Veratis ADVISORS

HOW TO PROPERLY STRUCTURE A RETIREMENT PLAN COMMITTEE

Designing an effective retirement plan committee and properly training its members are critical contributors to strong retirement plan governance, increased fiduciary protection, and decision-making that will positively impact the lives of plan participants.

As a firm that focuses on mid and large-market retirement plans, we are seeing improvements in plan governance nationally as employers 1) have responded to a more challenging fiduciary environment and 2) are learning how impactful strong governance structures can be for plan participants. At this point, most companies have formed dedicated committees to oversee the organization's retirement benefits, but we are still encountering concerns related to the structure of retirement plan committees.

Therefore, we have gathered the thoughts of our retirement consulting team to create a list of best practices related to committee formation and fiduciary training for members. We hope you find this information helpful, but keep in mind that the unique factors within your organization must be considered as you optimize your plan governance structure.

BEST PRACTICE: FORM A DEDICATED RETIREMENT PLAN COMMITTEE

- ✓ **Since there are numerous interconnected components of a retirement plan arrangement, it is often best for organizations to form a single governing body that is dedicated to the oversight and management of all plan functions** (e.g., provider selection, plan design, investments, plan administration, etc.).

  Occasionally, companies determine that an additional layer of oversight from an investment committee is warranted since retirement plan committee members may not possess the background or knowledge to make effective investment decisions. However, with proper fiduciary training and strong guidance from an advisory firm, retirement plan committees can be effective at overseeing all aspects of the retirement plan arrangement - including investments.

BEST PRACTICE: FORMALIZE THE COMMITTEE WITH A CHARTER AND PROVIDE REGULAR BOARD UPDATES

- ✓ **A charter document should be adopted by the organization's board of directors to clearly define the membership, purpose, duties, limitations, and operational structure of the committee**, and the charter should be periodically reviewed to determine if updates should be made.
- ✓ **It is common for retirement plan committees to have the authority to make plan design decisions that impact employer costs**. However, the committee charter often designates a dollar limit approved by the board (through the charter adoption) that places a safeguard on the financial impact committee decisions can have on corporate profitability. Additionally, it is common to have finance and senior leadership representation on the committee, which ensures that there is coordination with leadership as a part of the retirement plan decision-making process.
- ✓ **The retirement plan committee should provide the board of directors with periodic updates** of plan statistics, plan changes, fee trending, actions taken to benefit participants, steps taken to protect the organization, etc. In our opinion, an annual cadence with interim updates for any meaningful one-off items is appropriate.

Retirement plans are sponsored by the organization, which means that fiduciary liability flows up to the board. This risk consideration, along with the fact that boards typically do not have the time to devote to the proper oversight and management of plans, are the primary reasons organizations form dedicated retirement plan committees.

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BEST PRACTICE: CAREFULLY SELECT MEMBERS OF THE RETIREMENT PLAN COMMITTEE

Based on our experience with various committee structures over the years, here are the attributes we typically strive for when designing a committee.

- ✓ **Number of members** - In our opinion, the minimum number of members to achieve an appropriate level of collaboration is three, and seven members should be the upper end of the range to ensure that all are engaged and can meaningfully contribute. Five to seven members is a good number to strive for, with an odd number allowing for a majority in a divided vote (which rarely occurs if due diligence efforts are well structured).

> We should note that it is important to be intentional about committee size and membership, as adding too many voting members can inadvertently shift too much decision-making authority away from executive leadership.

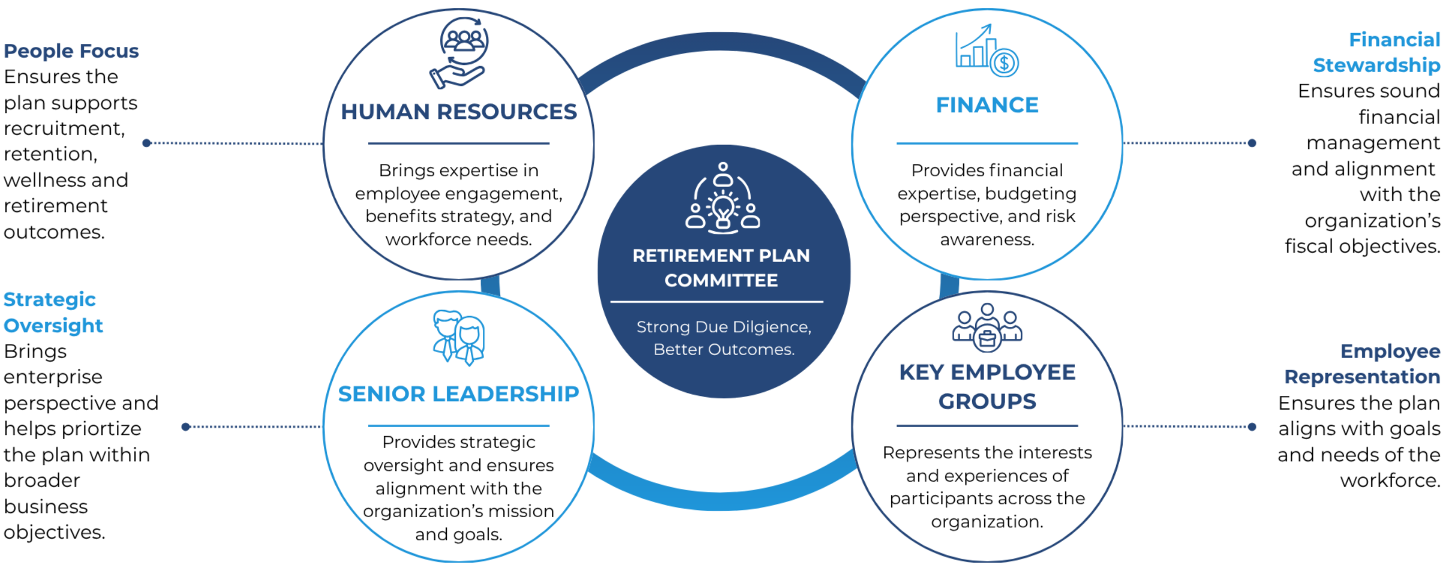
- ✓ **Organizational representation** - There are up to four areas of representation we commonly include in retirement plan committees (human resources, finance, senior leadership, and key employee groups). In our opinion, it is important to maintain an appropriate balance of human capital and financial considerations in the process, which is accomplished with the titles and types of people who are included in the group.

The inclusion of senior leadership helps to guide the group (within a collaborative environment), *ensures that human capital and finance considerations are properly evaluated, and makes the decision-making process more efficient (including communicating with the board).*

Regarding the decision to add a member to represent a key employee group, this is a company-level decision. *However, as noted in the next section, selecting a person with favorable attributes to serve in the role should be prioritized (i.e., we would not add the wrong person to achieve key group representation).*

RETIREMENT PLAN COMMITTEE REPRESENTATION

A well-rounded committee includes up to four areas of representation to ensure balanced decision-making.



- ✓ **Member selection -** This can be the most challenging aspect of committee construction, especially when a leader who would serve on the committee by title in the charter (if membership is handled this way) does not possess the attributes that are optimal for membership. With this said, the impact of a single member can be mitigated with 1) strong selection in the other seats and 2) enough members to vote.

  When Veratis helps organizations form or adjust the structure of their retirement plan committees, we seek members who possess the following attributes:

  - **A clear understanding that the role is focused on the best interests of the broader participant population** (i.e., members must prudently separate their own interests or opinions when they are in opposition with what is in the best interests of participants).
  - **An interest in retirement benefits and helping the organization manage and improve the retirement plan arrangement.** Optimizing a retirement plan does require a commitment of time and energy from the group (typically 5 to 10 hours per year - potentially more in years with RFPs or other projects).
  - **A willingness to learn initially and on an ongoing basis.** Prudent decisions are made by a knowledgeable group of committee members who holistically evaluate the various angles of decisions when performing plan due diligence. The ever-changing nature of industry best practices, retirement plan regulations, and the investment environment make it vital for committee members to continuously build their knowledge over time. *In our opinion, this also makes it less optimal to include term limits for committee members*.
  - **No conflicts of interest.** Organizations should ensure that voting retirement plan committee members avoid and disclose any conflicts that could impact their ability to objectively serve the best interests of the participant population. *An example of a potential conflict would be a senior leader promoting the use of his or her personal investment advisor as the plan advisor. In this scenario, the senior leader could state that the advisor should be considered, but he or she should abstain from any decision-making processes where a personal relationship could create bias*.
  - **Works well in a collaborative environment.** Most corporate leaders possess this skill, but we have encountered scenarios where strong-minded or time-limited leaders adversely impact the plan governance process.

BEST PRACTICE: EFFECTIVELY TRAIN COMMITTEE MEMBERS (INITIALLY AND ONGOING)

As previously mentioned, prudent decisions are made by knowledgeable committee members who holistically evaluate the various angles of decisions. However, since retirement plans have considerations that are distinct from other corporate benefits, it is relatively common for us to encounter new committee members with limited knowledge in certain plan areas.

For this reason, it is important for the training curriculum to cover a wide range of topics (such as those listed on the following page).

Note about the training environment:

The advisor performing the fiduciary training should intentionally foster an environment where committee members feel comfortable asking questions and identifying areas where they would benefit from additional education.

Common fiduciary training topics for new members:

- ✓ The role of a fiduciary and the purpose of the retirement plan committee
- ✓ An overview of the organization's plan governance process
- ✓ The history of the retirement plan arrangement and an introduction to the service providers, plan design, investment options, and fee structure
- ✓ Any specifics of the arrangement that require special consideration (e.g., education challenges that require a unique strategy that is priced into the arrangement)
- ✓ An appropriate investment training that includes:
  - The factors that were prioritized in the construction of the investment menu
  - The criteria used in the selection and monitoring of the investment options - including a review of the Investment Policy Statement and the plan's qualified default investment alternative (QDIA)
  - An overview of the investment options
  - How investment changes are evaluated and the factors that typically lead to fund replacement
- ✓ An overview of the asset allocation solution and how this is monitored (e.g., target date funds)
- ✓ An overview of plan reporting materials
- ✓ How to prepare for committee meetings

While we have included a checklist for new members, it is critical for retirement plan committee members to continue to build their knowledge over time. Therefore, it is best practice for firms to provide committee members with regular fiduciary training as a part of the ongoing meeting cadence. Our firm provides training for existing committee members on specific topics annually, but advisory teams should always be in an education / training mindset as they guide committees in each meeting.

TURNING RETIREMENT PLAN GOVERNANCE BEST PRACTICES INTO ACTION

The best practices shared in this document are intended to serve as a guide for plan sponsors as they evaluate and strengthen their retirement plan governance framework. With this said, due to the varying realities, needs, and goals of each organization, optimizing retirement plan governance will require a degree of customization.

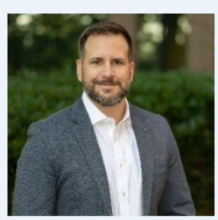
The key is to be fully aware of the structure that is in place and to be equipped to address any gaps that may exist.

How Veratis can help:

Our advisory team would welcome the opportunity to connect to discuss your governance design or other retirement plan needs. A brief conversation can provide valuable perspective and insights to help your organization identify potential gaps and develop practical next steps to enhance your retirement plan arrangement.

Author Information:

Steve Simpson
Retirement Plan Consultant
919-651-4027
ssimpson@veratisadvisors.com



Liam Johnson
Retirement Plan Consultant
919-999-3132
ljohnson@veratisadvisors.com