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Warning: Lower Your Retirement Plan's Investment Costs!

Fortune 500 companies have been forced to pay multi-million dollar settlements for excessive mutual fund expenses in their retirement plans, and this phenomenon has recently affected smaller companies.

As a plan sponsor and a fiduciary, you should provide your employees the lowest cost investments to help improve their retirement savings, and to reduce the increasing risk of litigation.

The Index Fund Advantage

Over the past decade, indexed investments have increased in popularity because of their low fees and passive management strategies. Data have suggested that both elements offer strong advantages:

Long-Term Outperformance

- Across all common sectors and time periods, active managers tend to underperform their respective indices (Exhibits A[1], B[2], and C[3])

Cost Savings

- Data compiled in 2015 demonstrated that the average asset-weighted expense ratio for actively managed funds was 0.78%[4]. A well-constructed portfolio of index funds can often carry an average expense ratio of only 0.08%.
- Cost savings from ultra-low expense ratios are striking when compounded over time. Utilizing a 0.08% index fund lineup instead of the average actively managed fund, a hypothetical investor could save over $375,000 (See Exhibit D).

The Bottom Line

The potential long-term outperformance and cost savings provided by indexed investments can have a major impact on your employees' savings over time, while also limiting litigation risk. It would be difficult to argue that a retirement plan is incurring excessive investment fees and inefficient performance if the lineup offers the cheapest index funds.

Managed accounts and investment advisory services can help guide employees on risk allocation to further improve employee outcomes and reduce employers' liability. For more information about Cherry Bekaert Benefits Consulting's suite of investment services, please contact Kyle Frigon at (404) 733-3256 or email kfrigon@cherrybekaertbenefits.com.

	1 YR	5 YR	10 YR
Small Cap	72%	90%	88%
Mid Cap	57%	77%	88%
Large Cap	66%	84%	82%

Exhibit A
% of Active Fund Managers Who Underperform Their Indexes Over Time

	1 YR	5 YR	10 YR
Intermediate	94%	42%	54%
Long-Term	13%	96%	94%

Exhibit C
% of Active Investment Grade Intermediate & Long-Term Bond Managers Who Underperform Their Indexes Over Time

	1 YR	5 YR	10 YR
International	27%	55%	79%
Emerging	64%	70%	91%

Exhibit B
% of Active International & Emerging Market Fund Managers Who Underperform Their Indexes Over Time

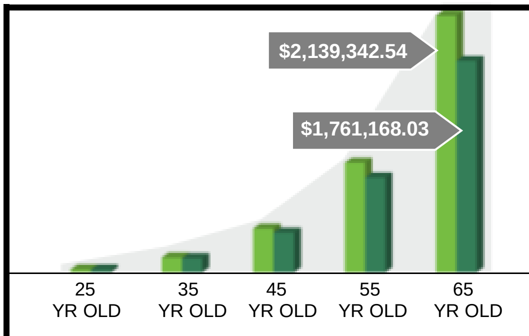

Exhibit D

Hypothetical Index Fund Portfolio

Industry Average Actively Managed Fund

Assumes a starting annual income of $60,000 that increases by 3% annually, a savings rate of 6%, and an investment return of 8% annually less the average expense of a hypothetical index fund portfolio and the industry average actively managed fund expense ratio respectively.

[1]Soe, Aye M. (2015). S&P Dow Jones Indices LLC. SPIVA® U.S. Scorecard. p. 1 Exhibit A uses S&P 500, S&P MidCap 400, and S&P SmallCap 600 as Large Cap, Mid Cap, and Small Cap benchmarks respectively. Data as of 12/31/2015

[2]Soe, Aye M. (2015). S&P Dow Jones Indices LLC. SPIVA® U.S. Scorecard. p. 11 Exhibit B uses S&P 700 and S&P/IFCI Composite as International Fund and Emerging Market Fund benchmarks respectively. Data as of 12/31/2015

[3]Soe, Aye M. (2015). S&P Dow Jones Indices LLC. SPIVA® U.S. Scorecard. p. 13 Exhibit C uses Barclays Intermediate Government/Credit and Barclays Long Government/Credit

[4]Oey and West. (2016). Morningstar®. Average Fund Costs Continued to Decline in 2015: But Investors Are Not Necessarily Paying Less. p. 2

Additional Information

For specific questions concerning information contained in this Update, please contact your Cherry Bekaert Benefits consultant. Information contained in this Update is not intended to render tax or legal advice. Employers should consult with qualified legal and/or tax counsel for guidance with respect to matters of law, tax and related regulation. Cherry Bekaert Benefits Consulting provides comprehensive consulting and administrative services with respect to all forms of employee benefits, risk management, qualified and non-qualified retirement plans, M&A due diligence, private client services, and compensation and human resources. For additional information about our services, please contact us at mail@cherrybekaertbenefits.com.