BEST PRACTICES FOR INVESTMENT COMMITTEES

Plan Sponsor Education Series

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Retirement and Employee Benefits
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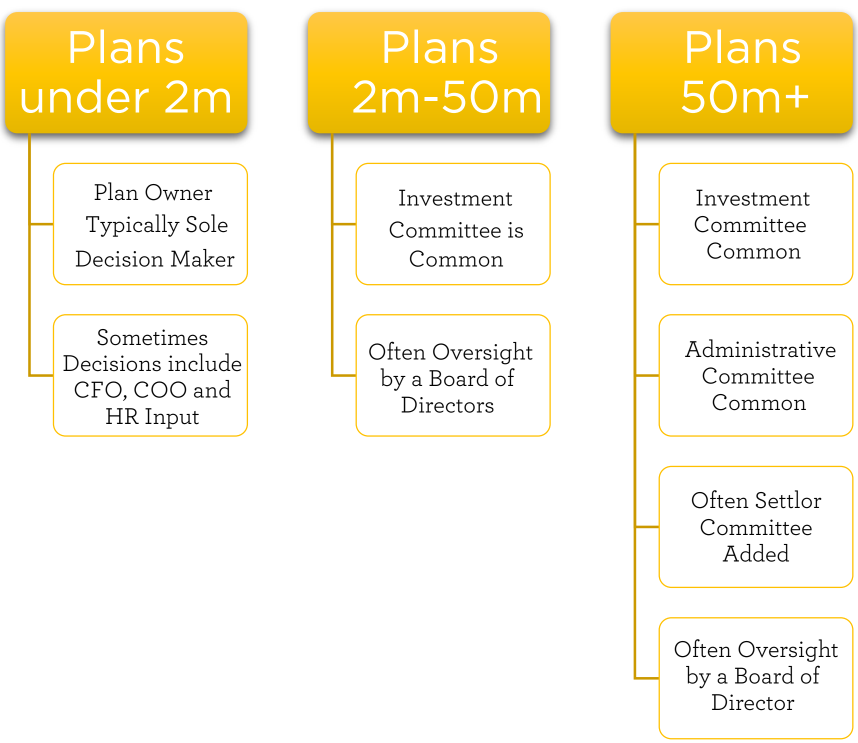
COMMITTEE FORMALIZATION

OVERVIEW

Those individuals responsible for the management and oversight of an employer-sponsored plan have personal liability according to the Employee Retirement Income Securities Act of 1974 (ERISA), because they make decisions on behalf of plan participants and their beneficiaries. Setting up a committee to clearly define and document a process of plan oversight is an effective way to help limit the liability associated with managing a 401(k) plan.

Many companies and benefit plans are small enough that creating a formal committee for plan oversight is not a viable option. As companies grow and plan assets increase, formalizing the committee structure makes more sense. Depending on plan size, you might even consider forming one committee to oversee the administration of the plan, and another to oversee the investment responsibilities required. Some companies will often form a third committee for decisions that are considered "settlor functions" (company and/or business related decisions which are not subject to a fiduciary standard of care). This packet is designed to provide a framework for setting up a formal governance process and includes samples for formalizing an investment committee, and for documenting plan oversight responsibilities at any level.

Sample Oversight Depending on Plan Size



COMMITTEE FORMALIZATION

COMMITTEE BASICS

While forming an investment committee is optional, each committee should be structured around the organizations capabilities and needs. Generally, there are some basic considerations to make when setting up and running an effective committee.

- **Committee Demographics:** When setting up an investment committee, it is usually comprised of senior management personnel from the areas of human resources, finance, and operations.
- **Committee Requirements:** There is no specific job title or experience requirement for an effective committee member, only that they are willing to understand the roles and responsibilities of the position, and that they make a commitment to working together in the best interest of the plan participants and their beneficiaries.
- **Committee Understanding:** Each member should be educated on the fundamentals of ERISA including understanding the fiduciary duties, plan procedures, investment review components, and plan documents. Regular fiduciary training is recommended.
- **Size of Committee:** Five to seven members are optimal. It becomes difficult to get anything accomplished with too many members and with too few, there is not enough perspective. Having an odd number helps prevent voting ties.
- **Frequency of Meetings:** Committees generally meet quarterly, unless the situation warrants more frequent or less frequent meetings.
- **Committee Structure:** It's best practice to appoint a Chairman to run the meeting and a Secretary responsible for keeping minutes and serving as the official custodian of the plan documents and committee records.
- **Formalization:** Formalizing the committee is important to outline the responsibilities and is typically done through the use of a document such as a committee charter or committee by-laws.
- **Fiduciary Acknowledgment:** All committee members should acknowledge their appointment to the committee and fiduciary status in writing, if they have voting rights on the committee.
- **Documentation Practices:** Meeting minutes should be documented including any decisions voted on and documentation should include what items were evaluated and reviewed when making decisions.
- **Consistency:** An agenda should be followed for each meeting to provide consistent process for reviewing key items.

Regardless of whether a company sets up a formal committee or not, a basic set of guidelines can help ensure plan fiduciaries understand their roles and participants rights are protected. The following page provides a flow chart for plan oversight and responsibility.

COMMITTEE FORMALIZATION

BEST PRACTICE FLOW CHART