

What's Your Planning PROCESS?

Retirement planning has undergone a number of significant changes in recent years. Increased oversight from agencies such as the Internal Revenue Service and the Department of Labor, as well as the growing focus on fiduciary responsibilities, has forced retirement planning to become more about the process than the product.

by Patrick M. Fay

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In years past, vendors believed that a better product would equal more sales. They focused their energy on “building a better mouse-trap” and then went out to sell, sell, sell! The retirement products of this era centered on enticing bells and whistles, such as the number of investments, types of investments, websites, brokerage accounts, managed money and glossy marketing materials. All of this was done with the hope of attracting prospective clients with fancy tools and promises of a new and better platform. Unfortunately, what was lost in all of the product hype was a detailed and organized process for plan review and decision-making.

Overseeing a retirement plan involves much more than a simple review of mutual funds and their performances. Successful corporate-sponsored retirement plans begin with a defined review process and a thorough plan for decision-making. Regrettably, many organizations are putting the cart before the horse when it comes to developing this process. Companies tend to make decisions that affect the plan without first establishing rules that dictate who should be making those decisions and how those decisions are made. A responsible fiduciary will ensure every effort is made to review the funds outside of regular investment committee meetings. This process should include the development and execution of a repeatable process to make certain that decisions being made are in the best interest of the plan. These decisions extend well beyond what funds are in the fund line-up. Let’s take a look at some often overlooked areas that are essential components of the planning process.

Benchmarking the Plan

When was the last time you took a serious look at your plan and compared it against the industry standard? For most plan sponsors, it was the last time they switched vendors. With fee disclosure becoming a requirement, it is important, now more than ever, for fiduciaries to conduct reviews on a regular basis. This does not mean that it needs to be done annually; every three to four years should be sufficient.

Why is this so important? Look back at the state of your organization when you made the last change to your retirement plan. Are the demographics still the same? Has your employee base changed at all? Have the assets in the plan changed significantly over the years? All of these questions are important to ask when pricing a plan. It is not unusual to hear a plan sponsor say they have had XYZ vendor for a number of years and are completely satisfied.

However, when asked if the plan or company is still the same size as it was at the time of the last change, the answer is often “no.” At this point, we must question why the plan hasn’t been benchmarked. Oftentimes, plan sponsors avoid benchmarking because they do not want to discover that they need to make a wholesale change. However, we are often able to go back to the existing vendor and negotiate a lower price based on the current data. Nevertheless, remember this: by going through this exercise, plan sponsors must be willing to make a change should the analysis warrant it, but this is more frequently the exception than the rule.

Building an Investment Committee

Forming a properly established investment committee is one of the best protections for a retirement plan. A suitable committee begins with a select group of people within the organization that often consists of an HR person, a CFO or Comptroller and the company owner. What is often lacking during these committee meetings is proper documentation. The first step towards conducting effective committee meetings is the development of a charter that defines the responsibilities of each member, such as:

- Membership (How many members? How they are appointed or removed and how do they resign? What are the titles or positions of each member?)
- Duties (What duty is each committee member specifically responsible for?)

Once a charter is developed, each committee member should acknowledge their role and all that comes with it. This is often done through a signed document outlining the roles, responsibilities and risks that come with being a part of the committee. This is an important step because many members of the committee do not understand the risks associated with their participation in this group. By serving on a committee, you are by default a fiduciary to the plan and, thus, exposed to all associated risks. These risks are not just corporate, but personal as well. In extreme cases, they could result in the loss of your savings or home. It is important that all involved are comfortable with what they are committing to and that documentation exists which proves that members understand and accept their roles.

Committee Education

If you are going to ask employees to serve on an investment committee and take on the related responsibilities, it is important to properly educate them on how to effectively participate in the committee. Education protects plan sponsors by ensuring that members are up to speed with what is expected of them and their roles as a fiduciary to the plan. It is recommended that this education takes place on a regular basis every two to three years.

More to Consider

Other tools and services worthy of consideration include Investment Policy Statements and structured plan review meetings. These practices, in addition to benchmarking the plan and developing a strong education program, will help encourage a successful 401(k) plan for your company.

Investment Policy Statement (IPS) It is often said, “Better to have no IPS than have an IPS and not follow it.” We frequently find that companies establish an IPS for their plan, file it away and never look at again. This is typically done during a vendor change. Generally, plan sponsors utilize a sample document that was provided by the new vendor. Unfortunately, while they may feel like they are now protected, they may have *actually* set themselves up for more exposure. The IPS is designed to be a road map to help you navigate the process of creating and maintaining a proper investment lineup in the plan. One of the main deficiencies we see today occurs when companies add Target Date Funds to their plan and fail to add them to the list of appropriate funds in their IPS. At this point, plan sponsors should be asking themselves if the plan takes advantage of the Qualified Default Investment Alternative (QDIA) safe harbor, and if the IPS has language related to QDIAs and their proper use. Like any other contract, your IPS should be reviewed every two to three years. It is also recommended that your legal counsel or an experienced ERISA attorney review your IPS to ensure this document meets the unique needs of your company and employees.

A well established IPS provides the guidance necessary to monitor, replace and implement new funds into the line-up. It is critical that your investment monitoring reports coincide with what has been established in the IPS. Ideally, you should utilize third-party investment review reports such as fi360 or FIRM, all of which can be customized to match the unique requirements of your IPS.

Plan review meetings Whether you meet quarterly, annually or somewhere in between, it is important that the plan review meetings are conducted in a way that is beneficial to the plan and its participants. While there isn’t one established way to conduct plan reviews, a successful meeting should have, at minimum, the following components:

- *A detailed agenda* – Having a solid agenda will help keep the meeting on track and document what is going to be covered during the meeting.
- *Appropriate materials* – These materials can include, but are not limited to, updated investment reports, copies of the most recent IPS and Plan Participation reports covering percentage of participation, average contribution percentage, average account balance, etc. It may also be beneficial to have a copy of the minutes from the last meeting.
- *Minutes* – Minutes should be taken at every committee meeting. Oftentimes there will be a person responsible for recording the minutes. These should be thoughtful and thorough, while also avoiding too much unnecessary detail. The minutes should indicate actions taken by the committee and how they benefit the employees. Finally, they should contain in-depth details regarding the facts and considerations that led to particular decisions.

The most important factor to consider during plan review meetings is that the focus needs to be on matters that pertain to the participants. Remember, decisions need to be made for the participants – every effort should be made to keep company matters out of these discussions.

Ready, Set – Plan!

Creating and implementing a strong planning process for your company’s 401(k) plan is an effective way to meet your employees’ retirement needs. Not only will you protect yourself as a fiduciary, but you will also ensure that every decision being made is done in the best interest of your participants. Taking the time to apply the aforementioned processes will not only help to mitigate risk to your retirement plan, but it will also serve to protect you and the participants in the plan.

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