Rethink your 401(k) with Schwab Index Advantage®
In the last 30 years, 401(k) plans have become one of the most common retirement planning tools in the United States.\textsuperscript{1}

Our research shows that some 70\% of Americans have looked to a 401(k) plan as their primary source of retirement income.\textsuperscript{2} But despite the popularity of 401(k) plans, other industry studies show that nearly 3 in 4 workers weren’t on track to retire,\textsuperscript{3} and almost 9 in 10 plan participants worried about not having enough money to retire comfortably.\textsuperscript{3} People want better retirement outcomes, and they need help with how they can get there.

That’s why it’s time to rethink the 401(k). And why we developed an innovative 401(k) approach—Schwab Index Advantage®.

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³ of 4 participants weren’t on track for retirement.³
For over 40 years, The Charles Schwab Corporation has been committed to pushing the industry for change on behalf of the individual investor. It’s no different now when it comes to retirement plans—Schwab believes that the services we offer have to focus on features that may help provide better outcomes for participants.

When it comes to building retirement savings, studies show that two things matter: cost and advice. Schwab Index Advantage® combines these two ideas into one offer to help participants achieve better retirement outcomes.

Our innovative offer combines low-cost index funds and a personalized savings and investment strategy with built-in third-party investment advice services—all backed by the high-quality service you can expect from Schwab, an industry leader in sponsor and participant satisfaction.

Rethink cost

Whether they realize it or not, participants typically bear the cost of operating expenses for the funds in which they invest in their plan. Over time, these expenses can have a significant impact on total retirement savings—and reducing them should help participants build more savings over time.

That’s why we designed Schwab Index Advantage® using low-cost index funds. Plan sponsors can select funds from the industry’s largest providers, choosing a lineup of either index mutual funds or exchange-traded funds (ETFs). Index funds aim to provide performance in line with a specific index—at a low cost.

Alternatively, with actively managed funds, participants pay fees for fund managers who are trying to outperform their applicable benchmark. According to Standard & Poor’s, from 2008 to 2013, more than half of actively managed funds failed to outperform their applicable benchmark. Standard & Poor’s also shows that as time goes on, it becomes tougher for active fund managers to consistently beat their applicable benchmarks.

Rethink advice

Lowering costs is just a start. According to a study by Financial Engines and Aon Hewitt, from 2006 to 2010, people who received help (defined as target-date funds, managed accounts, and online advice) could end up with more savings in their retirement plan—up to 70% more in some cases. However, too few participants have been taking advantage of that help. For example, looking at one element of that help across Schwab’s participant base, only about 1 in 10 took advantage of advice from a professional independent third-party advice service.

That’s why Schwab Index Advantage builds in ongoing professionally management called Schwab Retirement Planner®. And all participants will receive the benefit, unless they choose to manage their retirement account on their own. They’ll receive a personalized retirement savings and investment strategy, with low-cost savings and investment advice services provided by an independent third party. Plan sponsors can choose either GuidedChoice Asset Management, Inc. (“GuidedChoice”) or Morningstar Associates, LLC (“Morningstar”) as the advice provider for their plan to help participants reach their retirement goals.

Looking deeper than a target-date fund, and reaching further than a point-in-time advice service, the independent, professional managed account service considers participants’ personal circumstances, such as age, income, account balance, and savings rate. Morningstar or GuidedChoice then manages the participant’s investment mix ongoing. And everyone in Schwab Index Advantage has access to Advice Consultants for questions and assistance with respect to how to access GuidedChoice or Morningstar services if they wish, including the submission of additional personal data for further customization of their strategy by Morningstar or GuidedChoice.

An index-only lineup can lower investment costs by 60% to 85%.

With professional help (target-date funds, managed accounts, and online advice), participants increased their annual returns by almost 3%.

Almost 87% of workers didn’t think they’d have enough money for retirement.

Past performance is not an indication of future results. Outcomes are not guaranteed.
A new view
on the 401(k)

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Rethink plan approach

Schwab Index Advantage® is more than rethinking a list of plan features—it’s an approach to your retirement plan that combines low-cost investments and low-cost professional management in one packaged offer. It’s about changing the value equation—participants stop paying fees for fund managers to try to beat their applicable benchmark, and often for about the same (or less) cost,16 they receive the benefits of a managed service. It’s about helping plan sponsors offer a forward-thinking retirement plan that helps meet the diverse needs of participants and sets them on the path toward more savings.

Schwab Index Advantage is structured to reflect how participants are likely to behave. Automatic plan features are on the rise in the industry,17 and targeted communications address the changing needs of employees at significant life stages. Schwab Index Advantage uses the combined power of these features to help participants save more for retirement.

Schwab Index Advantage can help sponsors, too. An all-index lineup can help simplify the process for choosing plan funds, eliminating the need to differentiate between individual manager investment strategies. Ongoing fund evaluation may also be simpler, with the review of the selected funds conducted through comparison to the underlying index.18

And through the managed account feature in Schwab Retirement Planner®, sponsors realize the benefit of a built-in service intended to meet the terms of a qualified default investment alternative (QDIA). Sponsors also gain the confidence of knowing that employees have ongoing access to the help and tools they need. And sponsors benefit from a dedicated service team to help with plan conversion, ongoing plan design strategy and administration, and support for required plan reporting.

Charles Schwab & Co., Inc. ranked as one of FORTUNE’s “World’s Most Admired Companies® 2013 in the Securities Industry.”19

Think Schwab

Everyone knows that the nature of investing means you can’t predict the market or promise your participants a specific outcome. But now you can combine decreased fund investment costs and low-cost professional management in a way that’s informed by participant behavior and built for participant ease. You can offer your participants a path to saving more for their retirement goals.*

To learn more about Schwab Index Advantage®, call us at 1-877-223-7036 or visit rethinkyour401k.com.

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Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Fund operating expenses represent the total of all of a fund's annual fund operating expenses. Management fees are one component of the fund operating expenses. Index funds generally have lower management fees because they don't have to pay investment managers to actively manage underlying investments. Remember that cost is only one consideration when making an investment decision. Some specialized exchange-traded funds may be subject to additional market risks. Investment returns and principal value of ETFs and Index Mutual Funds will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Index funds are not without risk, and an investor may give up the opportunity to outperform the market by being in an actively managed fund. All ETFs and index mutual funds are subject to management fees and expenses.

Schwab Index Advantage provides a combination of index funds with low operating expenses, built-in independent professional advice available through Schwab Retirement Planner®, and Schwab Bank Savings, an interest-bearing, FDIC-insured savings feature through Charles Schwab Bank. Schwab Retirement Planner provides participants with a fee-based retirement savings and investment strategy, a major component of which is a discretionary investment management service furnished by independent registered investment advisors GuidedChoice Asset Management, Inc. (“GuidedChoice”) or Morningstar Associates, LLC, a wholly owned subsidiary of Morningstar, Inc. GuidedChoice and Morningstar Associates are not affiliated with or an agent of Schwab Retirement Plan Services, Inc. (“SRPS”), Charles Schwab & Co., Inc. (“CS&Co.”), or their affiliates. Schwab Index Advantage, including the Schwab Bank Savings and Schwab Retirement Planner features, is only available in select retirement plans serviced by Schwab Retirement Plan Services, Inc. or an agent of SRPS. Neither CS&Co., SRPS, Schwab Bank Savings nor any Schwab product or service is sponsored, endorsed, sold or promoted by Morningstar Associates or GuidedChoice including information regarding compensation, affiliations and potential conflicts.

10. DCP 2013 Plan Sponsor Survey conducted by Boston Research Group. Nationwide study of 1,716 401(k) plan sponsors with $5 million or more in plan assets, drawn from 401k Exchange database. Data collected April through August 2013. One hundred and eight identified themselves as having Charles Schwab as a provider. Survey results based on number of provider plan sponsors responding. DCP 2011 Plan Sponsor Survey conducted by Boston Research Group. Nationwide study of 1,454 401(k) plan sponsors with $5 million or more in plan assets, drawn from 401k Exchange database. Data collected April through July 2011. Seventy identified themselves as having Charles Schwab as a provider. Survey results based on number of provider plan sponsors responding. DCP 2013 Participant Survey conducted by Boston Research Group. Nationwide online study of 7,000 401(k) participants actively contributing to the plan. Data collected in May of 2013. Three hundred and seventy-eight participants identified themselves as having Charles Schwab as a provider. DCP 2011 Participant Survey conducted by Boston Research Group. Nationwide online study of 8,000 401(k) participants actively contributing to the plan. Data collected in May of 2011. Three hundred and sixty-two participants identified themselves as having Charles Schwab as a provider.

13. Financial Engines and Aon Hewitt, Help in Defined Contribution Plans: 2006 Through 2010, September 2011. Comparing portfolio returns and risk levels of 401(k) participants using Help and not using Help at eight companies over a five-year period from 2006 through 2010, the study finds an average return difference of 2.92% (292 basis points). Using that return difference and assuming a Help and a Non-Help participant both invest a lump sum of $10,000 at age 45 (Help participant receives median return of just above 12% and Non-Help participant just under 10%), the $10,000 grows more than twice as fast at 65 ($71,400) than the Non-Help participant ($42,100). All returns reported in this research are net of fees, including fund-specific management and expense fees, and managed account fees where applicable. “Help” in this research is defined as target-date funds, managed accounts, and online advice.
15. Schwab Participant Service Representatives are available to set up advice consultations from 7:00 a.m. to 11:00 p.m. ET Monday through Friday.
16. For illustrative purposes only. Based on Schwab’s research using 1) 2010 data from 195 defined contribution plans serviced by Schwab Retirement Plan Services Inc. and Schwab Retirement Plan Services Company and 2) 2010 data from a comparison set of plans serviced by other providers. In this comparison set, the weighted average operating expense ratio (OER) for mid-sized plans ($20–100M) using actively managed funds was $55 to $95 per $10,000 invested and for large plans ($100–350M) the OER was $50 to $75 per $10,000 invested. For similar-sized plans adopting Schwab Index Advantage, the weighted average OER for index mutual funds or ETFs should be about $15 to $20 per $10,000 invested. This example includes any fees associated with professional, independent, advice services or other fees that may be charged to a participant account.
18. Schwab Retirement Planner provides participants with a retirement savings and investment strategy, a major component of which is a discretionary investment management service furnished by independent registered investment advisors GuidedChoice Asset Management, Inc. (“GuidedChoice”) or Morningstar Associates, LLC, a wholly owned subsidiary of Morningstar, Inc. GuidedChoice and Morningstar Associates are not affiliated with or an agent of Schwab Retirement Plan Services, Inc. (“SRPS”), Charles Schwab & Co., Inc. (“CS&Co.”), or their affiliates. Schwab Index Advantage, including the Schwab Bank Savings and Schwab Retirement Planner features, is only available in select retirement plans serviced by Schwab Retirement Plan Services, Inc. or an agent of SRPS. Neither CS&Co., SRPS, Schwab Bank Savings nor any Schwab product or service is sponsored, endorsed, sold or promoted by Morningstar Associates or GuidedChoice including information regarding compensation, affiliations and potential conflicts.

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