

Schwab Bank Savings



An FDIC-insured deposit feature for retirement plans

Own your tomorrow.

It's different from the usual cash preservation options, with a lot of benefits

In conversations with our clients, Schwab Bank has heard that plan sponsors and participants are looking for a sense of security when it comes to retirement plan assets. That's why we offer an FDIC-insured deposit feature, Schwab Bank Savings,¹ as a capital preservation option for retirement plan participants.

Participants can contribute to Schwab Bank Savings in an employee benefit plan with up to \$250,000 in Federal Deposit Insurance Corporation (FDIC) insurance protection on that portion of their account,² all while earning interest on the deposit. The balance allocated to Schwab Bank Savings is deposited in an FDICinsured money market deposit account at Charles Schwab Bank ("Schwab Bank"). Most participants are familiar with FDIC insurance, and they can feel more comfortable knowing that their bank depository holdings are FDIC-insured.

When it comes to the goal of "capital preservation," plan sponsors should consider that providing an FDICinsured product option is one of the best ways to help ensure that a participant's capital is preserved.

FDIC insurance-it just makes sense

Many of your employees might be familiar with the general concepts of FDIC-insured products they can get at a bank. Participants in self-directed defined-contribution plans can contribute to Schwab Bank Savings in their 401(k) with up to \$250,000 in FDIC insurance protection on the Schwab Bank Savings portion of the account, all while earning interest on the deposit. That's something most people can understand and appreciate.

FDIC protection works differently for defined benefit plans, defined-contribution plans that are not directed by participants, and other types of plans. Visit <u>fdic.gov</u> for more information.



Key benefits

Schwab Bank Savings is different from many cash preservation options, with several benefits:

- **No additional expenses.**³ Participants do not pay additional operating or administrative expenses on funds deposited in Schwab Bank Savings.
- **No MMFR fees and gates.** Charles Schwab Bank offers a simplified solution by eliminating exposure to Money Market Fund Reform fees and gates.
- **FDIC insurance.** Deposits are insured up to \$250,000 when the funds are aggregated with all other deposits held by a participant in an individual retirement account or selfdirected employee benefit account.
- **Bank soundness.** Charles Schwab Bank has strong liquidity, internal financial controls, and business standards, with a focus on keeping client assets safe.

Schwab Bank Savings is different from a standard money market fund

As capital preservation can be a major component of a diversified investment strategy, plan sponsors and advisors are often evaluating money market mutual funds or stable value funds in a retirement plan's lineup. Schwab Bank Savings is different. Many money market mutual funds seek to preserve the value of the participant's investment at \$1.00 per share. Stable value funds seek to preserve the value of a participant's investment at original net asset value plus accrued earnings. However, it is possible to lose money by investing in such funds. Unlike Schwab Bank Savings, the participant's principal investment and any earnings are not insured or guaranteed by the FDIC or any other government agency.

Capital preservation is not about chasing yield

Schwab Bank Savings is not intended to produce high yields, and therefore does not carry the inherent risk associated with investment vehicles that chase higher yields. The intent of Schwab Bank Savings is to provide an attractive capital preservation vehicle. Along with a sense of security for participants, it offers a low-cost, low-risk, liquid deposit feature that preserves allocated funds at Schwab Bank.⁴ While the amount of interest paid will vary over time, Schwab Bank Savings seeks to pay a rate that reflects current economic conditions⁵ and that is consistent with a low-risk interest rate benchmark.

You might be evaluating the difference in yield between Schwab Bank Savings and alternative capital preservation options. As you do, it's important to consider that there are no additional administrative or operating expenses paid by participants on balances in Schwab Bank Savings that would reduce the principal they invest.⁶



The soundness of a bank deposit feature is assessed by looking at the strength of the sponsoring bank's balance sheet, capital structure, and liquidity.



What to consider when evaluating Schwab Bank Savings

Plan sponsors and consultants may be accustomed to tracking the yields of a capital preservation vehicle or analyzing underlying holdings in a money market mutual fund. But the soundness of a bank deposit feature is assessed by looking at the strength of the sponsoring bank's balance sheet, capital structure, and liquidity. With Schwab Bank Savings, what should a plan fiduciary consider?

Federal oversight

Schwab Bank Savings funds are deposited in Charles Schwab Bank, one of the top 20 banks in the U.S.,⁷ which is subject to ongoing banking regulatory oversight and examination by the Department of the U.S. Treasury's Office of the Comptroller of the Currency (OCC). This regulatory oversight mandates that Schwab Bank has:

- A robust capital planning process
- Adequate capital reserves and liquidity
- Effective corporate governance
- Business recovery plans
- Management of core business lines to effectively manage risks and continue operations through adverse market conditions and internal stresses

How Schwab Bank measures up

Schwab Bank has excellent liquidity and internal financial controls and business standards designed to keep client assets safe.

- \$234.0 billion in balance sheet assets⁸
- \$15.6 billion in equity capital⁹
- Net income of \$3.2 billion in 2018¹⁰
- Capital ratios:¹¹
 - Tier 1 leverage capital ratio: 7.2% as of 12/31/18 (minimum to be well capitalized: 5.0%)
 - Tier 1 capital ratio: 19.7% as of 12/31/18 (minimum to be well capitalized: 8.0%)
 - Total capital ratio: 19.7% as of 12/31/18 (minimum to be well capitalized: 10.0%)

Our commitment

Last but not least, Schwab Bank is financially strong, and you can have confidence in its disciplined focus on risk management. Its capital structure and liquidity are sound and positioned for long-term strength and stability.¹²

As a plan sponsor, you can feel confident offering Schwab Bank Savings to your retirement plan participants.



Charles Schwab Bank is one of the top 20 U.S. banks in total assets.



Every dollar a participant deposits in retirement savings at Schwab Bank, up to \$250,000 based on account ownership type, is insured by the FDIC.

FDIC insurance-a significant benefit

While banking oversight can provide participants a sense of security as they invest in Schwab Bank Savings, FDIC insurance provides a layer of protection. In the unlikely event of a bank failure, every dollar a participant deposits in retirement savings at Schwab Bank, up to \$250,000 based on account ownership type, is insured by the FDIC.¹³

The FDIC is an independent agency of the U.S. government. The FDIC protects bank depositors if an FDIC-insured bank or savings association fails. The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if these investments were bought from an insured bank. It is also important to note that the FDIC insurance limit of \$250,000 applies to the aggregate of all deposits held by an individual at a given bank.¹⁴

With Schwab Bank Savings, participants do not have an individual bank account with Schwab Bank, but rather a beneficial interest in the plan's money market deposit account. FDIC regulations permit the bank to "pass through"¹⁵ the benefits of FDIC insurance to participants because of the account titling and recordkeeping that Schwab Bank's Business Trust Division and your recordkeeper provide. Keeping the proper records to ensure FDIC pass-through to participants is the plan sponsor's responsibility, with support from the recordkeeper.

Your recordkeeper supplies the required reporting¹⁶ on behalf of the plan sponsor to Schwab Bank, maintaining records of each participant's balance daily, along with the interest earned that has not yet been paid. In the unlikely event that federal deposit insurance payments become necessary, payments of principal and unpaid interest will be made to the plan's trust and reflected in participants' accounts maintained on your behalf by your recordkeeper, subject to the FDIC aggregation rules.¹⁷

For more information about FDIC coverage, go to <u>fdic.gov</u>.

Cost structure

OER vs. spread

Unlike they do with other capital preservation vehicles, participants do not explicitly pay any operating or administrative expenses—which normally reduce a vehicle's yield—on their funds invested in Schwab Bank Savings.

Instead, Schwab Bank pays a fee to the FDIC to insure balances and absorbs the operating expenses to administer and service those balances. Schwab Bank also bears the investment risks and cost of reserving capital. Considering these specific expenses associated with providing insurance on deposits, the cost structure behind Schwab Bank Savings is different from that of a money market mutual fund or stable value fund, which are not FDIC-insured and therefore not subject to the same consumer protection regulations and associated costs.

Instead of a stated operating expense ratio (OER), Schwab Bank's compensation comes from the "spread" that represents the difference between what the bank earns from investing and funding lending activities with Schwab Bank Savings balances and the interest rate it pays participants (plus any other expenses absorbed on these accounts).

Since Schwab Bank bears the investment risk associated with Schwab Bank Savings, rather than the participant, the interest rate is lower and is not intended to compete directly with other investment options that involve participant market risk.

Our shared goal: Putting the participant first

It's important for plan sponsors to offer their participants a retirement plan lineup that can help meet their retirement goals. You can offer a capital preservation option that does just that—by preserving capital by placing it in a deposit vehicle with FDIC insurance, not chasing yield. And participants themselves can feel more secure knowing that their Schwab Bank Savings deposits—up to the maximum insurable limit—are FDIC-insured.

Some participants may find that they're not comfortable with the levels of risk inherent in mutual funds and exchange-traded funds. At the end of the day, our focus has to be on better retirement outcomes for participants. Schwab Bank Savings is one of many innovations we're making to provide participants with choices that empower them to help reach better outcomes for themselves and their families.

Let's continue the discussion.

To learn more about how you can benefit from an FDIC-insured deposit feature, contact your service representative or Schwab Retirement Solutions at **877-702-6498.**

- 1. Funds allocated to Schwab Bank Savings are deposited in a money market deposit account (MMDA) at Charles Schwab Bank ("Schwab Bank"). An MMDA is a type of savings deposit.
- 2. FDIC Coverage: Funds deposited in the MMDA at Charles Schwab Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 when aggregated with all other deposits held by a Plan Participant in the same capacity at Schwab Bank. Participants are responsible for monitoring the total amount of deposits that they hold with Schwab Bank, in order to determine the extent of deposit insurance coverage available to them on their deposits, including the MMDA.
- 3. An interest rate spread applies. See the 'Cost Structure' section for additional information.
- 4. Participants may generally move funds into and out of the savings account at any time; however, federal regulations require Schwab Bank to reserve the right to require seven (7) days' prior notice before allowing a withdrawal or transfer of funds from the savings account. Schwab Bank currently does not exercise this right and has not exercised it in the past.
- 5. Interest will compound daily and be credited to a participant's balance in Schwab Bank Savings monthly. Participants will not earn interest on cash pending trades (cash float). The interest rate will be effective from the day following the last Business Day of the month until the last Business Day of the following calendar month. A "Business Day" shall mean any day on which both Charles Schwab Bank and the New York Stock Exchange are open for business.
- 6. See note 3 above.
- "Largest 50 Institutions by Consolidated Banking Assets," American Bankers Association, Q4 2017; Charles Schwab Bank ranks #13.
- 8. Schedule RC of the 12/31/18 Call Report for Charles Schwab Bank.
- 9. Schedule RI-A of the 12/31/18 Call Report for Charles Schwab Bank.
- 10. Schedule RI of the 12/31/18 Call Report for Charles Schwab Bank.
- 11. Schedule RC-R of the 12/31/18 Call Report for Charles Schwab Bank.
- 12. For the latest information and to learn more about The Charles Schwab Corporation's financial strength, visit <u>aboutschwab.com</u>. The Charles Schwab Corporation ("Schwab") provides services to retirement and other benefit plans and participants as well as equity compensation plan services and other financial and retirement services to corporations and executives through its subsidiaries, Schwab Retirement Plan Services, Inc.; Schwab

Retirement Plan Services Company; Charles Schwab Bank; Schwab Retirement Technologies, Inc.® (Schwab RT); and Charles Schwab & Co., Inc. Schwab Advisor Services serves independent investment advisors and includes the custody, trading, and support services of Charles Schwab & Co., Inc. Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company provide recordkeeping and related services with respect to retirement plans. Trust, custody, deposit, and lending products and services are offered by Charles Schwab Bank. Schwab RT is engaged in developing and licensing proprietary retirement plan recordkeeping systems to independent third-party administrators. Brokerage products and services are offered by Charles Schwab & Co., Inc.

- 13. The portion of Participant accounts allocated to SBS is eligible for Federal Deposit Insurance Corporation ("FDIC") insurance up to \$250,000, subject to FDIC rules concerning aggregation of deposit accounts Participants hold in the same capacity with Schwab Bank. Participants are responsible for monitoring the total amount of deposits that they hold with Schwab Bank in self-directed retirement accounts, either directly or through an intermediary such as Charles Schwab & Co., Inc., in order to determine the extent of deposit insurance coverage available to them.
- 14. Under FDIC regulations, an individual's interest in the deposits of one bank held by the following types of retirement plans and accounts will be aggregated for the purposes of the \$250,000 deposit insurance limit: all types of IRAs, all Section 457 deferred compensation plan accounts (such as eligible deferred compensation plans provided by state and local governments regardless of whether they are self-directed); self-directed defined contribution plan accounts (such as self-directed 401(k) plans, self-directed SIMPLE held in the form of 401(k) plans, self-directed defined contribution money purchase plans, and self-directed defined contribution profit-sharing plans); and self-directed Keogh plan accounts designed for self-employed individuals.
- 15. For more information on FDIC pass-through insurance, refer to <u>fdic.gov/regulations/laws/rules/2000-5400.html#fdic2000part330.14</u>, or contact the FDIC directly.
- For information on the reporting the Plan Sponsor provides to support, please refer to the Charles Schwab Bank MMDA Agreement.
- 17. There is no specific time period during which the FDIC must make insurance payments available, and neither the Plan nor Schwab Bank is under any obligation to credit an account with funds in advance of payments received from the FDIC. Participants may be required to provide certain documentation to the FDIC before insurance payments are made.

Outcomes are not guaranteed.

Trust, custody, and deposit products and services are available through Charles Schwab Bank and Charles Schwab Trust Bank, members of FDIC..

Schwab Retirement Business Services created this communication for retirement plan sponsors and retirement plan consultants, advisors, and other retirement plan service providers and fiduciaries only. Schwab Retirement Business Services is not a fiduciary to retirement plans or participants and only provides recordkeeping and related services.

Schwab Bank Savings may not be available for use by all plan types, such as 403(b) plans that may invest in mutual funds and annuity products only. Please refer to your plan documents. Other restrictions may apply.

The Charles Schwab Corporation provides a full range of brokerage, banking, and financial advisory services through its operating subsidiaries. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. member SIPC, offers investment services and products. Its banking subsidiary, Charles Schwab Bank (member FDIC and an Equal Housing Lender), provides deposit and lending services and products.

Investment Products: Not FDIC Insured - No Bank Guarantee - May Lose Value

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