Horse sense and retirement plan committees

Dave Burns September 17, 2013

Have you ever heard the saying “A camel is a horse designed by a committee”? It suggests that decisions made by committee tend to be suboptimal, reflecting input from multiple parties and a consensus, but failing to produce the best possible outcome.

With one or more humps on its back, a long neck, and an uncomfortable, rocking gait, the camel may not be the best choice of transportation in most situations. Nevertheless, it’s exactly what you want if you have an expanse of desert to cover.

So, I contend that there are circumstances where a committee can produce exactly the right outcome. One such situation is when you are running your company’s retirement plan—I’ve seen it work so I know it’s possible. And, by following a few best practices, it can run more like a thoroughbred horse than a bumpy camel. Who wouldn’t want that?

So, based on many years of working with thousands of retirement plans my colleagues and I have been able to see what works and what doesn’t, and have identified a set of best practices for plan fiduciaries.

For more than a decade, I’ve visited with many Vanguard clients—large and small. During those visits, we often discuss how employers can provide employees with great retirement plans by using effective plan design strategies, and at the same time, protect the plan fiduciaries from liability by implementing our best practices.

One of the first things I typically cover is the importance of having a well-organized and effective committee to run the plan. I see it as fiduciary best practice No. 1, and it requires just a few key steps:

- Have a clear process for appointing committee members.
- Determine the right structure for your committee in terms of size, membership, and responsibilities.
- Hold regularly scheduled meetings.
- Ensure that committee members have the necessary expertise to perform their duties and provide appropriate training to fill any gaps.
- Document all committee actions and decisions.

A complete discussion of each of these steps is beyond the scope of this blog. However, here are a few of my observations related to plan committees:

- **There is no single perfect size or structure.** Each company is different. Some companies have two committees: one to handle investment selection and monitoring, one to handle plan administrative issues. In my experience, though, most companies have a single committee that handles both. As for size, 5 to 10 members seem to work well in most cases.

- **Regular meetings are very important.** A quarterly meeting schedule is most common and a two- to three-hour meeting usually provides ample time to adequately discuss issues. It’s good to be able to convene an ad hoc meeting when necessary to deliberate breaking developments (e.g., many plan committees elected to meet shortly after the market downturn in late 2008).

- **Make sure members have fiduciary knowledge and expertise.** Under ERISA, plan fiduciaries are held to a high standard requiring them to act as a “prudent expert” would. If committee members lack some requisite skills, they should receive training or the committee should retain the services of a competent outside advisor. The Plan Sponsor Council of America recently reported that when the Department of Labor (DOL) visits a plan sponsor to conduct an investigation (DOL terminology for an audit), it requests proof that the plan committee has received fiduciary training.

- **Be methodical about documentation.** This is one of the most important lessons that I have learned from reviewing decisions in numerous court cases involving alleged fiduciary misconduct. Documentation can take several forms. First, it’s good to adopt and follow a charter document that defines the committee’s organization and responsibilities. Second, it’s critical to document committee discussions and actions. Meeting minutes should not be a verbatim regurgitation of everything that was said, but they should identify the issues that were addressed and demonstrate that the committee engaged in a deliberative process that sought to reach a prudent decision.

The bottom line: if you want your retirement plan to run as smoothly as a thoroughbred and not like a bumpy camel, put together a well-functioning committee, meet regularly, engage in a deliberative process, document what you do, and always act in the best interests of the plan participants. So that’s it for best practice No. 1. Stay tuned for my observations on three others I consider vital for fiduciaries.

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