FinStart

What do you need to know about ETF costs?

When you buy ETFs, you pay 2 annual fees (whether you buy it as part of a robo-advisor portfolio or in your online broker account)

- MER (management expense ratio) covers licensing fees for the index that the ETF is tracking, and the ETFs operating and administrative costs.
- TER (trading expense ratio) covers the ETF’s trading costs. It should be really small for index ETFs as they should not do much trading.

They are expressed as a percentage of the amount you have invested – the more money you’re investing, the higher the dollar amount of fees

- This is the opposite effect to the commission that you pay when you buy and sell ETFs - commission is a dollar amount per trade, regardless of the size of transaction.

They are subtracted automatically before the investment performance of the ETF is calculated.

They are not directly comparable among all index ETFs. For example,

- Licensing fees may vary for different indices, even when they represent the same market
- ETFs that track large and liquid markets will have lower MER than those that track less accessible markets (for example, international equities are less liquid than US equities, and this will be reflected in higher MERs)
- For fixed income ETFs, most of the ETF’s costs of buying and selling bonds in embedded in bond prices rather than paid out as commission – for bonds this cost may not show directly in the TER
- Asset allocation ETFs hold different proportions of bonds, stocks, and international - so their transaction costs will naturally differ
- Large ETFs may benefit from their size and enjoy lower TER

MER is set in advance (though it may change in the future). TER is only known at the end of the year when the fund’s trading activity is known.