

Impact Of Fees On Your Retirement Fund

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In a previous paper¹, I made a case for an individual to self-manage his/her retirement fund. It was proposed in that paper that building your fund around the QQQ ETF could be sufficient to outperform market averages.

The case was well documented and presented several scenarios on how a person could enhance performance. There is a difference between mutual funds, ETF funds, and market averages. For instance, mutual funds have higher fees than exchange-traded funds.

I will use Table #3, as presented in the above-cited article, as a base for comparison. Here it is again:

Pension Contributions - 15% Return - 40 Years

Contrib. Monthly	Return Rate	Total Contrib.	In 40 Years Total Value	Real CAGR	First Year Withdrawal	First Month Withdrawal
\$100	15%	48,000	3,101,605	10.98%	155,080	12,923
\$500	15%	240,000	15,508,027	10.98%	775,401	64,616
\$1000	15%	480,000	31,016,054	10.98%	1,550,802	129,233

Table 1: Expected Return - Pension Contributions - 40 Years - 15%.

The assumptions made in Table #1 are: you bought QQQ at age 25 and held until retirement at age 65. You made monthly contributions to your portfolio, either at \$100, \$500, or \$1000 per month over the entire period.

QQQ over the last 13.5 years averaged 15.7% per year. That was for doing nothing but sitting on your bunnies and waiting for it to happen. Talk about watching the paint dry. Boring. At least you could do whatever you wanted with your time.

¹ [Retire A Multi-Millionaire](#)

I will take the example where you contributed to your fund \$500 a month (\$6,000 per year), which generated a retirement fund valued at \$15,508,027 able to give you on your very first month in retirement \$64,616 or \$775,401 for the year.

If you had used SPY instead of QQQ, you would have had something like Table #2.

Pension Contributions - 10% Return - 40 Years

Contrib. Monthly	Return Rate	Total Contrib.	In 40 Years Total Value	Real CAGR	First Year Withdrawal	First Month Withdrawal
\$100	10%	48,000	632,407	6.66%	31,620	2,635
\$500	10%	240,000	3,162,039	6.66%	158,101	13,175
\$1000	10%	480,000	6,324,079	6.66%	316,203	26,350

Table 2: Expected First Year Withdrawal From Pension Contributions.

You would have done the same amount of work to generate Table #2 as the first one using QQQ. The difference is only having bought SPY instead of QQQ.

But then, a mutual fund could have done close to what you would have done using SPY. The problem is that they do have fees. Not considerable, in the order of 2 to 3%. But they will have an impact. It is not only immediate; it will reverberate over the entire period your retirement fund is operational, meaning even during retirement.

Say we redo the above table but with a 2.5% in annual fees. It would reduce overall performance. You would get the following table based on the same parameters as in Table #2.

Pension Contributions - 10% Return - 40 Years - Fees 2.5%

Contrib. Monthly	Return Rate	Total Contrib.	In 40 Years Total Value	Real CAGR	First Year Withdrawal	First Month Withdrawal
\$100	10%	48,000	302,382	4.71%	15,119	1,259
\$500	10%	240,000	1,511,911	4.71%	75,595	6,299
\$1000	10%	480,000	3,023,822	10.98%	151,191	12,599

Table 3: Expected Return - Pension Contributions - 40 Years - 10% - Fees 2.5%

The impact of those fees (a mere 2.5%) can be considerable. It would have cut your fund by more than 50%. Instead of having a reasonable start to your retirement with a fund valued at \$15,508,027, you end up with a fund totaling \$1,511,911. All because you chose a mutual fund instead of an ETF, in this instance, QQQ. The difference is \$13,996,116 based on a single decision you could have made from the start. In French, I say: 'pensez-y bien'. After all, it is a choice you have to make.

You could get better results by putting more on the table.

My paper: **Retire A Multi-Millionaire** makes the case for even better results, not by guessing the market but simply using administrative decisions.

Look in particular at Tables #4, #5, and #6 in that paper, where it is shown how to improve the performance level without that much hardship.

One of the scenarios required no more than an added \$5.00 per day. It always comes down to: it is your choice.

What the above-cited paper presents is easy to implement. Investment decisions are made before starting the retirement fund. The rest is waiting it out.

The whole process ignores what the market will do daily. It is mainly concerned with what it will do over the long term. And that is to help you retire a multi-millionaire.