

Schwab Bank's commitment to protecting your retirement plan and IRA assets

Own your tomorrow.

Since 1992, the Business Trust Division<sup>1</sup> of Charles Schwab Bank® has been delivering comprehensive trust and custody services to retirement plan sponsors, recordkeepers, and other financial services providers.

> With Schwab Bank as trustee or custodian, plan sponsors and their service providers and individual retirement account (IRA) holders can feel confident knowing their account assets are protected by a wide-ranging combination of safeguards. Our strong organizational control structures, compliance oversight and risk management processes, independent audits, business continuity programs (including operations and systems support departments in multiple locations throughout the United States), and information security measures all help keep plan assets secure.

### Schwab Bank's financial strength

Protecting our clients' retirement and other employee benefit plan and IRA assets starts with the demonstrated stability of Schwab Bank. For clients offering a bank deposit option within employee benefit plans, confidence in the soundness of the depository bank is critical. Our capital structure and liquidity are excellent, and our internal financial controls and business standards are designed to keep client assets safe. We maintain a disciplined focus on risk management and operate the bank conservatively. We know that our success ultimately depends on how well we serve all our clients and earn their confidence in us.

## How does Schwab Bank's Business Trust Division safeguard securities for retirement plans?

We take careful measures to safeguard the security of securities held at Schwab Bank. Banks are required to keep the assets of fiduciary and custodial accounts separate from their own assets, and these assets are generally not treated as assets of the bank if the bank becomes insolvent. When the owner of securities delivers them to a bank for safekeeping, the owner is entitled to their return upon the bank's insolvency so long as the ownership of securities is properly identified.

Schwab Bank is committed to maintaining an experienced management team and a very strong operational and systems control environment, regularly examined by internal auditors and compliance and risk management personnel.

In addition, the bank engages an independent audit firm each year to perform an annual operational and systems control environment SSAE 18 review (formerly known as SSAE 16), which is made available to all retirement plan clients on an annual basis. Key financial data for Charles Schwab Bank As of December 31, 2018

### \$234.0 billion in balance

in balance sheet assets<sup>2</sup>

### \$15.6 billion in equity capital<sup>3</sup>

Net income of \$3.2 billion in 20184

### Tier 1 leverage ratio 7.2%

capitalized: 5.0%)

19

Tier 1 capital ratio

capitalized: 8.0%)

Total capital ratio

### 19.7%

(minimum to be well capitalized: 10.0%)

Source: Schedule RC-R of the 12/31/18 Call Report for Charles Schwab Bank.

#### FDIC coverage for cash held at Schwab Bank

The Federal Deposit Insurance Act provides a system of federal deposit insurance under the administration of the Federal Deposit Insurance Corporation (FDIC). For more information about FDIC coverage, go to <u>fdic.gov</u>.

If you have questions about basic FDIC insurance coverage, please contact your Schwab representative.

You may wish to seek advice from your own attorney concerning FDIC insurance coverage of deposits held in more than one insurable capacity.

To obtain more information, contact the FDIC at the following address or phone number:

Deposit Insurance Outreach Division of Supervision and Customer Affairs 550 17th Street NW Washington, DC 20429

877-275-3342 | 800-925-4618 [TDD]

Visit the FDIC website at fdic.gov/deposit/index.html

# How does FDIC insurance apply to retirement and employee benefit plan and IRA accounts?

Subject to the rules discussed below, self-directed retirement plan deposits that qualify for pass-through coverage are insured up to \$250,000 for each plan participant's interest in the plan,<sup>5</sup> and IRA bank deposits are insured up to \$250,000.<sup>6</sup> Coverage of a participant's beneficial interest in a plan is called pass-through insurance because the insurance coverage passes through the plan to the participant's interest or share.<sup>7</sup> For participants and IRA holders, FDIC insurance coverage applies both to their deposit balance and to any interest they have earned but which has not yet been paid to their account, assuming proper records have been kept.Some beneficial interests of participants in an employee benefit plan (such as a defined benefit plan) cannot be evaluated in accordance with FDIC rules (referred to by the FDIC as "contingent interests"<sup>8</sup>).

The value of a plan participant's non-contingent interest in a defined benefit plan will be equal to the present value of the participant's share in the plan, evaluated based on the calculation ordinarily used by the plan. For example, if a defined benefit plan has two participants, one with a non-contingent interest of \$425,000 and one with with a non-contingent interest of \$75,000, the plan's deposit would be insured up to \$325,000 (\$250,000 for the participant with the \$425,000 non-contingent interest and fully for the participant with the \$75,000 non-contingent interest). A deposit account held by a defined benefit plan that is eligible for pass-through treatment is not insured for an amount equal to the number of participants multiplied by \$250,000. Additionally, overfunded amounts are insured, in the aggregate for all participants, up to \$250,000 separately from the insurance provided for any other funds owned by or attributable to the employer or an employee benefit plan participant.

The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if these investments were purchased from the insured institution.

# What are ownership categories, and how do they apply to retirement plans and IRAs?

The FDIC provides separate insurance coverage for the cash balances that clients have on deposit at a bank based on different categories of legal ownership of the funds (referred to by the FDIC as ownership categories). It is important for the plan sponsor and plan participants to understand the type of plan(s) or account(s) holding deposits at the bank on their behalf. The two ownership categories most relevant for retirement plans and IRAs are retirement accounts and employee benefits plans.

**Retirement accounts:** The FDIC adds together the cash held on deposit in IRAs and certain other retirement accounts (referred to by the FDIC as the Certain Retirement Accounts ownership category) owned by the same individual at the same bank and insures the total up to \$250,000.

The following types of retirement plans and IRAs held at Schwab Bank are insured in this ownership category:

- Individual retirement accounts (IRAs), including traditional and Roth IRAs
- Self-directed<sup>9</sup> defined contribution plan accounts, such as self-directed 401(k) plans, money purchase plans, or profit-sharing plans
- Self-directed Keogh plan accounts (or H.R. 10 plan accounts) designed for self-employed individuals
- Section 457 deferred compensation plan account, such as an eligible deferred compensation plan provided by state and local governments, regardless of whether the plan is self-directed.

"At Schwab, we are dedicated to the principles of safety and soundness. They form the heart of our relationship with our clients."

-Charles R. Schwab, Chairman

All cash held on deposit that an individual has in any of the types of retirement plans listed previously at the same FDIC-insured bank is added together, and the total is insured up to \$250,000. For example, if an individual has an IRA and a self-directed Keogh account at the same bank, the deposits in both accounts would be added together and insured up to \$250,000.<sup>10</sup>

**Employee benefit plans:** Generally, an employee benefit plan account, as defined by the FDIC, is a deposit of a pension plan, profit-sharing plan, defined benefit plan, or other employee benefit plan that is not self-directed.

The FDIC adds together all employee benefit plan account deposits that qualify for pass-through coverage and are owned by the same entity (i.e., an individual or a company) at the same bank and insures the total up to \$250,000. In addition to the standard aggregation rules discussed previously, under FDIC regulations, an individual's interests in plan deposits maintained by the same employer or employee organization (e.g., a union) at Schwab Bank will be aggregated for purposes of the applicable insurance amount.

Employee benefit plan deposits that do not qualify for passthrough coverage, such as non-qualified deferred compensation plans and health and welfare plans, are insured up to \$250,000 per plan. Health and welfare plans usually do not qualify for pass-through coverage because they routinely involve contingencies (such as getting sick in order to receive benefits).

### Schwab's information security measures

In addition to protecting client assets through safeguards and financial strength, we are committed to protecting client privacy and information.

#### Our privacy policy

To learn how we protect client privacy, please visit <u>schwab.com/privacy</u>.

#### How we safeguard information online

To learn how we keep personal and financial information safe online, please visit <u>schwab.com/schwabsafe</u>.

#### In the event of an emergency

To learn how we plan to provide continued client service in the event of disruption to normal business operations, please visit <u>schwab.com/businesscontinuity</u>.

## **Questions?**

Please call your Schwab representative.



- Charles Schwab Bank was founded in 2003. The Charles Schwab Trust Company, a California state-chartered, limited-purpose trust company founded in 1992, merged into Charles Schwab Bank as its Business Trust Division in 2008.
- 2. Schedule RC of the 12/31/18 Call Report for Charles Schwab Bank.
- 3. Schedule RI-A of the 12/31/18 Call Report for Charles Schwab Bank.
- 4. Schedule RI of the 12/31/18 Call Report for Charles Schwab Bank.
- 5. The types of plans for which deposits may receive pass-through treatment are employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act (ERISA) (including Keogh plans, whether or not they are technically employee benefit plans under ERISA), and eligible deferred compensation plans described in Section 457 of the Internal Revenue Code of 1986. For purposes of Section 3(3) of ERISA, employee benefit plans are broadly defined to include most employee benefit plans, including most defined benefit plans and most defined contribution plans.
- 6. IRA bank deposits would include cash deposits swept to Schwab Bank in connection with a retirement plan's Personal Choice Retirement Accounts® and/or Schwab Advisor Portfolio accounts held at Charles Schwab & Co., Inc., a registered broker-dealer affiliated with Schwab Bank.
- 7. Because plan participants frequently have different interests in the plan, insurance coverage cannot be determined simply by multiplying the number of participants by \$250,000. For example, an employee benefit plan has \$500,000 in deposit accounts at Schwab Bank and the participants are eligible for up to \$250,000 per plan beneficiary. The employee benefit plan has two participants, one with a noncontingent interest (i.e., the participant's interest can be determined in accordance with FDIC rules) of \$425,000 and one with a noncontingent interest of \$75,000. In this case, the employee benefit plan's deposit would be insured up to only \$325,000; the individual with the \$425,000 interest would be insured up to the \$250,000 limit; and the individual with the \$75,000 interest.
- 8. For example, the contingent interest of a plan participant in a defined benefit plan is an amount that is contingent on factors that are currently unknown, such as the participant's date of retirement, age of retirement, and other actuarial factors.
- 9. FDIC defines "self-directed" to mean the ability of the plan participants to direct funds into a specific depository institution.
- 10. While some self-directed retirement accounts, like IRAs, permit the owner to name one or more beneficiaries, the existence of beneficiaries does not increase insurance coverage available for the Certain Retirement Accounts ownership category.

On 01/01/2019 Automatic Rollover IRA assets transitioned from Charles Schwab Bank to Charles Schwab Trust Bank, a separate but affiliated subsidiary of the Charles Schwab Corporation. Rollover funds in the Charles Schwab Trust Bank Automatic Rollover IRA are deposited in a Federal Deposit Insurance Corporation (FDIC) insured money market deposit account at Charles Schwab Trust Bank.

Trust and custody products and services are offered by Charles Schwab Bank, (CSB) and Charles Schwab Trust Bank (CSTB), members of FDIC. Schwab Personal Choice Retirement Account (PCRA) is offered through Charles Schwab & Co., Inc. (Schwab), Member SIPC, the registered broker/dealer, which also provides other brokerage and custody services to its customers. CSB, CSTB, and Schwab are separate but affiliated companies and subsidiaries of the Charles Schwab Corporation. The Charles Schwab Corporation.

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