be by design perhaps?

## How to Calculate an MER?

The method for calculating an MER Fee is to take the MER percentage and divide it by the number days of days in the year. It is then deducted from your account on a regular monthly basis. Please note that the fee has no relationship whatsoever to the profits earned on your account.

In other words there may be a year or years where your fund has actually lost money. An MER fee does not discriminate between a fund that makes money or a fund that loses money, it is deducted from your account balance just the same.

Let's take a look at a very simple illustration. Suppose you were to deposit \$10,000 into a mutual fund account with a consistent annual gross return of 7%, and an MER fee of 2%.

Therefore your account statements will show you that you are earning a steady 5% a year. There are 2 things however that your account statements will not show you.

- 1. How much did the 2% represent in overall MER fees**
- 2. The potential account value had there been no MER fees?**

The table below will give you a quick snapshot of how a 2% MER fee adds up over a period of 30 years. The 3rd column illustrates your account balance over the same time period, and the last column shows what your account balance would have looked like without the 2% MER fee.

If you take the \$76,122.55 from column 4 and subtract it from the \$43,219.42 in column 3 you end up with \$32,903.13. That is what the 2% MER fee actually cost you in potential earnings over that 30 year period. Take some time to try out our [MER fee calculator](#).

TERM	MER fee	Future Value	FV Without fees
year 01	\$200.00	\$10,500.00	\$10,700.00
year 05	\$1,105.13	\$12,762.82	\$14,025.52
year 10	\$2,515.58	\$16,288.95	\$19,671.51
year 20	\$6,613.19	\$26,532.98	\$38,696.84
year 30	\$13,287.77	\$43,219.42	\$76,122.55

### Conclusion:

Managed funds and MER fees are not going to disappear off the financial horizon anytime soon. If you want to avoid paying management fees altogether then educate yourself on the markets, learn how to research companies and stock offerings, become an expert at managing your own investments.

In the meantime when you are talking to your bank or credit union about what funds they recommend for your portfolio make sure to ask them the following 3 questions:

- 1. What is the listed MER fee of the particular fund?**
- 2. What will be the cost of the MER fee over time?**
- 3. Can the fee on the fund be increased without notice?**