Five Best Practices for Retirement Plan Committees

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Key Takeaways:

- Plan Health Consulting looks at all aspects of a retirement plan to strike the right balance between fiduciary governance and investment due diligence.
- It's a way for plan sponsors to mitigate risk and demonstrate they follow a prudent decision-making process.
- An experienced retirement plan consultant can help you establish and adhere to several simple best practices to help meet your fiduciary obligations.

As a plan fiduciary, you have to act prudently and solely in the best interest of your participants, which involves following plan documents and ensuring fees are reasonable. But how do you prove you met your responsibilities in the event of an audit, litigation, or participant inquiry? It starts by having a sound fiduciary governance process.

At Cerity Partners, we have found employers often emphasize investment performance at the expense of their other responsibilities. Through our Plan Health Consulting process, we've identified five steps that can help balance governance and investment due diligence while mitigating risk.

1. **Establish a Retirement Plan Committee**
   The committee should represent a cross-section of your organization and include representatives from HR, finance and legal. As part of the selection process, make sure each person is capable of running the plan and willing to assume a fiduciary role. It helps to draft a charter that explicitly states the roles and responsibilities of the committee and each member. To be effective, your committee should meet regularly to discuss issues critical to operating the plan. A simple way to structure your meetings is to take a "themed" approach, focusing on one or two key topics. For example, one quarterly meeting might be dedicated to a strategic review of your investment lineup and the next fiduciary training. Regardless of the theme, each meeting should include a brief investment update. So, it's important to make sure your plan consultant will provide ongoing monitoring of your investments and documentation of oversight.

2. **Take Meeting Minutes**
   Meeting minutes create a paper trail of the committee's decisions. Recent case law has shown that process outweighs outcomes. By explicitly identifying criteria used to make decisions, and documenting the consideration of potential alternatives, you have a better chance of defending your actions when questioned by an outside third party such as an auditor or litigator.

3. **Benchmark Plan Fees and Expenses**
   Expenses are one of the few inputs you can control to help employees save more money for tomorrow—keeping in mind that reasonable does not mean cheapest. You need to understand the value your employees are receiving for the services being provided. A good retirement plan consultant can help you evaluate the reasonableness of your fees through an informal benchmarking process or formal Request for Proposal. From a best practice perspective, you should perform a cost analysis at least once every two to three years.

4. **Maintain Fiduciary Liability Insurance**
   Individuals who serve as plan fiduciaries are personally liable for losses incurred by a plan because of a breach of fiduciary responsibilities. While a fidelity bond protects participants from loss due to fraud or dishonesty, fiduciary insurance protects your company from legal liability arising from the sponsorship of your plan. So, even though it's not required by ERISA, executives may want to consider this insurance as part of their overall compensation package.

5. **Outsource Investment Oversight**
   Hiring a third party, such as a 3(21) or 3(38) investment advisor, to manage the selection and monitoring of plan investments is an effective way to reduce fiduciary risk. The advisor can help you develop an Investment Policy Statement (IPS), which provides the framework for all investment decisions. Keep in mind, outsourcing doesn't eliminate the need for your committee to regularly review your lineup and monitor the advisor.

Maximizing Your Plan's Health

We firmly believe implementing these best practices makes plans healthier and more effective. Our fiduciary-based approach helps employers like you take a balanced look at every aspect of their plans from design to vendor management and more.

Contact a Cerity Partners Retirement Plan Consultant to discuss how we can help you enhance your plan's governance process.

Neal is a Principal in Cerity Partners Retirement Services Group. He has more than 17 years of experience working with executives and investment management committees to develop efficient and effective retirement plan strategies. Neal specializes in creating healthy retirement plans for all types of institutional clients.