

## Who's on your Retirement Plan Committee?

Why is a Retirement Plan Committee important? What's it for? Who's on it? Learn how a financial advisor can help you every step of the way!



Retirement plan committees are super important; they set the direction and priorities of the company's retirement plan. These actions (or inactions) can have a huge impact on how successful employees are at preparing for retirement.

For some plan sponsors, overseeing an organization's retirement plan can be an overwhelming and taxing exercise. Many companies recognize this and choose to establish groups to manage and make decisions about this important employee benefit. Retirement plan committees play an integral part of managing investment options for plan participants, providing fiduciary oversight and working toward the goal of plan success.

### Who needs a Retirement Plan Committee?

Although retirement plan committees aren't a legal requirement, establishing one allows for a designated group to be tasked with plan management, investment decision-making and fiduciary responsibility.

A retirement committee's collective expertise can also better address the increasing complexity of governing rules and regulations that primarily stem from the Employee Retirement Income Security Act (ERISA), which sets the minimum plan governance standards to provide protection for participants.<sup>1</sup>

### Understanding fiduciary duty

A plan fiduciary must always act solely in the interest of the participants, although there is some confusion about who exactly the fiduciaries are. According to one study, nearly 1 out of 3 plan sponsors do not see themselves as plan fiduciaries,<sup>2</sup> which is a big problem since a plan fiduciary can be held personally liable for restoring any losses to the plan.

Retirement plan fiduciaries are either named in the plan document or considered as such based on the activities they perform. The primary responsibilities of fiduciaries are the:

1. Duty to act prudently with the care, skill, prudence and diligence under the circumstances that a person acting in a like capacity and familiar with such matters would use.
2. Duty of loyalty to manage the plan solely in the interest of participants and beneficiaries.
3. Duty to diversify the plan's investment options to minimize the risk of large losses.
4. Duty to follow plan documents to the extent that the plan terms are consistent with ERISA (rules and regulations that govern retirement plans).

Additionally, plan fiduciaries should avoid any conflicts of interest.

## Structuring a Retirement Plan Committee

Financial advisors can play a vital role in helping plan sponsors establish and maintain a retirement plan committee. In addition to providing financial investment expertise, they may give operational insight for the committee and recommend experts outside the company for additional support.

A financial advisor may also provide education and guidance regarding fiduciary best practices, regardless of the size of your investment committee. For many companies, the retirement plan committee will include the plan administrator, members from the company who have financial or benefits responsibility and additional members who provide needed experience.

Lawyers with ERISA expertise can help committees navigate regulation changes that affect retirement plans as well as provide protection from litigation exposure; approximately two-thirds of organizations that have legal counsel participate in committee meetings. However, only half of organizations with fewer than 1,000 plan participants have legal counsel, in contrast to the nearly 92% of organizations with more than 5,000 participants.<sup>3</sup>

Legal expertise is particularly necessary as in recent years, retirement plans have experienced an uptick in legal challenges. In 2020 alone, there was a fivefold increase from the previous year in class action lawsuits challenging 401(k) plan fees.<sup>4</sup>

Other committee members may include third party administrators (TPAs) to provide guidance on plan compliance, administration and related areas; recordkeepers that track plan participants, as well as investment and financial activity and the company's accountant for bookkeeping oversight.

Setting a meeting schedule is dependent on the size and complexity of the plan. Many retirement committees meet quarterly, but nearly 40 percent of small organizations meet semi-annually.<sup>3</sup>

## Duties of a Retirement Plan Committee

After a retirement plan committee has been organized, a governing document is established to outline the responsibilities, procedures and processes to follow. Creating an investment policy statement is another key step that will help align the plan's objectives and investment approach.<sup>5</sup>

The committee should consistently monitor the plan's investment performance against benchmarks and also review adherence to compliance processes.

In the 401(k) world, the process that led to your decision may be more critical than the decision itself. Documenting everything from committee meeting discussions to the rationale behind service provider selections to investment policies are all equally important.

Consistent employee communication is a cornerstone of any committee's duty and should cover at a minimum, enrollment periods, contribution limits and matches and plan information and fees.

The success of a retirement plan committee can have a much greater impact than what meets the eye. While it may seem like an administrative obligation, the reality is that the members' efforts are actually playing an active role in helping fellow employees pursue their retirement goals.

<sup>1</sup> Department of Labor. "[Employment Retirement Income Security Act](#)" DOL.gov.

<sup>2</sup> AllianceBernstein. "[Inside the Minds of Plan Sponsors: Fiduciary Awareness on the Rise](#)" alliancebernstein.com. 2020.

<sup>3</sup> PSCA. "[Retirement Plan Committees](#)" PSCA.org. April 2021.

<sup>4</sup> Bloomberg Law. "[401\(k\) Fee Suits Flood Courts, Set for Fivefold Jump in 2020](#)" bloomberglaw.com. August 2020.

<sup>5</sup> TIAA. "[What it Means to be a Retirement Plan Fiduciary](#)" TIAA.org. 2020.

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