Retirement Plan Governance

Reducing Risk in your Retirement Plan

In developing good plan governance, one of our main goals is to minimize the risks faced by our plan sponsors and their retirement plan committee members. In order to develop a comprehensive compliance strategy, we need to start by first identifying the risks that need to be addressed. Our short list of focal points would include the following:

1) Plan Sponsor Risk
2) Personal Fiduciary Risk
3) Retirement Readiness Risk
4) Regulatory Compliance Risk

While there are many points to be considered within these four risk categories, we believe that your most critical risks can be categorized under one of these four areas. In short, it is important to ensure that the plan sponsor, the individuals serving on your retirement plan committee, and your plan participants are **properly educated on the actions for which they are responsible.** In doing so, you also want to confirm that your plan is completely in **compliance with today's regulatory guidelines and standards.**

PLAN GOVERNANCE

I

Action Steps

1. Minimizing Plan Sponsor Risk. It is the sponsor's responsibility to ensure that all required tasks are assigned to either internal or external "experts". Management, or the board of directors, is well served by *appointing qualified individuals to oversee all functions of their retirement plan(s).*

Clear guidance should be given to the appointed committee members regarding the formation of policies and procedures that are consistent both with plan goals and government regulations. The committee should also be given latitude to engage outside experts, including accounting, consulting and legal assistance, to ensure that plan objectives and compliance requirements are satisfied.

Ongoing communication between the board of directors and the retirement plan committee is *critical to keeping all parties aware of changes that may require further action* to satisfy plan objectives or regulatory requirements.

2. Personal Fiduciary Risk. Plan committee members should *establish documented policies and procedures* that will drive their decision processes. These guidelines should be consistent with management's stated objectives, and also spell out "do's" and "don'ts" to be followed by all committee members.

All committee members should acknowledge their appointment in writing, but only after receiving formal fiduciary training and being provided with a fiduciary handbook. It is critical that *all committee members understand their roles as fiduciaries* and the boundaries within which they must operate.

All actions need to be consistent with the parameters described in the plan's governing documents. Furthermore, regular meetings should be held with meeting minutes being retained to *document all critical discussions* and to memorialize the processes that were followed.

A solid governance foundation provides an added layer of personal fiduciary protection.

Action Steps

3. Retirement Readiness Risk.

In an effort to deliver optimal outcomes, *the retirement plan committee will want to center its policies and procedures around the goal of achieving retirement readiness* for their employee participants. At the most basic level, the committee should provide a diversified investment menu to meet the needs of its entire workforce population. Furthermore, participant education should be delivered both at initial eligibility and on an ongoing basis. In addition, the committee will want to develop a foolproof system for managing the timely delivery of notices and disclosures to meet all regulatory requirements.

Drilling deeper, you would want to identify any savings or investing gaps within your plan, and then *develop an action plan to help participants achieve retirement readiness.* Next steps might include individual recommendations to get on track. Plan design changes could also be implemented to encourage better behaviors, including auto enrollment, auto escalation, stretching your matching formula or re-enrollment to default participants into more age appropriate investment strategies.

Most importantly, *you must always act in your participants' best interest to meet your fiduciary obligation.*

4. Managing Regulatory Compliance Risk. This is an area where committee members are well-served in engaging the services of an outside expert to *share in their responsibility and to share their fiduciary risk*. Every committee member likely has dozens of other responsibilities, and therefore has a limited amount of time to allocate to his/her plan duties. Outside experts who focus all of their time on delivering retirement plan services are *well-positioned to keep you on the narrow path of regulatory compliance*. They can review your policies and procedures and plan documents for consistency and compliance with all legal requirements.

In conclusion, we believe that strong risk management includes a four corner approach that addresses:

1. Plan Sponsor Risk
2. Personal Fiduciary Risk
3. Retirement Readiness Risk
4. Regulatory Compliance Risk

We hope the thoughts contained in this letter help you as you address the risks inherent in your retirement plan(s).

PlanPilot Can Help

We welcome the opportunity to assist you in improving your risk management. Please do not hesitate to call us at **(312) 973-4911** to discuss how we can be of assistance to you and your plan committee.

PlanPILOT