Retirement Plan Governance

Deb Rosenberg, CEBS, ISCEBS Fellow
Director of Retirement Plan Consulting
Stiles Financial Services Inc.
Edina, Minnesota

Mary Komornicka, Esq., CEBS, ISCEBS Fellow
Attorney
Larkin Hoffman
Minneapolis, Minnesota

Deb Rosenberg, CEBS

Mary Komornicka, Esq., CEBS

This article is based on the authors' presentation at the 2017 Symposium in Denver, Colorado.

Most plan sponsors know they have fiduciary responsibilities when they sponsor a retirement plan, and they establish a committee to fulfill those duties. Unfortunately, these committees often tend to focus primarily on investment options, ignoring other important issues. This article will provide some pointers for more robust and effective plan governance.

How do we define *plan governance?* It is identifying the right plan design, the right vendors, the right internal team, the right investments and the right oversight committee. Appropriate oversight will involve having a clear understanding of your scope of responsibility, following consistent and well-documented processes, appointing an engaged and educated committee, and identifying good provider partners.

Committee Structure

Whether there is one plan committee, as is often the case in smaller companies, or distinct administrative and investment committees, the structure and membership of any committee is the foundation for effective meetings. Committee members should have experience and knowledge that are useful in addressing the variety of issues that will come before them. There should be diversity of backgrounds and perspectives among the members in order to avoid *group think.* At the same time, the committee needs to be able to reach decisions. The leader is key and should have the skills to guide discussions and reach consensus—identifying, prioritizing and addressing issues; listening objectively; and fostering good dialogue.

A critical element for plan governance is that the committee members take their responsibilities seriously, always act in the best interest of the plan participants (not themselves) and make all decisions thoughtfully.

Committee Issues

Monitoring investment options, both performance and fees, is a critical responsibility of the committee. Many plans utilize an investment policy statement (IPS) and scorecard tools from vendors and/or investment advisors to assess that investments are meeting objectives. The committee should have a clear vision for when to place investments on *watch,* look for replacements, or make other changes or additions.

Beyond investments, the committee has the responsibility to provide oversight on service providers, ensuring that all necessary plan functions are properly handled. This means understanding what each service provider is doing and making sure there are no gaps or overlaps in their functions. Providers may include trustees/custodians, recordkeepers, third-party administrators, ERISA attorneys, investment advisors, plan auditors, etc. The committee should ensure that service agreements are in place and that contracted services are being delivered in an accurate and timely manner.

As required under regulations, all provider fees should be benchmarked periodically to ascertain that they are reasonable for the services being delivered. There is NO requirement that fees must be the least expensive! While general comparative data is often available, the committee may elect to use a request for information (RFI) or request for proposal (RFP) process to obtain plan-specific data. The committee needs to understand the implications of plan design, plan population, investments and other characteristics that impact administrative needs and fees.

The committee should monitor any regulatory changes that could impact the plan as well as general trends in retirement plans, with an eye to future amendments or structural changes that may be needed. Similarly, the effectiveness of the plan should be assessed. Is the level of employee engagement where it should be? Are there patterns of investment selection or loan requests that are signs of possible problems? Is there sufficient employee education regarding saving, investments and distributions/retirement? Is the plan a competitive and valuable benefit playing a key role in employee attraction and retention?

Meetings

Committee meetings are where the work happens and, for these meetings to be effective, the agenda must be clearly established. Committee meetings often occur quarterly and are set for six to eight weeks after the end of the quarter so that vendor reporting and investment returns can be evaluated. Investments are typically reviewed at each meeting. However, to ensure that all aspects of the plan have proper oversight, an annual meeting calendar should detail what will be addressed at each meeting. For example, the committee might review enrollment and savings statistics in October so that a detailed communication plan can be developed for the upcoming year. Or a review of recordkeeper service and fees could be scheduled for the second quarter every year. Items will be less likely to be forgotten when the committee has a set agenda for each quarterly meeting.

A critical element of proper fiduciary oversight is to document that meetings have been held, what was reviewed and discussed (the agenda), what decisions were made and the basis for those decisions. This is the function of the meeting minutes. The minutes should document any issues that were raised, what pieces of information were provided to analyze an issue, the fact that the discussion occurred and the decision that was made. Detailed descriptions of discussions are not required to be documented, nor is it necessary to note that one committee member said something and another member strenuously disagreed. The minutes should show that an issue was properly identified and analyzed prior to the decision being made and verify that the decision followed the plan document and any relevant plan policies.

The committee should be aware of all compliance requirements and ensure that internal and provider processes are working to keep the plan in compliance. It may be wise to have internal human resources/benefits staff provide updates to the committee. The committee also may want to have the plan auditor report on its annual findings.

Other Items to Consider

Plan administration and oversight carry an element of risk. The committee should know what types of insurance and levels of coverage exist both inside the company and with plan providers. The committee also should be willing to objectively assess what they know and don't know and be willing to bring in experts to help in plan oversight. The committee should be committed to ongoing education related to their roles as fiduciaries. And new committee members should be provided with education regarding the plan, fiduciary duties and committee procedures.