Arnerich Massena
Securing the Future Together

Retirement Plan Best Practices:

Plan Governance

White Paper I of five-part series

Arnerich Massena, Inc.

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This paper is the first in Arnerich Massena's five-part series on retirement plan best practices. The full series, which we will publish throughout 2016 and 2017, will cover retirement plan best practices in the following areas:

- Plan Governance
- Plan Design
- Menu Construction
- Plan Monitoring
- Participant Education

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Plan Governance

As a fiduciary, you bear a significant responsibility to your participants, and a substantial liability for carrying out your responsibilities. ERISA holds plan sponsors to high standards, but does not provide specific guidance as far as processes and procedures. It is largely left up to plan sponsors to navigate the management of their plan. With careful plan governance, though, managing a retirement plan doesn't have to be burdensome or even difficult. Best practice guidelines can help you set up documents and processes that will help your plan run smoothly and assist the committee in successfully carrying out their responsibilities.

In this paper, we'll look at overall plan governance, answering questions such as:

- What documents should you have?
- What is an optimal structure for your committee and who should be on it?
- What type of decision-making process should you implement?
- How often does the committee need to meet and what should be on the agenda?
- How can you monitor service providers?

Additionally, we have provided a fiduciary checklist at the end of the paper so that you can check your committee practices against fiduciary best practices as they pertain to plan governance.

Plan Documents

ERISA requires that a covered plan have specific procedures and documentation in place. Best practice is to have at least these three documents:

Summary Plan Description (SPD)	Committee Charter	Investment Policy Statement (IPS)

These three plan documents together will outline the key features, philosophy, processes, and procedures of the plan. They should be maintained and reviewed at regular intervals, typically annually except in cases where changing circumstances necessitate a review and update sooner. Let's take a look at each document, and what it should cover and include.

Summary Plan Description (SPD)

The Summary Plan Description is not a governing document — it is required by ERISA. The Summary Plan Description outlines the key features of the plan. This document fulfills legal requirements and provides participants with an understanding of basic plan provisions. A plan's SPD outlines the rules by which the plan is governed, and covers such topics as employer contribution and vesting information, eligibility, plan loans and withdrawals, distributions, and contact information for questions. The SPD should be written in language participants can easily understand.

Investment Committee Charter

The Committee Charter is an important component of plan governance. It doesn't need to be elaborate, but should outline some fundamentals, providing committee members with the scope and range of authority to empower them to manage the plan and fulfill their fiduciary responsibilities. The Committee Charter should:

- Specify activities for which the committee is responsible, such as coordinating vendor analysis and recommending plan design features.
- Define the governing bodies with whom the committee must consult and to whom they need to provide recommendations.
- Define how committee members are selected or appointed.
- Establish how often regular committee meetings should occur.
- Define the roles of any outside consultants.

Investment Policy Statement (IPS)

The IPS is the foundation for how the plan's investment program is expected to operate. The IPS should provide guidelines for selecting, monitoring, measuring, and making decisions for the plan's investments. The IPS should:

- Define the plan and its purpose.
- Describe responsibilities for those involved with the investment program.
- Establish the investment menu structure.
- Assign investment performance benchmarks and develop performance measurement standards and processes.

Sample sections of a Committee Charter

Introduction

Investment Committee Purpose and Objectives

Committee Membership

- Roles & responsibilities
- Term
- Member selection
- Subcommittees

Committee Meetings

- Frequency
- Distribution of minutes
- Agenda
- Definition of a quorum
- Voting/decision-making process

Committee Responsibilities

- Investment duties
- Administrative duties

Outside consultants

- Roles & responsibilities

Compensation

Essential Elements of an IPS

Statement of Purpose: Defines the type of program and its purpose.

Statement of Roles and Responsibilities: Describes responsibilities for those involved with the investment program.

Asset Allocation: (applicable to risk-based portfolios and committee-directed investment pools) Outlines the strategic asset allocation with each asset class, identifying allocation targets and minimum/maximum acceptable ranges.

Investment Goals and Objectives: Identifies objectives for each investment option, including the benchmarks against which they will be measured.

Investment Guidelines: Describes the expectations and limitations placed on the investment managers with regard to process management.

Investment Performance Review and Evaluation: Describes the frequency and criteria against which the investment options will be measured, including watch list considerations.

- Determine criteria for selecting and terminating investment managers.
- Document the investment decision-making process.

See the box to the left for the components that should be included in a well-constructed Investment Policy Statement.

Committee Structure

Your committee structure will depend on your organization's needs, but there are a few considerations to keep in mind when deciding who should be on the committee. The number of committee members is important. Very large committees begin to lose their effectiveness and ability to make decisions efficiently; large groups can end up paralyzed and unable to reach consensus. A smaller group that has enough diversity to engender meaningful discussion and healthy debate is optimal. There is no perfect number, but we find that five to seven members seems to meet objectives, while more than ten is typically too unwieldy. Lastly, having an odd number of committee members can prevent votes being tied up.

The investment committee should include a representative of senior management (typically either the CFO or COO), as well as anyone who serves as a fiduciary to the plan. The organization's legal counsel should either be on the committee, or simply attend committee meetings in an advisory capacity. Although they are not usually voting members, committee meetings should be attended by representatives from the plan's providers, such as the trustee, investment consultant, and recordkeeper.

It's important that the committee represent the participants, as they will be making decisions for the participant population. For this reason, you may want to include members from different disciplines and different areas of the organization, such as human resources and finance. A diverse mixture including more than just managers will help to create a more representative group. Committee membership should be voluntary. Most committees elect at least a chairperson and a secretary; other elected positions depend on the needs of your committee.

Establishing a term of service for committee members can help to keep the committee fresh. Bringing in new members periodically can add the benefit of new perspectives to the team and keep it flexible. On the other hand, the experience and knowledge of long-term committee members can be of great value. Finding a balance may mean rotating some committee positions while retaining others for longer time periods.

Committee Education

Educating committee members is critical to the long-term success of the committee as a governing body. Committee education can be broken out into three important segments:

- Education to understand fiduciary responsibility

  Committee members should be aware of what their fiduciary responsibilities are and what liability they have. Information about ERISA's standards and requirements is crucial, so that members have the context from which to make informed decisions. Committee members should also be provided with information about fiduciary best practices. This type of information and education should be repeated periodically, to ensure that new committee members are familiar with it and that long-term committee members have it refreshed in their minds.

- Education about functioning as a committee

  How do you avoid groupthink? How do you ensure vibrant dialogue without shutting down alternative points of view? How do you ask difficult questions and come to a consensus? Groups function differently from individuals, and having an effective committee requires learning how to work together as a team. Knowledge of techniques for inviting participation and encouraging different points of view, as well as avoiding common group pitfalls, can help a committee make better decisions as a group.

- Investment education

  Committee members are likely to have varying degrees of investment knowledge and sophistication. Because they will be ultimately responsible for making investment decisions on the plan's behalf, committee members should have a fundamental understanding of investment concepts. Providing investment education to the group can also help to ensure that there is a common level of understanding.

"Getting it Right - Know Your Fiduciary Responsibilities"

The Department of Labor sponsors a fiduciary education campaign designed to educate employers about their fiduciary responsibilities. The campaign includes nationwide seminars and webcasts, as well as educational materials. You can learn more at https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/fiduciary-responsibilities/fiduciary-education-campaign

To provide committee education, you may want to partner with an outside firm to deliver fiduciary training every two to three years. New members should receive some basic training and education immediately. Arnerich Massena's *Blueprints*™ Fiduciary education curriculum can provide fundamental fiduciary training for new and existing committee members.

Committee Meetings

Following and documenting the committee's processes and procedures is one of the most important actions you can take to demonstrate that you are fulfilling your fiduciary responsibilities and acting prudently. At a minimum, committees should meet annually, but generally quarterly or twice a year would be considered best practice. Legal advisors and investment consultants should be present at committee meetings. We also recommend circulating an agenda and meeting materials in advance to committee members, particularly when decisions need to be made, so that committee members are able to prepare and maximize meeting efficiency.

Investment Committees: More than the Sum of the Parts

Arnerich Massena's white paper discusses both the advantages and pitfalls of group decision-making. Read about the biases that can affect groups and how to counteract them here.

A good committee chairperson is crucial to keeping the meeting on track and covering the necessary topics. The committee chair does not necessarily need to be an investment expert, but he or she should be someone who can set an atmosphere that will encourage discussion and who can facilitate decisions.

Committee meetings should cover the following topics in addition to any pertinent current issues:

- Follow up on decisions made from previous committee meetings: Were all decisions implemented? How successful have the changes been to date? Are any further steps required?
- Review of investment performance and investment options: Do any changes need to be made? Are the investment options performing in line with the guidelines set out in the Investment Policy Statement? Does the committee need to increase its monitoring of options that are not meeting plan objectives?
- Review of legislative and regulatory updates: Has anything in the regulatory or legislative environment changed that would affect the plan?
- Review of vendor services and fees: Is any further analysis required? Are vendor fees reasonable? Are they performing services according to contractual terms? Are there recommendations to make any changes?
- Review of the Investment Policy Statement: Is it still in line with the needs of the overall investment program?
- Discussion of any potential plan improvements: How could the plan better serve participants? Are there areas of weakness in the plan? Are there new services available in the industry that should be researched and made available to the plan and/or participants?

Careful minutes should be taken at each committee meeting, documenting the topics discussed and any decisions made. The committee should review the minutes to ensure accuracy. Written reports, analyses, recommendations, and any other due diligence should be developed, retained, filed, and organized along with meeting minutes in a fiduciary audit file. It may be helpful to maintain a historical calendar noting when particular decisions were made or actions taken, so that they can be easily referenced if necessary. Throughout meetings, committee members should keep in mind that all decisions must be made in the interest of plan participants.

Service Providers and Contracts

As a plan fiduciary, your duty to act prudently extends to selecting and monitoring the providers who service your plan. You have a responsibility to ensure that your providers are offering an appropriate level of service, consistent with contractual terms, at reasonable fees. Understand the fiduciary status of your plan's service providers; have they explicitly acknowledged that status? It is beneficial to periodically review the service contracts to check that your organization is being charged correctly and that service guarantees are being upheld. In addition, have a schedule or mechanism in place to trigger a thorough review of service providers on a periodic basis.

A vendor review may be as simple as checking in with the vendor, or as comprehensive as a full Request for Proposal (RFP) process. While not mandated according to any regulations, we generally recommend that plan sponsors consider issuing a recordkeeper RFP at least every three to five years. This vendor review process demonstrates fiduciary prudence by providing documentation of ongoing provider evaluation, puts you in a strong negotiating position to command competitive costs, and can help ensure that your provider is giving you an optimal level of service. A side benefit of undertaking an RFP process is that it assists committee members to familiarize themselves with the best practices from top providers in the industry.

A Request for Information (RFI) process may be somewhat less demanding than a full RFP, while still providing some of the benefits, such as comparing costs and services with other providers.

Once you have completed a selection and implementation process, you can't simply check the box and forget it, however. You will still want to monitor your service providers on an ongoing basis. You might consider partnering with a qualified firm to conduct on-site due diligence of your providers and/or periodically conduct peer benchmarking. At a minimum, you should review the contract annually and check in at each committee meeting.

Conclusion

A fiduciary is an individual or organization that has been entrusted with the duty to act for the benefit of someone else. Because of this duty, a fiduciary must exercise a high degree of care with specific legal obligations and duties in terms of prudently managing the plan and its assets. In certain circumstances, fiduciaries may be held personally liable if they fail to carry out their fiduciary duty. This is no small responsibility, but fortunately, best practices can guide you in managing your plan. The practices outlined in this paper are designed to help you meet and demonstrate standards of prudence; these best practices can also play a role in providing your participants with the best opportunities to save for retirement. Use the fiduciary checklist at the end of this paper to stay on track.

Arnerich Massena partners with our clients by assuming explicit fiduciary responsibility. As an independent firm, we adhere to strict standards to avoid conflicts of interest in the advice we provide to our clients. We are committed to providing the best possible service for our clients. This includes assisting clients through the plan oversight process in a logical progression that addresses plan governance and structure, professionally managed investments, and regular review and analysis of performance. With extensive knowledge of the defined contribution marketplace, we act as advocate for you and your participants.

Arnerich Massena provides a comprehensive consulting solution for retirement plan sponsors, including but not limited to:

- Plan administrative consulting and governance advice
- Investment Policy Statement development
- Plan analysis & design
- Investment menu construction and investment manager selection
- Investment performance monitoring and comprehensive performance reporting
- Target-date fund and risk-based portfolio evaluation
- Vendor negotiation, selection, and monitoring
- Participant education
- Fiduciary education

Fiduciary checklist

As a fiduciary, it is important for you to do your best to ensure that the plan is working as it should. We recommend and can assist with many of the following action items:

Committee organization and meetings

- ❑ Draft and maintain a Committee Charter that establishes roles and responsibilities.
- ❑ Maintain committee meeting minutes.
- ❑ Provide fiduciary training to committee members.
- ❑ Meet regularly to discuss administrative and legislative issues and review investment performance.
- ❑ Ensure that all committee members participate in meetings.
- ❑ Follow up on decisions made in committee meetings.
- ❑ Maintain a fiduciary audit file with all pertinent documentation.

Investment Policy Statement

- ❑ Create an Investment Policy Statement that outlines plan objectives, roles and responsibilities, benchmarks, and monitoring criteria.
- ❑ Document the process and criteria for manager selection, evaluation, and termination in the Investment Policy Statement.
- ❑ Regularly review the Investment Policy Statement and update it as needed.

Selection and monitoring of investments

- ❑ Follow a documented process for selecting managers/investments.
- ❑ Evaluate whether managers' style and philosophy are aligned with the plan's objectives.
- ❑ Regularly evaluate investment performance against the objectives and benchmarks documented in the Investment Policy Statement.
- ❑ Regularly assess investment management fees to ensure they are reasonable.
- ❑ Follow documented processes for terminating managers.
- ❑ Regularly review the portfolio's asset allocation, where applicable.
- ❑ Regularly assess portfolio and individual investment manager risk.

Selection and monitoring of plan providers

- ❑ Regularly evaluate whether the organization's service model and philosophy are aligned with the plan's objectives.
- ❑ When needed, conduct an evaluation of the reasonableness of fees charged by service providers to the plan.
- ❑ When needed, conduct an objective, thorough Request for Proposal (RFP) process to select plan recordkeepers or other service providers.
- ❑ When needed, benchmark the plan against peers.