How to Build and Run a Retirement Plan Committee

Executive Summary

For any retirement plan, establishing an effective decision-making group fosters more diverse ideas and opinions. It also challenges the status quo to help create a more successful plan.

That's why an important first step in fulfilling plan governance requirements is establishing a retirement plan committee. Retirement plan committees serve as the backbone of any retirement plan governance structure. They're responsible for making many of the decisions regarding the plan and are also the primary named fiduciaries of the plan.

There's no single formula for creating the perfect committee. Every retirement plan is different in terms of its design and the demographics of its participants. This guide offers valuable insight—from the creation of a successful committee to the effective monitoring of committee actions and decisions—to help create and manage a committee that operates in the best interests of your plan's participants.

Building the Committee

Within this section, we'll review what to consider when creating your retirement plan committee. Ultimately, the decision will be unique for each organization based on the size and demographics of their employee population. While there is no definitive solution, the following will provide some guidelines to maximize the benefit for the plan sponsor.

SIZE

The first step in creating the retirement plan committee is determining the right size. Small organizations with a single, simple plan may only need a couple of group members, while larger organizations with multiple plan service providers and more complicated plans may need larger groups.

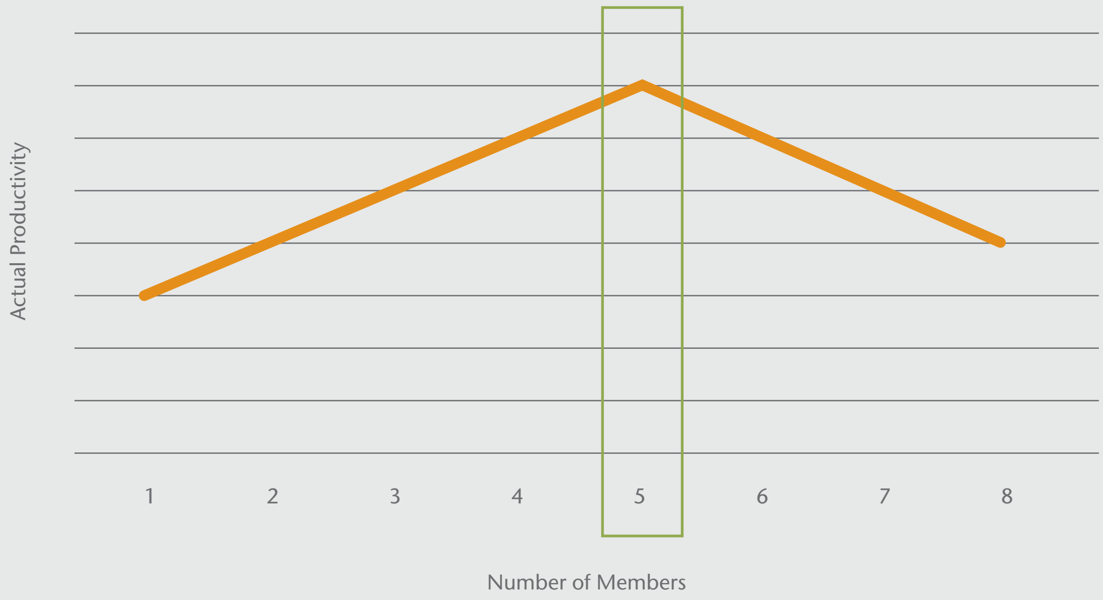
The big factor affecting this decision will often be the "ability" factor. Realistically, how many committee members are feasible based on the organization's time and resources?

A committee with more members provides the group with a greater amount of resources to perform plan-related duties, along with a more diverse spectrum of ideas and opinions from the different members. However, additional members may also create more complications with coordinating group meetings and communication conflicts.

A larger group may also cause delays in decision-making, which we refer to as "process losses." While more members may increase the productivity of the committee, they also increase the potential for process losses. At a certain point, actual productivity will begin to decrease with the inclusion of additional members.

We believe the optimal number of members is five. This helps to avoid situations in which a vote on a decision may lead to an even split (often causing significant process losses). If the plan sponsor elects to have an even number of committee members, we recommend the chair's vote serve as the tie breaker.

CORRELATION BETWEEN COMMITTEE SIZE AND PRODUCTIVITY



Source: Steiner, 1972

DIVERSITY

Next, select who you want on the committee. **The members don't have to be experts in this area, but they should have some level of familiarity with the plan and a working knowledge of investments.**

Generally, members will include staff from the Human Resources and Finance departments, although they can generally be anyone from the organization. Well-formed committees tend to have a more diverse group of members in order to promote skills, backgrounds, opinions, etc.

In terms of forming the committee, there are three types of diversity to consider:

1. ***Social diversity* involves differences in age, gender, ethnicity, etc.** This type of diversity has often found mixed results in terms of its benefits. Some studies have found that tenure diversity may have a negative effect because it may increase conflicts and decrease open communication. We believe a moderate level of diversity in this area is important in the context of the retirement plan committee.

   As the plan design and investment menu will affect participants across the age and income spectrum differently, it is important to incorporate some diversity into the group. By having long-tenured employees along with some newer, younger members, the committee can gain a better understanding of the needs and wants of many of the participants.

   For example, a longer-tenured, higher-income group member may not consider the savings patterns of the younger employee population in the decision-making process. This may be best communicated via a younger member who works with those employees on a daily basis. Although too much social diversity may have some negative effects on committee process, some diversity is important to improve committee effectiveness.

2. ***Informational diversity* involves differences in skills, education and knowledge.** This type of diversity tends to provide the most benefit to a committee or group. Having members with a variety of expertise and skill sets can provide a tremendous amount of value.

   For example, a Human Resources Specialist will have much experience working with plan design and plan service providers. On the other hand, a Chief Financial Officer or Vice President of Finance will have a better understanding of the investment side of plan governance.

   In order for the committee to truly benefit from increased informational diversity, communication is vital. The committee must encourage all members to actively participate in discussions and feed off of everyone else's skills and ideas. If members don't communicate their specialized skills and knowledge to other members, this will provide little to no benefit to the committee.

3. ***Value diversity* involves differences in values, commitments and priorities.** We seek to limit this type diversity within the group context. By aligning every group member's values and commitments, the group can work much more in sync.

   It's important that everyone has similar goals regarding the plan, as well as time commitments, so that the group can meet as often as they need to with all members in attendance. Additionally, members with common values working toward the same goal will be more willing to cooperate with each other.

LEADERSHIP

Any team or group can live or die by the strength of its leadership. While everyone leads in his or her own way, there are certain characteristics that are synonymous with committee leadership.

- ✓ **Be flexible, not autocratic**—a leader with the flexibility to adapt in various situations is generally found to be the most effective
- ✓ **Be process (not outcome) oriented**—it is the team's job to arrive at the outcome and the leader's job to get them there
- ✓ **Identify problems the committee faces**—this helps to establish clear goals
- ✓ **Maintain the committee's focus**—bring the discussion back to your center point
- ✓ **Consider the proper voting threshold**—quorum, majority, or consensus
- ✓ **Encourage independent committee voting**
- ✓ **Promote comfortable sharing of disparate opinions**
- ✓ **Put measures in place to offset groupthink and social loafing**
- ✓ **Seek external help as needed**—ERISA attorney, consultant, and fiduciary training

BENEFITS OF USING A CONSULTANT

Given the increasingly regulatory environment, that final point is becoming more and more important. Often, it can be very beneficial for committees to not only have an outside retirement plan consultant attend the meetings but also lead the meetings.

We have found setting a term limit on the chair position is a function of the size of the committee, size of the organization and the personnel resources. In general, larger committees and organizations will have a larger pool of potential chairs, and a rotation may be beneficial. However, the opposite is often true for smaller institutions, as the leadership strength of the current chair may not be pervasive in other committee members.

If it is determined a rotation of the chair's position is practical and will add value to the overall decision-making process, we suggest the chair-elect be added to the committee in a non-voting role until the former chair's term is over. This overlap will provide insight for the new chair and be of significant benefit when he or she assumes the leadership role.

Consultants can help to facilitate discussion and ensure that all important issues and changes since the last meeting are covered. Additionally, they can serve as a valuable resource in meetings due to their breadth of knowledge in the retirement plan industry. Although committee members are not expected to be experts on retirement plan matters, consultants are experts and can provide a number of direct and indirect benefits to your plan.

In some cases, consultants have been asked to participate as non-voting members on the committee. The addition of a consultant on the committee should be carefully considered to ensure undue influence is not exerted. Additionally, all committee members should feel secure in reaching conclusions that may differ from the consultant. If properly developed, the addition of a consultant as a non-voting member can be impactful.

Furthermore, consultants tend to meet with a great deal of retirement plan committees on a regular basis. This provides two significant benefits:

I. **They know how to work with committees.** As they meet with many committees, consultants know what works and how to effectively encourage members to participate. Good consultants will also know how to help everyone on the committee fully understand the plan topics being discussed and be able to update committees on any relevant regulations or plan updates.

II. **They're aware of the common trends regarding the retirement plans of your peers.** Since they meet with many retirement plan committees, they're well aware of the changes and improvements your peers are implementing. This helps to bring more ideas to the table and ensures that your plan doesn't fall behind your peers.

Running the Committee

The following will focus more on guidance for conducting successful committee meetings. These guidelines should help you to maximize the benefit from meetings by fulfilling fiduciary duties and ensuring proper administration of the plan.

READY AND ABLE

Members elected to the retirement plan committee should be both ready and able to be part of the group.

- Committees should plan to meet at least every quarter, and members are expected to attend all of those meetings.
- Meetings should be held more frequently during times of transition or change, such as when the plan is changing plan service providers or investment managers.
- Members should arrive to meetings well prepared so as to improve the flow and effectiveness of meetings.
- Meeting agendas should be sent out beforehand so that members can be ready to discuss the important issues. A structured agenda with set discussion points and time limits will allow group members to mentally prepare and allocate time for the meeting. This reduces the risk of the meeting going long, which can potentially lead to significantly reduced focus on the topics at hand or members having to leave early due to other engagements.

ENCOURAGING AND ENGAGING

Meetings should be conducted in an encouraging and engaging fashion. The level of understanding of finance, investments and plan governance can differ significantly when comparing a CFO and a human resource professional. It's important to encourage all members to participate and make them feel comfortable in group discussions and meetings. Members who don't actively participate will provide little value to the committee.

TIME LIMITS AND MEETING OBJECTIVES

Effective committees set time limits. Certain discussions can go on for hours and still lead to no consensus or agreement. This can be a huge drain of time and resources for the committee and its members while providing little to no benefit.

Setting time limits will allow the committee to cover more ground in less time. If a topic or discussion is left unresolved when the time limit is reached, finish up any last thoughts and move on to the next one. This will allow all members to think about the issue at hand overnight or over the course of the week. They may be better able to come to a consensus later on at the next meeting.

Additionally, committees should set a limited number of discussion points for each meeting. Four to six is usually a good amount, but this will also vary depending on the importance and time needed for each of the topics.

Attempting to cover too many topics may not be a very effective approach to conducting meetings. As meetings go on, members may begin to lose focus in the meeting. As a result, topics discussed later in the meeting may not receive as much thought and consideration.

This may cause reduced engagement in discussions as well as members leaving due to prior engagements, thus not giving later topics in the meeting as much focus. For this reason, it may also be advisable to begin meetings with more dense and important topics and leave the smaller and less important discussion points for the end of the meeting.

DOCUMENTATION

Proper documentation is vital for an organized and efficient retirement plan committee. Documentation also helps to mitigate some fiduciary duty by providing written evidence of compliance and due diligence.

All committees should designate one person to take meeting minutes at every committee meeting. This helps to document topics that were discussed as well as any decisions made. It also allows members to go back to the minutes to review what was covered in the previous meeting(s).

When collecting meeting minutes, committees should make sure to document who attended the meeting and any decisions that were reached. They should also show the rationale for those decisions and demonstrate that a prudent process was followed.

Outside consultants or attorneys can provide or help develop a great deal of documentation. Much of this documentation will help to limit the plan sponsor's fiduciary duty as they have a better understanding of the documentation that is needed as well as an understanding of the language and content that is required or highly recommended. Some of the important documentation that can be provided or developed includes:

- Meeting minutes
- Investment policy statements
- Quarterly investment reports
- Manager search reports
- Committee charter
- Committee member acceptance/resignation forms
- Conflict of interest disclosure statements

All committee members should keep copies of these documents together in a single binder or folder and bring them to every committee meeting.

Frequently during the course of a meeting, tasks or follow-up items may be an outgrowth of the committee's discussion. It's important to log who is responsible for the specific task or follow-up and to track the completion of this task.

This helps not only to track the assignment, but it also provides the venue for accountability at the next meeting. Frequently, consultants assume the monitoring role for the completion of the task and can be a resource if progress stalls.

What to Avoid

While most of this document has focused on what you should do in regards to your retirement plan committee, this section will briefly touch on some issues to avoid in the context of the group. Many of the guidelines that have been provided above seek to discourage or eliminate the following.

1. **GROUPTHINK**
   Groupthink occurs when individual members of a group prefer to avoid conflict and agree with the group consensus rather than providing their own, differing opinions. This may occur for a variety of reasons, including fear that their ideas may be turned down or feeling intimidated by other group members who may have more experience or knowledge in the area. This can be a problem as the purpose of the group is to encourage more varied opinions and challenge the status quo in hopes of improving overall plan governance.

2. **SOCIAL LOAFING**

As groups become larger, individual members may actually contribute less than they would in a smaller group or on an individual basis. A greater number of members may dilute their contributions, so they are less motivated to contribute as much to discussions. They may feel that their own opinions may not matter as much and may be discouraged from being more active members as they will begin to rely more on other members to drive discussions.

3. **GROUP POLARIZATION**

Groups or committees have been found to make more extreme decisions than individual members. Occurrences of groupthink or social loafing are big contributors to polarization. As the group begins to lean toward one decision, groupthink may cause other members to agree.

The momentum may push the group's decision in that direction. Additionally, by working in a group, members may feel that they have less personal liability for the committee's decisions (even though they may not) and consequently, make riskier decisions.

Conclusion

Good retirement plan governance is key to a successful plan. The key to good governance is a well-run retirement plan committee. Taking the time to consider the makeup of the committee and to create a strategy for the operation of the committee will benefit the plan sponsor and participants.

If you would like more information or guidance on creating an effective retirement plan committee for your institution's retirement plan, please contact **PlanPILOT, LLC** *at* **info@planpilot.com** *or* **(312) 973-4911.**
