



# WHY FEES MATTER

Regardless of where you invest your money (your workplace plan, a financial institution, an investment dealer or mutual fund company), you will likely pay fees for the products and services that you receive. Fees have a significant impact on the value of your investments over time. Lower fees mean that more of your money stays invested and continues to grow.

This article describes the fees paid by members of the UBC Faculty Pension Plan (FPP) and compares them with fees paid for similar investments on a retail basis incurred at financial institutions (generally through mutual funds).

## The Cost of Investment Services

It is important to understand what services are covered by the investment fees you pay and how those fees are charged. You can then assess if you are receiving good value for the services provided. You will also be able to determine if the fees are competitive.

The costs of investing include a management fee to the investment fund manager, as well as operating costs, including professional (legal and accounting) fees and custodial costs. The fees for these services are often bundled together and charged as a percentage of assets and deducted directly from your investment earnings. These expenses are often referred to as the Management Expense Ratio (MER). However, in the UBC FPP, we refer to expenses as a Fund Management Fee (FMF). A report prepared by Morningstar<sup>1</sup> shows that the average MER for Canadian mutual funds (holding stocks and bonds) was 1.9%, the highest among 26 developed countries. An MER of 1.9% means that when the gross return of the fund is 6.0%, you will receive a net return of 4.1%.

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## The Impact of Fees

The impact of fees on the value of your investments can be seen by examining their projected impact over the long term. The table on the next page shows how much an investment of \$100,000, earning 6.0% per year, would grow after 20 years assuming fees of 0%, 0.5%, 1.0% and 2.0% are deducted each year from investment earnings.

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<sup>1</sup>Morningstar, Inc. *Global Investor Experience Study*, March 2022.

Value of \$100,000 investment after 20 years with 6.0% return

MER	0%	0.5%	1.0%	2.0%
First year cost	\$0	\$500	\$1,000	\$2,000
Total cost over 20 years	\$0	\$28,940	\$55,385	\$101,600
Net Asset Value after 20 years	\$320,715	\$291,775	\$265,330	\$219,110

A fund that is charging a fee of 0.5% is earning an average annual return of 5.5% after fees whereas the fund being assessed a fee of 2.0% is earning an average of 4.0% per year after fees. After 20 years, the account balance in the fund charging 0.5% is more than \$72,000 greater than the account balance in the fund charging 2.0%. Clearly the level of fees charged can have a significant impact on how your investments will grow.

## UBC FPP Fees

The UBC FPP provides a means for you to accumulate retirement assets. Depending on the investment fund, fees currently range from 0.14% to 0.62%, which are significantly lower than fees charged by retail mutual funds. There are two main reasons why the Plan is able to offer lower management fees:

- **Size.** The Plan has over \$2.8 billion invested with various investment managers so the Plan is able to negotiate lower or reduced fees.
- **Lower overhead.** Retail institutions generally have higher overhead expenses, including sales commissions and advertising expenses. They also must consider shareholder profits.

The fees are billed directly to the investment funds and are deducted prior to the calculation of a unit value. The unit value is then used to calculate your account balance. In other words, the cost of investment and administration services is charged as a percentage of assets.

It is also important to note that the fees can change monthly as many of the investment managers employed by the Plan have a fee structure that is based on the size of the Plan's assets. Therefore, as the Plan's assets change, so do the Plan's fees. The most current fee information is available at [mysunlife.ca/ubcfpp](https://mysunlife.ca/ubcfpp). Sign in, and then under **Investments**, select **Manage plan > my plan > Plan overview > Account fees**.

The FMF of each of the investment funds of the UBC FPP at the end of May 31, 2023 are shown below.

UBC Faculty Pension Plan Fund Management Fees as at May 31, 2023

Fund	Annualized Percentage
UBC FPP Balanced Fund	0.62%
UBC FPP Bond Fund	0.47%
UBC FPP Canadian Equity Fund	0.37%
UBC FPP Foreign Equity Fund	0.51%
UBC FPP Fossil Fuel Free Fund	0.43%
UBC FPP Short Term Investment Fund	0.14%

The Plan also offers guaranteed funds through Sun Life. Although these funds do not have specific investment fees, there is an administration cost of 0.06% which is included in the guaranteed fund term rates.

Fees that are applicable in non-recurring circumstances include short-term trading fees. A short-term trading fee of 2% will be charged to your account when you initiate an interfund transfer into a fund followed by an interfund transfer out of the same fund within 30 days. The short-term trading fee does not apply to guaranteed funds or the UBC FPP Short Term Investment Fund. Other than the short-term trading fees for interfund transfers, there are no fees for buying, selling or switching funds. As well, there are no additional fees charged to members to receive pension payments or transfers from the Plan.

The UBC FPP fees include:

- **Governance and oversight.** The Trustees are responsible for the management and oversight of the Plan including the administration and the investment of the assets. Participation in ongoing education and training is important, and the Trustees are encouraged to attend conferences and seminars related to the diverse and complex issues they face as fiduciaries and administrators of the Plan. The Trustees have hired an Executive Director, Investments, who assists the Trustees in their governance duties as they relate to the Plan's investments, and an Executive Director, Pensions, who is responsible for operations of the UBC Pension Administration Office and serves as Secretary to the Board.
- **Investment management services.** The day-to-day investment decisions are made by external investment managers hired by the Trustees, under the oversight of the Executive Director, Investments. The external investment managers are responsible for selecting investments within their mandate to meet specified performance targets.
- **Custodial and valuation Services.** The assets of the FPP are held by Sun Life. Sun Life is also responsible for the valuation of the funds and reconciles the investment manager statements to their records and provides detailed statements of each investment option to the Trustees.
- **Benefit recordkeeping and administration.** Sun Life, as recordkeeper, is responsible for collecting member contributions, depositing them to the Plan, recording the amounts to member accounts, calculating and adding investment earnings to account balances, preparing quarterly member statement of accounts, and administering benefit payments when a member terminates or retires. Sun Life and the UBC Pension Administration Office work together to ensure the administration of the Plan is efficient and accurate.
- **Member services and communication.** The UBC Pension Administration Office provides member services such as pension seminars and one-on-one meetings, and member communication including the Plan website and newsletters. In addition, Sun Life provides member services through their Client Care Centre with a dedicated phone number for UBC FPP members, 1-844-UBC-3131.

## Financial Advice

Financial advice costs money, so it is important to know how much you are paying and what services it covers. For mutual funds, the fee will often include the cost of advice from a professional. This can be an important component as they will examine your financial situation and develop an appropriate program. Financial advisor services may be charged in several ways:

- A fee for service, usually based on an hourly rate
- Sales charges or commission on the purchase or sale of securities or mutual funds, charged at the time of purchase or deferred until the investment is sold
- A combination of fees and commissions
- The MER, described previously, equal to a percentage of invested assets

The most prevalent way financial advisors get paid is through the commissions they are paid when buying or selling investments for a client.

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In conclusion, the amount of fees you pay can have a significant impact on the value of your investments. UBC FPP members should feel good about the fees they pay in comparison to fees charged for retail investments. Fees are necessary, and at the outset, it is important to understand how they are assessed and the dollar amount that is charged. When viewing rates of returns, it is advisable to request the net returns (after fees) in addition to gross returns. Remember to factor all fees into your calculation of return; actual investor returns equals the market return of your investment minus the associated costs. ■

This article has been prepared by the UBC Pension Administration Office for information purposes only. Pension plans and the legislation that governs them are complex, so not every detail can be contained in a communication such as this. In the event of any discrepancy or misunderstanding, benefits will be administered according to the official Plan documents and the applicable legislation.