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Fiduciary Responsibilities and Monitoring Your Plan's Costs

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A fiduciary duty is a legal duty to act solely in another party's interests. Parties owing this duty are called fiduciaries (owners, executives, human resources personnel, retirement plan committee members). Fiduciaries may not profit from their decisions and have a duty to avoid any conflicts of interest between themselves and the plan.

There are four steps for fiduciaries to take when building a prudent practice.

The Organize
Create a formal committee by adopting a Formation of Investment Committee Document. The document outlines the roles and responsibilities of the committee.

Formalize
Create the objectives on the type of investments, time horizon, risks and return the committee will use to determine the investments to utilize within the plan and how and when an investment will be frozen or deleted.

These items will be outlined in the adopted Investment Policy Statement.

Implement
The committee, along with an investment advisor, will create a reporting process to capture all the criteria items in the Investment Policy Statement. The investment advisor and committee will determine the scoring and weighting for each criterion.

Monitor
Along with an investment advisor, the committee should meet at least annually to review the criteria scoring against benchmarks, peer groups and indices to determine if the investment line-up is meeting the objectives outlined in the Investment Policy Statement.

In addition, the committee must review expenses incurred by participants of the plan and determine if these expenses are fair and reasonable.

Trustees and Fiduciaries can greatly decrease their liability by following the steps above and hiring an investment advisor to implement them. Some advisors may be able to act in certain co-fiduciary capacities, such as 3(38) and 3(21) on the investments, and 3(16) on the plan administration.

Monitoring Your Plan's Costs

Plan level expenses also play an important role among the fiduciary's duties to the plan. As the plan grows in size, pricing and fees become more competitive amongst the different recordkeeping vendors. The fiduciary has a responsibility to monitor these fees on an ongoing basis to ensure the plan participants are paying fair and reasonable fees.

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By hiring an advisor, a fiduciary can get the support they need to review plan fees and benchmark against the industry and similarly sized plans. With great perspective and insight into the different recordkeeping vendors, advisors have the ability to negotiate fees and locate the best value for their clients. And after the benchmarking process, if it is determined that the plan is going to change vendors, the advisor can play a key role throughout the transition.

Advisors can also assist in communicating the features and benefits provided in the plan, along with any changes, to the employees. Not only does this help alleviate some of the fiduciary's responsibility, but it can also lead to increased plan participation and improved employee morale.

In summary, certain parties will have a fiduciary responsibility to act in the best interest of the plan and the participants. With a formal plan in place to monitor and implement best practices, these parties can reduce the liability incurred as a fiduciary to the plan. A third party financial advisor can also be hired for support and to ensure that the correct plan is in place.

About Alliant Insurance Services, Inc.

Alliant Insurance Services, Inc. is a group of dedicated specialists focused solely on delivering retirement plan consulting services to employers looking for efficient, effective solutions needed to maintain a highly successful retirement plan. From investment analysis and due diligence to employee communications and vendor fee benchmarking, our process-driven solutions help protect employers from corporate and personal liability, while increasing investment opportunities and improving overall plan value.

At Alliant, we provide our clients with the support needed to help mitigate their fiduciary liability exposure as a 3(21) investment co-fiduciary and/or a 3(16) administrative co-fiduciary. In the 3(16) capacity, we can relieve the group of their administrative burdens, such as filing tax forms, reviewing plan financial reports for accuracy, preparing participant notices, and other time consuming tasks.

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