

Index funds and fees

Easy · 15 min to read; 20 min to check your plan's funds · Free to learn; funds charge yearly fees

YOU'LL NEED

- ☐ Your 401(k) or 403(b) fund list, or the fund's prospectus
- ☐ A calculator, or FINRA's free Fund Analyzer

WHAT TO KNOW

- 1 **Know what you're buying.** An index fund is a mutual fund, ETF or unit investment trust that follows a passive strategy meant to get about the same return as a particular index, before fees, mainly by owning the stocks or bonds in that index.
- 2 **Know why people like them.** Passive management usually means less trading, lower transaction costs, lower realized capital gains (so lower taxes) and lower fees than actively managed funds. An actively managed fund has a manager picking investments; it might beat the market, but it isn't tied to an index.
- 3 **Find the expense ratio.** It's the percentage of the fund's assets taken each year to pay its operating costs, including management fees and 12b-1 (distribution) fees. It's listed in the fee table of the fund's prospectus. You never get a bill: fund costs come straight out of the fund's value.
- 4 **Compare funds side by side.** Small fee gaps become large dollar gaps over time, and a high-cost fund has to perform better just to give you the same result as a low-cost one. FINRA's Fund Analyzer, linked from Investor.gov, shows how costs add up.
- 5 **Decide your mix.** Asset allocation means splitting money among stocks, bonds and cash. A longer time horizon can usually handle more ups and downs; money you need soon belongs in steadier places.
- 6 **Spread out inside each type too: many companies and industries, so one bad company or sector doesn't sink you.** Owning funds is one easy way to do that.
- 7 **Check your mix once or twice a year.** If stocks grow from 60% to 80% of your account, rebalancing back means selling some winners or adding to the rest. Experts suggest every 6 or 12 months, or when a category drifts past a set percentage; less often tends to work better.
- 8 **Ask any adviser: How do you get paid (commission, a percentage of what you have, or a flat fee)?** What are all the fees to buy, hold and sell? How much does this have to go up before I break even?

Watch out Funds are not insured by the FDIC or any government agency. You can lose some or all of what you put in, and past performance does not predict future returns. Also be careful with free online risk quizzes: results may lean toward whatever the site's sponsor sells.

DAD NOTE *You can't control the market. You can control what you pay. Pay less.*

Full lesson: aptkeys.com/money/investing-and-retirement/index-funds-and-fees/

Checked October 2, 2026. Sources: U.S. Securities and Exchange Commission.