

Commco Comments

Timely Information Updates for Employers and Retirement Plan Sponsors

Investment Committees: The Foundation of a Dependable 401k Program



In today's litigious, post-Enron world, how can employers simultaneously achieve two objectives: 1) provide employees with a broad array of suitability options and 2) fulfill fiduciary responsibility?

We recommend that plan sponsors establish an Investment Oversight Committee (IOC) to participate in governance and oversee the plan's investment options. But who should be included in the committee? How often should they meet? Is it different for companies of various sizes?

How does the Investment Committee function?

The committee is a crucial part of establishing vendor, fund and fee analysis processes. Plan sponsors without a formal committee, but with one or two executives who occasionally look at the fund review prepared by the vendor itself, simply will not insulate the company from participants' complaints or lawsuits.

A formal committee meets two to four times a year, monitors the investment options, notices and discusses the relevance of any factor in a fund that could affect its continued suitability, and decides the inclusion or elimination of the funds from the line-up. Minutes of every meeting should be taken and made available to the retirement administrative committee and the Board of Directors. Clear lines of communication between these entities are imperative to prevent problems, including legal issues.

Some committees choose to discuss and evaluate administrative topics as well, although many plan sponsors will separate committees between investment and administrative concerns once the plan grows to about 1,000 participants. When there are two committees, at least one executive, usually the HR person, should sit on both committees.

Who should serve on the committee?

The investment committee is comprised of senior executives of HR, Finance and Operations, and committees of four to six members work best. It becomes difficult to get anything accomplished with too many members. With less than that, there is not enough perspective. We recommend that a head of the committee be named, usually the CEO, but some committees operate effectively without an official chairperson.

Some plan sponsors have "guests" attend committee meetings on a regular or rotating basis. Guests are usually a subcommittee of employees from different locations or business units. This method gives a cross section of employees a voice regarding the plan, but they do not vote on issues; to permit that could increase rather than decrease plan sponsors' fiduciary risk.

Managing fiduciary liability

Committee members should be aware that they have corporate and personal fiduciary liability. Each member should thoroughly understand what their fiduciary responsibility is as well as thoroughly understand the investment review components. When new members are added they should be trained to understand their fiduciary responsibility and fund monitoring process. It is a mistake to assume all members understand these issues; they need to be taught.

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What topics are covered in an Investment Oversight Committee?

A typical meeting might cover these topics:

- Review of investment options.
- Evaluation of funds in light of your Investment Policy.
- Discussion of on-going participant needs and education.
- Trends and legislations affecting plans and participants.
- Fee review by funds.
- Monitoring of each fund; review of investment consultant's report.

A role that matters

An effective Investment Oversight Committee is the cornerstone of a corporate retirement program. It ensures the plan remains competitive and continues to offer a good line-up of fund options, and each committee member's input and perspective is critical to making the plan succeed.

Announcing the 2011 Commerce Concepts Dates!

September 29

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To ensure you receive the official invitation, or if you have a colleague who you think would like to be invited, log on to www.thecommco.com/invite2011 to submit email addresses. To see last year's speaker lineup, lunch menu, and more, visit <http://www.thecommco.com/commerceconcepts2010.html>.

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