Stress test your fiduciary focus: Are you following best practices?

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For plan sponsors, the fiduciary standards of ERISA are among the highest the law recognizes. Plan fiduciaries are held to an exceptional level of accountability under the law, including the assumption of personal liability for fiduciary decision-making.

Meeting the standards for fiduciary conduct is vital for many reasons, and perhaps foremost among them is the simplest reason of all: It's the right thing to do—for your plan and for your participants.

In today's environment, devoting your attention to meeting your fiduciary responsibilities is even more vital. Vanguard can act as your partner in educating your committee about fiduciary best practices. Vanguard Strategic Retirement Consulting (SRC) has a team of dedicated resources, including ERISA attorneys, senior benefits consultants, and actuaries, that provides training and regular updates regarding regulatory and legislative developments in this important area of law.

It's important for every plan fiduciary to be aware of key obligations and duties.

Top things to keep in mind

Plan fiduciaries have the following duties:

Act for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the plan.
Act with care, skill, prudence, and diligence.
Diversify investments to avoid large losses.
Follow the terms of the plan.

To fulfill your fiduciary duties, plan sponsors should implement these critical best practices:

Hold regular committee meetings—and call special ones when necessary. It's important to have the necessary experts at the table with you and to document your decisions—even when the decision is to maintain the status quo.

Maintain a well-drafted investment policy statement (IPS). All plans benefit from having an IPS that can serve as a road map to guide fiduciary decision-making with respect to plan investments. Once a policy is created, it's extremely important that plan sponsors follow the terms within the IPS.

Understand fees—and ensure that they are reasonable. Sponsors should not only look at out-of-pocket and recordkeeping fees, but also examine investment costs that go along with each investment in the fund lineup.

Focus on decision-making. It is critical to maintain a prudent, deliberative, effective, and well-documented decision-making process.

Oversee plan administration. Sponsors should ensure that the administration of the plan conforms to the written plan document and any administrative policies and procedures for the plan.

Additional fiduciary best practices

Satisfy ERISA 404(c) regulations. In defined contribution plans, section 404(c) of ERISA relieves plan sponsors from fiduciary liability for participant investment decisions if certain requirements are met. Plan sponsors still have to prudently select and monitor the funds within the lineup, but they are relieved from liability for the individual investment choices participants make.

In addition, plan sponsors should consider adopting a qualified default investment alternative (QDIA). Plan sponsors will have fiduciary relief when participants are properly defaulted into a target-date fund, and the sponsor fulfills the other QDIA requirements.

Mitigate company stock risk. Company stock remains the single biggest fiduciary threat to plan sponsors. To manage that risk, ensure that your investment committee members act solely in the best interest of plan participants in determining the prudence of offering company stock as an investment option. Also ensure that your participants receive information about the risks of investing in a single security.

Offer sound investment tools, including advice. Offering low-cost fund options, target-date funds, education, and robust advice programs are some very important ways that plan fiduciaries can help their participants make sound investment decisions.

"In the current environment, there are a number of factors that make it an ideal time for plan

sponsors to revisit their fiduciary practices," said Sherryann Plessé, principal in SRC. "The market environment, the threat of participant lawsuits, and the ever-changing regulatory landscape really make it an ideal time for plan sponsors to step back, reassess their current practices, and see if there are areas where they might be able to tighten things up."

Establishing and executing a few key fiduciary best practices can help your committee fulfill its fiduciary obligations under ERISA.

Notes:

Investments are subject to risk.
Diversification does not ensure a profit or protect against a loss in a declining market.