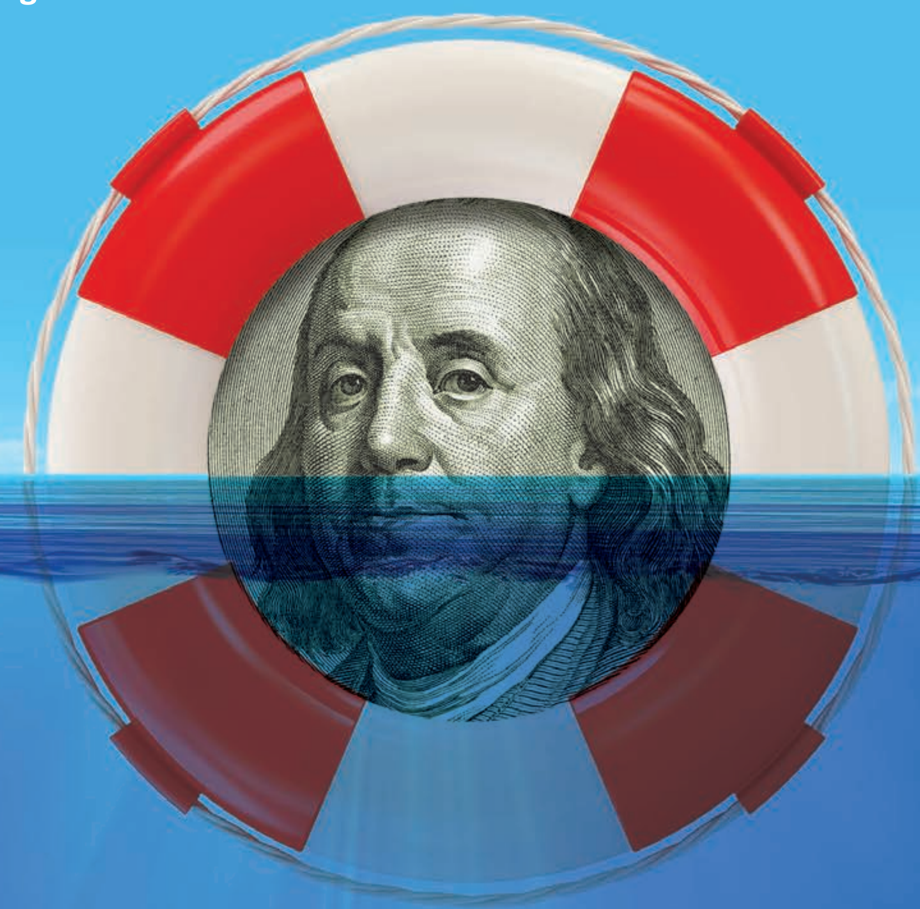


Don't Sink Your Retirement Fund

Benjamin Franklin stated, "Beware of little expenses; a small leak will sink a great boat." Yet more than 200 years later, we still have not learned that even small fees add up to large expenses. I consistently see this with defined contribution plan fees, especially in 403(b) plans. Employers don't seem to understand the fees they are paying, or even worse, the fees their employees are paying in lost investment opportunity.

There are a number of ways providers can charge fees, and some are less transparent than others. When all is said and done, an employer should ask the provider what the "all-in-fee" is for the plan. This fee should be all-encompassing, including administration, education, legal, record keeping, web services, investments and any other fees incurred by the plan, the employer or participants. Many employers would be shocked to realize how much their retirement plan is actually costing them and/or their employees.

I worked with a client who recently changed from their existing 403(b) Plan to the Christian Brothers Retirement Savings 403(b) Plan. The employer believed they weren't paying any fees. However, with a little research we discovered, and made them aware, the funds offered to their employees had an expense ratio of 2.4 percent on average. In our plan, the average Vanguard fund has an expense ratio of .26 percent. In investment terminology, 1 percent is equal to 100 basis points. This means their prior plan was charging 240 basis points compared to 26 basis points in our Plan. That is almost 10 times more in fees!

There is an example on the U.S. Department of Labor's website which shows the impact expense ratios have on an account balance. The example cites a participant with 35 years until retirement with a current 401(k) balance of $25,000. If investment returns over the next 35 years average 7 percent and expense ratios reduce returns by .5 percent (50 basis points) the account balance for the participant would grow to $227,000 when the participant reaches retirement, even if there are no further contributions to the plan. If the expense ratio is 1.5 percent (150 basis points), the account balance will grow to only $163,000 when the participant reaches retirement. The 1 percent difference in expense ratios reduces the account balance at retirement by approximately 28 percent, which is $64,000 less! This example is true for 401(k) or 403(b) plans. For the Christian Brothers Retirement Savings 403(b) Plan client cited in the prior paragraph, the effect was even more extreme on the account balance.

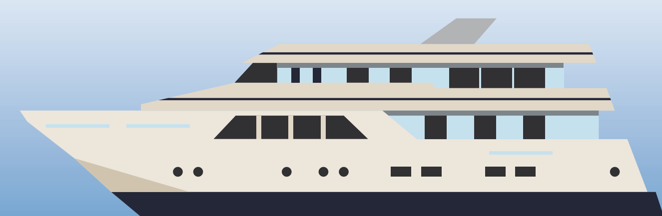
Some employers use a particular vendor because they are considered a benefactor to the institution. Employers should ask if that individual would still be a benefactor if they were not the selected vendor. If the answer is no, are they truly a benefactor? Some employers believe all funds offered in a plan must meet the United States Conference of Catholic Bishops (USCCB) guidelines. At CBS, we agree that a plan should offer funds that adhere to the USCCB guidelines and the Christian Brothers Retirement Savings 403(b) Plan offers a number of such funds. However, we also feel that social justice is not only outward looking. We should also ask, how just are we being to our own employees? Saddling employees with high fees is a disservice to employees in general, but even more so to those working for Catholic Church employers. Having a diversified portfolio offers employees the choice between reasonably priced funds and the more expensive social justice funds that meet the USCCB guidelines, while giving them the decision-making power regarding how fees will impact their savings.

Fees are an important barometer in measuring the value of a plan, but should not be the only measurement. Ask the provider to review the array of services that will be provided and ask if these services are part of the "all-in-fee" that was quoted. Ask the provider about their familiarity with church plans, specifically, what percentage of their business is church plan related. Some providers who are unfamiliar with church plans have employers file a Form 5500 with the government, which is not required by church plans. The procedure to stop this process is not always simple and may be quite costly. There are presentations by service providers that reference an average salary of $70,000 per year; this is not a realistic figure for many Catholic Church organizations. Ask the vendor how well they understand church organizations and if their communication and education programs are geared towards these types of organizations.

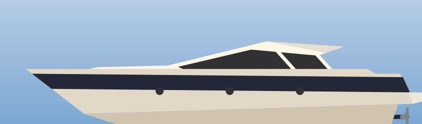
Remember, fees matter. As Benjamin Franklin would say, "A penny saved is a penny earned."

For more information on the Christian Brothers Retirement Savings 403(b) Plan or any of the Christian Brothers Services retirement plans, contact Jim Ceplecha at 800.807.0100 x2630.

Jim Ceplecha is the Managing Director of Retirement Planning Services at Christian Brothers Services.



Current 401(k) balance of $25,000. Investment returns over the next 35 years average 7 percent. Expense ratios reduce returns by .5 percent (50 basis points). Account balance for the participant would grow to $227,000.



Current 401(k) balance of $25,000. Investment returns over the next 35 years average 7 percent. Expense ratios reduce returns by 1.5 percent (150 basis points). Account balance for the participant would grow to only $163,000.