

Investment Committees: The Foundation of a Dependable 401k Program

by Trisha Brambley, RESOURCES for Retirement

In today's litigious, post Enron world, how can employers simultaneously achieve two objectives: 1) provide employees with a broad array of suitability options and 2) fulfill fiduciary responsibility?

We recommend that plan sponsors establish an Investment Oversight Committee (IOC). Often when we are first introduced to a client they have no formal committee in place. Our practice is to help the company to establish a committee to participate in governance and oversee the plan's investment options.

Who should be included in the committee? How often do they meet? Is it different for companies of various sizes?

How does the Investment Committee function?

The committee is a crucial part of establishing a process for a vendor, fund and fee analysis. We often see a plan sponsor without a formal committee that has one or two executives who occasionally look at the fund review that is prepared by the vendor itself. This casual approach simply will not insulate the company from participants' complaints or law suits.

A formal committee meets two to four times a year, monitors the investment options, notices and discusses the relevance of any factor in a fund that could affect its continued suitability and decides the inclusion or elimination of the funds from the line-up. Minutes of every meeting should be taken and sent or made available to the retirement administrative committee and the Board of Directors. We cannot over estimate the importance of clear lines of communication between these entities as a preventative of future problems including legal issues. Many committees include the administrative functions of the plan and discuss these topics as well. In our experience, we find that many plan sponsors have separate committees for investment and administrative concerns once the plan grows to about 1,000 participants. When there are two committees, we suggest that at least one executive, usually the HR person, sits on both committees.

Who should serve on the committee?

The committee is comprised of senior executives of HR, Finance and Operations. We find that committees of four to six members work best. It becomes difficult to get anything accomplished with too many members. With less than that, there is not enough perspective.

We suggest that a head of the committee be named, usually the CEO, but some committees operate effectively without an official chairperson.

Some plan sponsors have "guests" attend committee meetings on a regular or rotating basis. Guests are usually a sub committee of employees from different locations or business units. This method gives a cross section of employees a voice regarding the plan, but they do not vote on issues. To permit that could increase rather than decrease plan sponsors fiduciary risk.

Managing fiduciary liability

Committee members should be aware that they have corporate and personal fiduciary liability. Each member should thoroughly understand what their fiduciary responsibility is as well as thoroughly understand the investment review components. When new members are added they too should be trained to understand their fiduciary responsibility and fund monitoring process. It is a mistake to assume all members understand these issues. They need to be taught.

What topics are covered in an Investment Oversight Committee?

A typical meeting covers these topics:

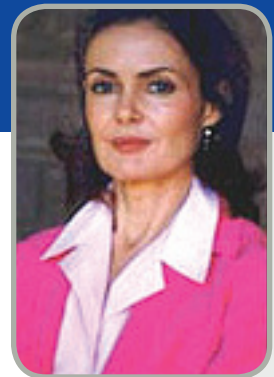
- Review of investment array.
- Evaluation of funds in light of your Investment Policy.
- Discussion of on-going participant needs and education.
- Trends and legislations effecting plans and participants.
- Fee review by funds.
- Monitoring each fund; review of investment consultant's report.

A role that matters

An effective Investment Oversight Committee is the cornerstone of the 401k program and ensures the plan remains competitive and continues to offer a good line-up of fund options. We at RESOURCES for Retirement sit on the Investment Oversight Committee of many mid to large companies and we are continually impressed at our clients' interest and enthusiasm for managing the plans of their company. Each member's input and perspective is critical to making the plan a great one. All committees require time. Participation on the Investment Oversight Committee absolutely influences decisions that affect everyone in the plan.

About Trisha Brambley

Trisha Brambley is president of RESOURCES for Retirement in Newtown, PA, a provider of retirement plan related services to plan sponsors who desire unbiased, independent plan expertise. Ms. Brambley implemented many of the country's first 401(k) plans, and is a noted expert and speaker on many national forums that focus on retirement plan issues including the US Department of Labor, the Profit Sharing Council of America and the Center for Due Diligence.



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