



Successful Investment Committees – Proven Structures and Best Practices

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In this *Informed Sponsor Report*, we outline several key characteristics for effective investment committees that we have seen in operation over the years. We will also provide an overview of what we believe are best practices employed by these committees, and offer you ideas on how to improve or enhance your investment committee.

Given the fiduciary standards placed on retirement plan sponsors and the recent litigation targeted at plan sponsors, an effective investment committee is now more important than ever.

In our 20-plus years of investment consulting practice, we have worked with a large number of investment committees in both the retirement plan and endowment/foundation arenas. If one thing remains unchanged it is that “one size/style does not fit all”. While most investment committees share a common purpose, the organizations they serve have unique qualities, goals and objectives that must be considered. What’s more, given the fiduciary standards

placed on retirement plan sponsors, recent litigation targeted at plan sponsors, and the growing importance of defined contribution plans to the retirement security of participants, there is little doubt having an effective investment committee is now more important than ever.

General Overview of the Investment Committee

Investment committees are typically comprised of appointed members, volunteers or a combination of both. Members of the committee share a distinct fiduciary responsibility for making decisions on behalf of participants and their beneficiaries. ERISA (The Employee Retirement Income Security Act) sets the standards of conduct for those managing employee benefit plans and its assets. The primary responsibilities of fiduciaries include:

- Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them
- Prudently executing their duties
- Following the plan documents (unless inconsistent with ERISA)
- Diversifying plan investments, and
- Paying only reasonable plan expenses



With these responsibilities there is also liability. Fiduciaries that do not follow the basic standards of conduct may be held personally liable for restoring any losses to the plan due to their actions. In short, it is important for committee members to align corporate/ employer goals with the best interests of plan participants and their beneficiaries.

Structure & Responsibilities

Successful groups or organizations generally start by having the right people involved in key decision-making. The same is true of establishing stable and constructive investment committees. In our experience, the best committees include appointees and volunteers with diverse backgrounds, along with permanent members who possess specific skill sets. Permanent members often include:

- Owner-General Manager – applies to smaller companies
- Finance (CFO, CIO, Treasurer, Comptroller, etc.)
- Benefits and Human Resources (Benefits Manager, HR Director, etc.)
- In-house Legal Counsel (Corporate Counsel) applies to larger organizations

Preferably it's best to balance the number of volunteers and appointees to the number of permanent members. Individuals that have displayed a dedicated interest to the success of the overall organization and are capable of working well with others are obvious candidates. These members do not need to have a high financial or investment IQ, but they should have a genuine interest in investment topics and be prepared to educate themselves about basic investment principals. They should also have a schedule that allows them enough flexibility to regularly attend quarterly meetings.

The ideal number of members generally is in the range of four to eight. However, we have worked with

committee structures as small as one and as many as 10. We've found that a range of four to eight members allows for reasonable terms of service and accommodates for the natural turnover that organizations experience over time. It should be noted that even smaller companies benefit from having more than just the owner assuming these oversight responsibilities.

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The responsibilities of the committee should be spelled out in what is known as the Investment Policy Statement (IPS). This document is critical to outlining the roles and responsibilities of the investment committee. This outline would include a description of fiduciary duty and the "prudent man rule." The IPS should also provide the processes by which the committee will measure and evaluate the investments and providers that are associated with the defined contribution plan. A good IPS will clearly outline the objectives of the retirement plan, along with guidelines that govern the types of investment that will be allowed within the plans, and dictate policies regarding the selection and replacement of the plan's investments and providers.

At Bidart and Ross, we have worked with some organizations that have established Committee Charters, which go further than the IPS in outlining the roles and responsibilities of its members, staff and even consultants. This document addresses the selection and appointment of committee members, terms of services, chairman's role, and reporting requirements to the board.



The Charter can also outline fiduciary responsibilities and the potential liabilities of serving on the committee.

3 Fundamental Committee Best Practices

Over the years we have observed and offer the following best practices for retirement plan committees:

Documentation: Get It In Writing, Keep It Safe, Keep It On Hand

There should be a clear process for recording and storing the committee's work and decisions. The committee should establish a written agenda of topics that will be covered at each quarterly meeting. Some committees will appoint one member as the recording secretary, others will utilize staff for note-keeping and detailing what was discussed and decided at each meeting. Meeting minutes should be distributed, reviewed and approved by the committee and kept in a committee file.

Reports from outside vendors including record-keepers, consultants and auditors should be reviewed during the quarterly meeting and these documents should be kept in the committee file along with a copy of the IPS, Charter, and any plan related documents, including the formal plan document and summary plan description (SPD). This level of documentation will be invaluable the day a representative from the Department of Labor walks in to audit your retirement plan. In all, maintaining proper documentation of committee activities will help establish procedural prudence regarding the committee's decision-making process. Without proper documentation establishing procedural prudence, the fiduciaries may be vulnerable to a later claim that they failed to carry out their duties.

Consistent Decision-Making Process: Prudent and Predictable

Ultimately, the committee's primary responsibility

is to make decisions that are solely in the best interest of the participants and plan beneficiaries. ERISA Section 404(a)(1) requires fiduciaries to discharge their duties solely in the interest of the participants and beneficiaries and for the exclusive purpose of:

- Providing benefits to participants and their beneficiaries, and
- Defraying the reasonable expenses of administering the plan

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Additionally, ERISA requires that decisions be made with "the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

This does not mean that committees always have to get every decision right. But they do need to be able to support and defend their decisions through documented independent investigations.

Whether a committee is deciding to replace an investment option, a record-keeper or to establish new plan features, the process for determining the best course of action for the participants must incorporate a consistent approach. The approach should incorporate an appropriate level of information gathering and analysis combined with objectivity and thoughtfulness.

The criteria for making investment or provider selection or termination decisions should be expressly spelled out in the IPS. By following a framework for



prudent decision-making, committee members can feel confident that they are meeting the fiduciary standards established by ERISA.

Communication: The More, The Better

Finally, every successful organization places a high value on the importance of communication. For the investment committee, this includes the ability to communicate the policies and goals of the retirement

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plan to their workforce. Equally important is robust information flow to and from plan service providers. In our experience, investment committees that foster a team atmosphere between their investment managers, consultants and administrators often get the most out of these relationships for themselves and their participants. Accordingly clear policies that promote transparency and timeliness of reporting benefit participants and the committee alike.

When it comes to employee education, the committee should establish policies that are aligned with ERISA 404(c) disclosure requirements. This simply states that the plan must provide participants with sufficient information to allow them to make informed decisions regarding their investments. If your plan is or intends to be 404(c) compliant, you must include this notification in your communication materials to participants. For many committees, the types and strategy for effective participant education and communication is developed for the unique needs of the organization.

No matter the size or sophistication of the company or organization, if it is sponsoring a retirement plan there must be an investment committee. The information described in this *Informed Sponsor Report* can serve as a guidepost to those already sitting on a committee or for those looking to establish one. Ideally, the committee will endeavor to constantly evaluate the health and status of their plan to identify areas for future enhancement and improvement for the participants.

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