RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

Q2 2018

Fiduciary Foundation—The Investment Policy Statement

In any walk of life, a successful outcome is often predicated on a solid plan. For fiduciaries who bear the responsibility for their companies' 401(k) plan investment decisions, an investment policy statement (IPS) is the crucial foundation upon which an effective and compliant retirement plan rests. Below are some IPS tips that can help set every plan sponsor up for fiduciary success!

What is an IPS, and why is it so important?

Simply put, the IPS is the blueprint that lays out how all retirement plan investment decisions are made. It is the governing guide that helps fiduciaries stay focused throughout their decision-making process.

Although technically not required, maintaining an IPS for your retirement plan is strongly recommended. Why? Because it fulfills one of your critical fiduciary responsibilities—to demonstrate prudence when making fiduciary decisions. Further, when the U.S. Department of Labor (DOL) conducts a retirement plan audit, it requests a long list of plan-related documentation, including "analysis regarding the dismissal or retention of portfolio investments." In the event of such an audit, furnishing your IPS would help satisfy this part of the request.

What are the benefits of an IPS?

There are several benefits to creating and maintaining an IPS:

- **Documentation:** An IPS establishes a written procedure for making investment-related decisions.
- **Confidence:** By strictly following the IPS, fiduciaries can feel confident that they are carrying out their duties in a manner consistent with the expectations that have been laid out for them.
- **Continuity:** Most businesses experience turnover. When employees who serve as fiduciaries leave their firms, the IPS can provide clarity and structure for the new employees to help ensure that there's no lapse in fulfilling fiduciary duties.
- **Simplicity:** Although an IPS is a complicated document, when adhered to, it offers simplicity and clarity for those tasked with implementing its instructions.

What should be included in the IPS?

A well-constructed IPS includes a few critical components:

- **Plan objectives:** This section explains why the retirement plan exists and how it will serve employees. It also describes the plan's investment goals.
- **Roles and responsibilities:** This section describes for what the fiduciaries—including third-party fiduciaries such as service providers or plan advisors—are responsible.

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- **Asset class guidelines:** Here, the sponsor defines the process for determining which asset classes are appropriate for the plan and lists the asset classes that will be made available to participants.
- **Selection and evaluation of investments:** This section outlines the process for selecting and periodically evaluating plan investment options. In general, performance objectives, applicable benchmarks, fees, investment manager philosophy, and organizational strength are considered.
- **Removing investment options:** The criteria, rationale, and action steps for removing an investment option from the plan are laid out here.
- **Requirements for qualified default investment alternatives (QDIAs):** QDIAs offer plan fiduciaries safe-harbor protection from certain risks associated with default investments. This section explains the characteristics that a plan investment must have in order to qualify as a QDIA option.

IPS best practices

- **Your IPS is a living, breathing document.** Review your IPS periodically—at least annually—to ensure that it does the following:
  - Continues to meet the objectives of your plan and unique needs of your employees
  - Stays current with changing investment climates
  - Incorporates new asset classes when necessary
- **Follow the terms of the IPS as written.** Most experts agree: the only thing worse than not having an IPS is having an IPS but failing to follow its terms. This is a clear breach of fiduciary duty that has been at the heart of recent 401(k) litigation.
- **Get help when you need it.** In fact, this isn't just a best practice. It's a requirement. If a plan sponsor doesn't have the knowledge or expertise to create an IPS, ERISA requires the sponsor to enlist the help of a third-party expert, such as a retirement plan advisor or another service provider, to draft and maintain the IPS.

Plan Sponsor FAQs

Q: Our plan includes several 401(k) accounts with small balances that belong to former employees. We'd like to contact the employees to encourage them to take action on their accounts, but we don't know where they live. What are the acceptable methods for locating them?

A: As fiduciaries, plan sponsors must treat all accounts—whether they belong to current employees, former employees, or employees' beneficiaries—with prudence and care. That said, there is some good news! The DOL, in its Field Assistance Bulletin 2014-01, provides guidance on searching for missing retirement plan participants. You may:

- **Use certified mail.** Certified mail is an easy way to find out, at little cost, whether a participant can be located.
- **Check related plan and employer records.** Although the records of the retirement plan may not contain current address information, the employer or another of the employer's benefit plans, such as a group health plan, may have more up-to-date information.

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- **Contact a designated plan beneficiary.** Search the plan's records or the records of related benefit plans to try to identify and then contact any individual whom the missing participant has designated as a beneficiary (e.g., a spouse, child, sibling) to inquire about updated contact information for the missing participant. If there are privacy concerns, the plan fiduciary can request that the designated beneficiary contact the sought-after individual or forward a letter to the missing participant or beneficiary.

- **Use free online search tools.** Plan fiduciaries may make reasonable use of online search tools that do not charge a fee to search for a missing participant or beneficiary. Such services include Internet search engines, public record databases (e.g., license, mortgage, and real estate tax databases), obituaries, and social media.

If the above methods fail to turn up the information needed, plan sponsors may use additional resources, including commercial locator services, credit-reporting agencies, information brokers, investigation databases, and analogous services that may involve charges.

Q: I've been told that our retirement plan is required to purchase something called a *fidelity bond*. What is it, and why do we need it?

A: ERISA requires a fidelity bond for employee benefit plans, including workplace retirement plans. The fidelity bond protects the plan from losses due to fraudulent or dishonest actions conducted by those within the company who handle the plan's funds (e.g., payroll associates, plan trustees, corporate finance personnel).

A plan's fidelity bond must provide coverage equal to no less than 10 percent of its assets, but at least a minimum of $1,000 and at most a maximum of $500,000. Because plan assets fluctuate, it's important for retirement plan sponsors to review their plans' fidelity bond coverage annually to ensure that it remains adequate.

Please note: It is also important to understand what a fidelity bond does not do. It *does not* insure fiduciaries against losses due to their breach of fiduciary responsibilities!

We Can Help

Contact us to learn more about helpful hints for improving your company's retirement plan and implementing a solid fiduciary process, as well as to discuss any other aspect of your plan. We're ready and willing to help.

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