

RETIREMENT PLAN COSTS...

BEWARE!

A MUTUAL FUNDS SHARE CLASS EXPENSES STUDY

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PRESIDENT, FORESIGHT CAPITAL

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A Mutual Funds Share Class Expenses Study

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Warning and Disclaimer

This book is intended to provide general information regarding Retirement Plan Costs related to Mutual Funds and comparison information for how these funds have compared to our best screened funds research. It is not intended as a substitute for the investor's own research, or for the advice of a qualified financial specialist. The author shall have neither liability nor responsibility to any person or entity with respect to any loss or damage caused, or alleged to be caused, directly or indirectly by the information contained in this book.

About the Author

Laurie Stegenga is President and founder of Foresight Capital Management Advisors, Inc., a fee-only Registered Investment Advisory firm. Her past financial work experience has spanned 33 years of managing and accounting for billions of dollars in investments. In 1983, Laurie began her career in big eight accounting, auditing large publicly traded corporations and performing audits and taxes for small entrepreneurial businesses. Five years later she joined Midwest Microwave, Inc. a defense manufacturing company as Chief Financial Officer and Human Resource Director.

In 1993, Laurie joined Alexander Hamilton Life Insurance Company as Manager of Investment Valuation and Statutory Reporting for their \$7.3 billion portfolio. Several years later Laurie became a Divisional Director of Accounting and an international finance consultant for Thomson Publishing, Inc.

Then she joined Tisch Investment Advisory, Inc., a regional mid-west Registered Investment Advisory firm in 1998, to form and develop their retirement plan division. During her nine years, as Vice President, with the firm she assisted in growing the retirement plan division to a \$140 million portfolio, which represented about forty percent of the assets under management for the firm. Laurie's expertise is in retirement plan services, providing on-site education and one-on-one personal financial planning for the employees, fiduciary consulting, and all aspects of personal wealth planning for the individual and family office. In 2008, she ventured out on her own and established Foresight Capital Management Advisors, Inc. and as of 2017 the firm is managing over \$148 million in assets. She has been featured in an article on the Financial Advisor IQ website, a division of the Financial Times, interviewed at the National AIF and NAPFA Conferences, and an on-line video created regarding Foresight's investment process for portfolio selection and rebalance, featured in Forbes Magazine-Michigan Financial, 5-Star Award Winner for D-Business 2017, and Hour Magazine 2016, was featured in the Wall Street Journal Sept 2016, and is a Fiduciary Consultant for the State of Michigan education facilities. Mrs. Stegenga is a graduate of Eastern Michigan University.

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A Mutual Funds Share Class Expenses Study

What if we told you that many investors and trustees of retirement plans are being misled to believe that institutional-shares, also known as I-shares, are the most cost efficient amongst all share classes? According to the Wall Street Journal, “even with the upfront load waived, Class A shares are still more expensive than some other classes - I Shares, for example”. This sentence was published in the Wall Street Journal and directly promotes the ideology that I-shares are cheaper than load waived A-shares. However, we can prove that there are several circumstances that may arise that cause I-shares to be more expensive than A-shares, P-shares, R-shares, and even Y-shares? In this analysis we will evaluate a variety of fund expense ratios, and we will explain how investors are not seeing the full picture when researching a fund’s expense ratio.

To begin, we would like to explain what an expense ratio is and how it is computed. An expense ratio is the annual fee that all funds or ETFs charge their shareholders. It indicates the percentage of assets deducted from investors accounts each fiscal year to pay for the fund’s expenses. Fund expenses include 12b-1 fees, administrative fees, management fees, operating costs, and all other asset-based costs incurred by a fund. The expense ratio is calculated by taking the total amount of fund expenses and dividing it by the fund’s total assets under management.

Many investors, particularly financial advisors and fiduciaries, have a heightened sense of awareness when evaluating a fund’s expense ratio. This is due to the fact that the expense ratio directly impacts an investor’s rate-of-return. For example, suppose a mutual fund has two share classes with perfectly correlated gross returns; however, one of the share classes has a much higher expense ratio than the other. The share class with the higher expense ratio will have a lower return net-of-fees. Therefore, it is clear that the investment advisor in this case would choose to invest in the share class with the lower expense ratio. This is a basic example of how the expense ratio can impact an investment decision. However, analyzing the expense ratio can be more complex than simply viewing a percentage provided by the fund’s prospectus.

Many investment advisors are moving away from being commissioned-based and they are becoming fee-only investment advisors. Fee-only advisors cannot accept 12b-1 fees or any other form of compensation from a Fund. Otherwise one could make the argument that there is a conflict of interest. Therefore, the plan expense credit that is paid, by a fund to a fee-only advisory firm, gets credited to the client’s account to offset the fund expenses that have accrued. Plan expense credits lower a share class’s net expense ratio and it increases the total return net-of-fees. Plan expense credit varies based on share class, so the net expense ratios will also vary based on share class. This is why it is critical that investors conduct a thorough analysis to determine which share class will have the lowest net expense ratio.

To begin we started by analyzing all available share classes for each fund offered to investors at Foresight Capital Management Advisors. We used data from two different custodians to determine the value of plan expense credits for each share class. In order to be conservative, we

selected the smaller plan expense credit value between the two custodians. We then removed the plan expense credit basis points from the prospectus expense ratio, and we also added the plan expense credits basis points back to the total return net-of-fees. We did this because each investor who invested in the fund would receive a credit to their account for the value of the plan expense credits. Therefore, the investor really paid less than the prospectus expense ratio, and the investor received a higher net return than the prospectus return. To better explain, we have provided images below which outline the process of computing the effective net expense ratio and the effective annual return net-of-fees.

Detail		Admin Service Fee					
Fund Family	Fund Name	Cusip	Ticker	12b1 BPS	Sub T/A Method	Sub T/A BPS	
Columbia Threadneedle Funds	Columbia Convertible Securities A	click here to view	PACIX	25.00	Asset Based	25.00	
Columbia Threadneedle Funds	Columbia Convertible Securities R4	click here to view	COVRX	n/a	Asset Based	25.00	
Notes: Omnibus Retirement Plans only							
Columbia Threadneedle Funds	Columbia Convertible Securities R5	click here to view	COCRX	n/a	Asset Based	10.00	
Notes: Only available to omnibus retirement plans							

The picture above is a screen shot from Matrix’s Retirement website. The picture shows how many basis points are refunded to investors for 12b-1 fees and sub T/A fees. On the right hand side of the picture you can see that the Columbia Convertible Securities class A-shares receive plan expense credits in the value of 25 basis points for 12b-1 fees and an additional 25 basis points for Sub T/A fees. Therefore, plan expense credits for this particular share class are 50 basis points if an advisor uses Matrix as their custodian. To be fair we assessed a second custodian’s revenue sharing figures and we used the lower plan expense credits figure between the two. This allows for a more conservative and accurate analysis.

CSTC Symbol	CSTC CUSIP	CSTC Availability	Category	MMF Attribute	SSP % ▾
▾ Contains...	▾ Contains	▾ Contains...	▾ Contai	▾ Contai	▾ Equals.
NCIAX	19765H727	Available to Existing Holders Only. N...	MF	—	0.38
COVRX	19766B554	Available to Approved TPAs Only.	MF	—	0.23
PACIX	19765H750	Yes, TPA must be certified with Colu...	MF	—	0.23
COCRX	19766B547	Available to Approved TPAs Only.	MF	—	0.08

The picture shown above was taken from Charles Schwab’s Retirement website. The column on the far right hand side that is labeled “SSP %” shows the total percentage that is refunded to investors in the form of plan expense credits. As you can see, for this particular custodian, the Columbia Convertible Securities class A-shares only received 23 basis points in the form of plan expense credits. Therefore, we used this custodian’s plan expense credit figures for our analysis because they were more conservative than the Matrix figures shown above, and we want to keep this analysis as conservative as possible.

Ticker	Name	2016 Total Return Net of Prospectus Expense Ratio	Revenue Sharing	Net Total Return	Prospectus Net Expense Ratio	Revenue Sharing	Real Net Expense Ratio
MSTART	Benchmark:Morningstar US Market TR USD	12.44					
PACIX	Columbia Convertible Securities A	11.23	0.23	11.46	1.13000	0.23000	0.90000
NCVBX	Columbia Convertible Securities B	10.31			1.88000		
PHIKX	Columbia Convertible Securities C	10.38			1.88000		
CCSIX	Columbia Convertible Securities I	11.64			0.75000		
CVBRX	Columbia Convertible Securities R	10.96			1.38000		
COVRX	Columbia Convertible Securities R4	11.52	0.23	11.75	0.88000	0.23000	0.65000
COCRX	Columbia Convertible Securities R5	11.58	0.08	11.66	0.80000	0.08000	0.72000
CVBWX	Columbia Convertible Securities W	11.27			1.13000		
CSFYX	Columbia Convertible Securities Y	11.61			0.75000		
NCIAX	Columbia Convertible Securities Z	11.49			0.88000		

The picture above shows all of the available Columbia Convertible Securities share classes. Due to the fact that this analysis uses the smaller plan expense credit figures, the A-shares did not have a lower net expense ratio than the I-shares; however, the R4-shares were 10 basis points cheaper than the I-shares. This allowed for the R4-shares to outperform the I-shares by 11 basis points for the 2016 calendar year. However, if you were to only refer to the prospectus for the net expense ratio and annual return figures then you would have been led to believe that the I-shares were best performer with the lowest expense ratio. If we were to use the Matrix's plan expense credit figures, then the A-shares would have had an annual expense ratio of 0.63% and they would have outperformed the I-shares by 9 basis points. The Columbia Convertible Securities was one example of many that we discovered during our analysis. Next, we would like to show you an example of when the I-Shares were the least desirable after accounting for plan expense credit adjustments.

Ticker	Name	Morningstar Category	Prospectus Objective	12 Mo Yield	Total Ret YTD (Mo-End) USD		
MSTART	Benchmark:Morningstar US Market TR USD				12.44		
FOVIX	First Trust/Confluence Small Cap Val I	US Fund Small Growth	Small Company	0.00000	21.27	0.00	21.27
FOVAX	First Trust/Confluence Small Cap Val A	US Fund Small Growth	Small Company	0.00000	21.19	0.35	21.54

As you can see in the snapshot above, First Trust/ Confluence Small Cap Value fund had an I share class and A share class. The I share in this situation had the greatest total Ret YTD before plan expense credits. After adding 35 basis points to the total return from the custodian Matrix, the A share becomes the most desirable share class by 27 basis points. The I share in this situation received no plan expense credits. Below we can see the visual from the custodian Matrix. The A share of the First Trust/ Confluence Small Cap Value fund received 25 basis points of plan expense credits from 12b-1 BP's and another 10 basis points from Sub T/A BP's.

Detail		Admin Service Fee					
Fund Family	Fund Name	Cusip	Ticker	12b1 BPS	Sub T/A Method	Sub T/A BPS	
First Trust Portfolios	First Trust/Confluence Small Cap Val A	click here to view	FOVAX	25.00	Asset Based	10.00	
First Trust Portfolios	First Trust/Confluence Small Cap Val I	click here to view	FOVIX	n/a	n/a	n/a	

These plan expense credits make a big difference in cumulative retirement savings over an employee's career. Below we will show an example of a small, diverse portfolio where the A Share beats out the I and Y Shares in every situation after plan expense credits.

Ticker	Share Class	Total Ret YTD (Mo-End) USD	SSP%	Sum	Prospectus Net Expense Ratio	SSP%	Difference	Year 1 investment	10 Year ROI+ Investment	ROI Year 1	10 Year Averaged Return or Return Since Inception	
AWTIX	I	5.13	0.08	5.21	1.17	0.08	1.09000	\$ 1,250.00	\$ 1,367.13		9.37%	
AWTAX	A	4.90	0.48	5.38	1.44	0.48	0.96000	\$ 1,250.00	\$ 1,367.88		9.43%	
PXSGX	I	24.25	0.08	24.33	1.26	0.08	1.18	\$ 1,250.00	\$ 1,390.88		11.27%	
PSGAX	A	23.99	0.45	24.44	1.51	0.45	1.06	\$ 1,250.00	\$ 1,393.75		11.50%	
CVMIX	I	6.83	0.00	6.83	0.98	0.00	0.98	\$ 1,250.00	\$ 1,333.63		6.69%	
CVMYX	Y	6.82	0.00	6.82	1.08	0.00	1.08	\$ 1,250.00	\$ 1,332.13		6.57%	
CVMAX	A	6.55	0.38	6.93	1.33	0.38	0.95	\$ 1,250.00	\$ 1,333.75		6.70%	
FOVIX	I	21.27	0.00	21.27	1.56000	0.00	1.56000	\$ 1,250.00	\$ 1,400.38		12.03%	
FOVAX	A	21.19	0.35	21.54	1.81000	0.35	1.46000	\$ 1,250.00	\$ 1,403.00		12.24%	
								A Shares	\$ 5,000.00	\$ 5,498.38	\$ 498.38	9.97%
								I Shares	\$ 5,000.00	\$ 5,492.00	\$ 492.00	9.84%

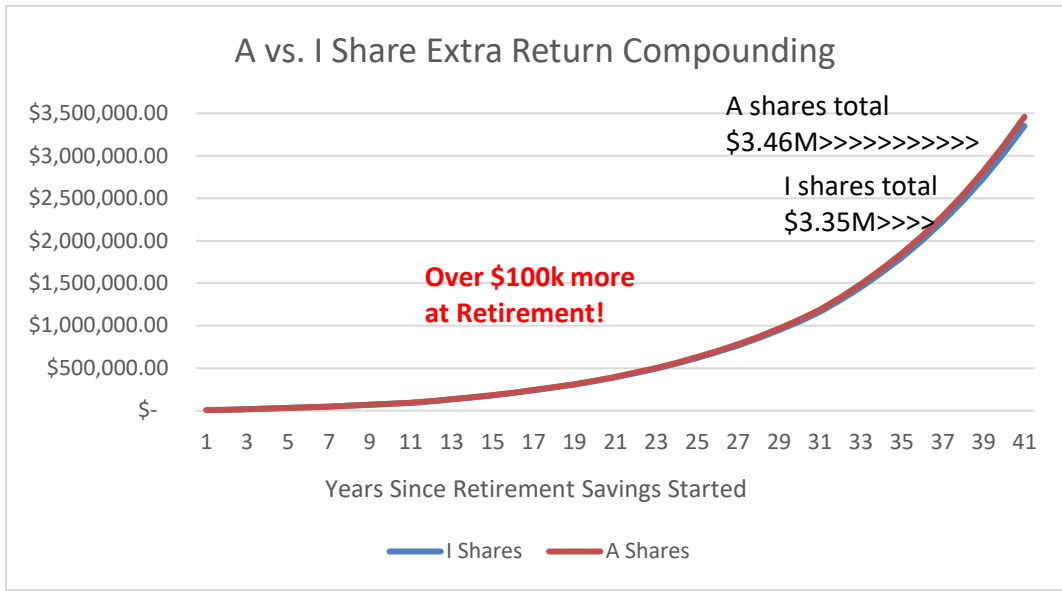
The table above shows four situations where A shares beat I and Y shares after plan expense credits are added to the Total Return YTD. The plan expense credits are added in the SSP% column and contribute to the sum. The SSP% also contributes to lowering net expense ratios after deducting them from the Prospectus Net Expense Ratio. We calculated the 10 year averaged return for each of the funds with plan expense credits added to generate the best estimate possible for the averaged total return per year, over a decade. In the first year of investing \$5,000, it appears as though the A share investments only outperform the I share investments by \$6.38. This may seem insignificant, but when this added 0.13% is compounded every year in a retirement plan over the course of one's career, the results speak for themselves. We will now show you a table of how choosing a share class with plan expense credits added can greatly benefit an employee over the span of their career.

In the table below, we assumed that the original investment was \$5,000 starting at age 20 and continued annually until the investor turns 30 years old. We also assumed a \$10,000 savings amount per year from ages 31-50 and a maximum contribution of \$24,000 per year when the investor is 51-60 years old. We also assume that the investor is allocating evenly among the four

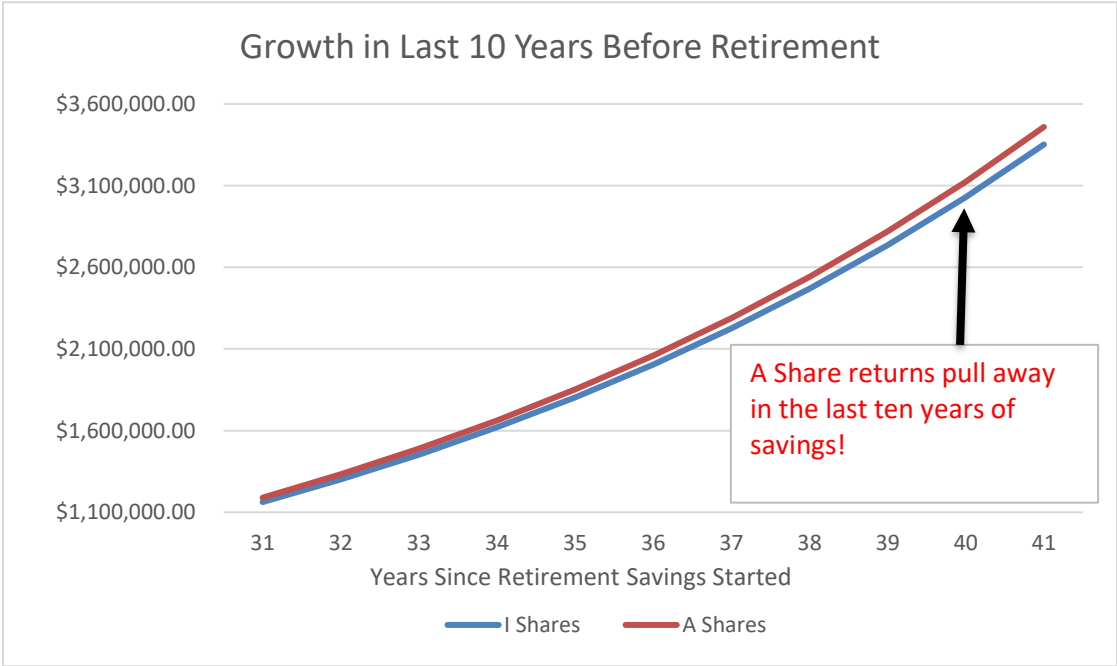
diversified funds chosen for the example. We used the 10 year averaged return to give a more accurate calculation of how the fund would perform over a decade span.

I Shares			A Shares			
20-30 YO	31-50 YO	51-60 YO	20-30 YO	31-50 YO	51-60 YO	
\$ 5,000.00	\$ 110,898.61	\$1,301,110.15	\$ 5,000.00	\$ 111,728.81	\$1,332,368.60	
\$10,492.00	\$ 131,811.03	\$1,453,139.39	\$10,498.50	\$ 132,868.18	\$1,489,205.75	
\$16,524.41	\$ 154,781.24	\$1,620,128.31	\$16,545.20	\$ 156,115.13	\$1,661,679.57	
\$23,150.42	\$ 180,011.71	\$1,803,548.93	\$23,194.76	\$ 181,679.81	\$1,851,349.02	
\$30,428.42	\$ 207,724.87	\$2,005,018.15	\$30,507.27	\$ 209,793.29	\$2,059,928.52	
\$38,422.57	\$ 238,164.99	\$2,226,311.94	\$38,548.85	\$ 240,709.68	\$2,289,303.39	
\$47,203.35	\$ 271,600.43	\$2,469,381.03	\$47,392.17	\$ 274,708.44	\$2,541,546.94	
\$56,848.16	\$ 308,325.91	\$2,736,368.12	\$57,117.17	\$ 312,096.87	\$2,818,939.17	
\$67,442.02	\$ 348,665.18	\$3,029,626.75	\$67,811.75	\$ 353,212.93	\$3,123,987.40	
\$79,078.32	\$ 392,973.83	\$3,351,742.02	\$79,572.58	\$ 398,428.25	\$3,459,448.95	
\$91,859.62	\$ 441,642.46		\$92,505.97	\$ 448,151.55		
	\$ 495,100.08			\$ 502,832.26		
	\$ 553,817.92			\$ 562,964.64		
	\$ 618,313.61			\$ 629,092.21		
	\$ 689,155.67			\$ 701,812.70		
	\$ 766,968.59			\$ 781,783.43		
	\$ 852,438.29			\$ 869,727.24		
	\$ 946,318.22			\$ 966,439.04		
	\$1,049,435.94			\$1,072,793.02		
	\$1,162,700.43			\$1,189,750.48		
			% Difference	0.70%	2.33%	3.21%

As you can see in the table above, both I and A shares contribute \$5,000 in the first year of retirement savings at age 20. By the end of ten years of savings, the A share investor ends up 0.70% ahead of the I share investor. At the end of 30 years of investing, the A share investor ends up 2.33% ahead of the I share investor. Finally, at the end of 40 years of retirement savings, the A share investor ends up 3.21% better off than the I share investor. This leads to over \$100,000 more by the time of retirement! The difference of nearly 1% at ages 51-60 is derived from compounding principle and a greater contribution amount when approaching closer to retirement. Below we will show you the visuals of how this trend can benefit an employee over the span of their career.



The chart above shows a visual to the scenario previously explained. As you can see, the investment growth stays relatively close the first ten years, then starts to pull away slightly due to the greater amount invested at ages 30-50. The last ten years of investing the maximum \$24,000 make the biggest difference in the curvature of the chart. The chart below shows this significant growth in the last ten years of retirement savings.



In conclusion, choosing a share class for a fund isn't always as simple as finding the share with the highest return, or the cheapest expense ratio. All retirement plan trustees need to know that plan expense credits are offered by custodians and mutual funds in retirement plans. The trustees

of retirement plans need to locate a fee-only registered investment firm who is a fiduciary and sends the plan expense credits back to the participants for overall investment growth throughout the participant's career. Note many fee-based investment advisors keep the plan expense payments as extra fees for their benefit, not the participant or plan's benefit. The more research investors and trustees of retirement plans put into locating a fee-only registered investment advisor who finds the best possible share class, the higher return on investment they will earn over the course of their careers. I shares and A shares both have their benefits in regards to expenses and returns, but the plan expense credits, which are given back to retirement plans, are what help trustees and investors choose the proper share class for the given fund and situation.

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