



## Plan Governance

**A PLAN-SPONSOR'S GUIDE**  
**RETIREMENT PLAN GOVERNANCE**



## Welcome Message

Dear Plan-Sponsor,

At Cognis Retirement Group, we recognize the dedication and sacrifices healthcare professionals make to care for others. Our mission is to provide the same level of care and attention to your employees' financial well-being.

This guide is designed to help you and your investment committee build a strong fiduciary governance foundation for your retirement plan, manage your plan assets with confidence, and create a legacy for your employees that reflects your values. Whether you are setting up a new plan or improving an existing plan, we are here to walk alongside you every step of the way.

We hope that this 3<sup>rd</sup> guide, in our *Best Practices* series, serves as both a resource and a roadmap — enabling you to make informed decisions, stay compliant, and empower your employees to achieve lasting financial security.

With gratitude and commitment,



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*Managing Principal*  
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## Item 1 Introduction

As a fiduciary, you bear a significant responsibility to your participants, and a substantial liability for carrying out your responsibilities. ERISA holds plan sponsors to high standards but does not provide specific guidance as far as processes and procedures. It is largely left up to plan sponsors to navigate the management of their plan. With careful plan governance, though, managing a retirement plan doesn't have to be burdensome or even difficult. Best practice guidelines can help you set up documents and processes that will help your plan run smoothly and assist the committee in successfully carrying out their responsibilities.

In this guide, we'll look at overall plan governance, answering questions such as:

- What documents should you have?
- What is an optimal structure for your committee and who should be on it?
- What type of decision-making process should you implement?
- How often does the committee need to meet?
- What should be on the meeting agenda?
- How can you monitor service providers?

Additionally, we have provided a fiduciary checklist at the end of the paper so that you can check your committee's practices against fiduciary best practices as they pertain to plan governance.

Defined contribution (DC) plans have evolved over time — from being supplementary retirement accounts to become the primary retirement savings vehicles for most U.S. employees.

This evolution offers an opportunity for plan sponsors to reimagine the structure and management of their DC programs, driving more innovation, personalization, and adaptability within investments and financial wellness as well as a sharper focus on compliance.

A recent Alliance Bernstein survey, though, shows that only 51% of plan- participants are confident that their investments will generate a sufficient income stream to last through retirement. With such grim statistics, the focus for well-run DC Plans is shifting from investment performance to enhancing and analyzing retirement readiness.

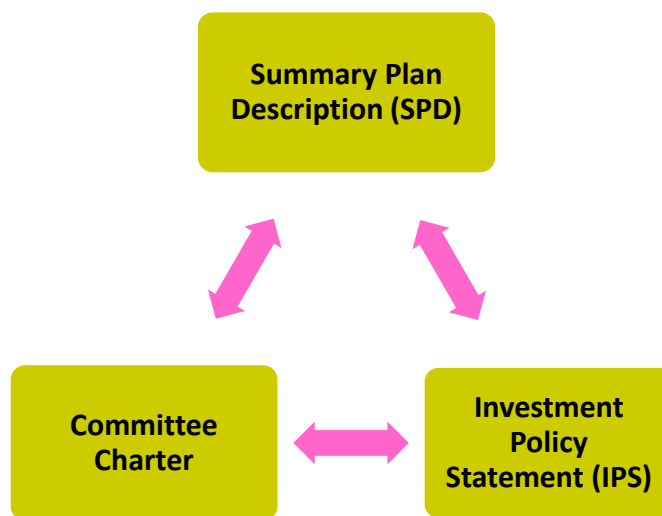
As the focus shifts, the fiduciary compliance landscape similarly evolves - raising the fiduciary liability stakes. As a plan fiduciary, one of the best actions you can take for your plan-participants as well as the plan itself, is to work with a DC Plan expert.



To that end, this 3<sup>rd</sup> guide in our *Best Practices* series outlines key attributes that separate best governed DC Plans from the rest. In addition, for each attribute, we present effective actions that you and your fiduciary advisor can take to improve an existing plan, so participants have a higher likelihood of achieving retirement readiness.

## Item 2 Plan Documents

ERISA requires that a covered plan have specific procedures and documentation in place. Best practice is to have at least these three documents:



These three plan documents together will outline the key features, philosophy, processes, and procedures of the plan. They should be maintained and reviewed at regular intervals, typically annually except in cases where changing circumstances necessitate a review and update sooner. Let's take a look at each document, and what it should cover and include.

### Summary Plan Description (SPD)

The Summary Plan Description is not a governing document — it is required by ERISA. The Summary Plan Description outlines the key features of the plan. This document fulfills legal requirements and provides participants with an understanding of basic plan provisions. A plan's SPD outlines the rules by which the plan is governed and covers such topics as employer contribution and vesting information, eligibility, plan loans and withdrawals, distributions, and contact information for questions. The SPD should be written in language participants can easily understand.



## Investment Committee Charter

The Committee Charter is an important component of plan governance. It doesn't need to be elaborate, but should outline some fundamentals, providing committee members with the scope and range of authority to empower them to manage the plan and fulfill their fiduciary responsibilities.

The Committee Charter should:

- *Specify activities for which the committee is responsible, such as coordinating vendor analysis and recommending plan design features.*
- *Define the governing bodies with whom the committee must consult and to whom they need to provide recommendations.*
- *Define how committee members are selected or appointed.*
- *Establish how often regular committee meetings should occur.*
- *Define the roles of any outside consultants.*

## Investment Policy Statement (IPS)

The IPS is the foundation for how the plan's investment program is expected to operate. The IPS should provide guidelines for selecting, monitoring, measuring, and making decisions for the plan's investments. The IPS should:

- *Define the plan and its purpose.*
- *Describe responsibilities for those involved with the investment program.*
- *Establish the investment menu structure.*
- *Assign investment performance benchmarks and develop performance measurement standards and processes.*
- *Determine criteria for selecting and terminating investment managers.*
- *Document the investment decision-making process.*

## Item 3 Committee Structure

Your committee structure will depend on your organization's needs, but there are a few considerations to keep in mind when deciding who should be on the committee. The number of committee members is important. Very large committees begin to lose their effectiveness and ability to make decisions efficiently; large groups end up paralyzed and unable to reach consensus.



A smaller group that has enough diversity to engender meaningful discussion and healthy debate is optimal. There is no perfect number, but we find that five to seven members seems to meet objectives, while more than ten is typically too unwieldy. Lastly, having an odd number of committee members can prevent votes being tied up.

The investment committee should include a representative of senior management (typically either the CFO or COO), as well as anyone who serves as a fiduciary to the plan. The organization's legal counsel should either be on the committee or simply attend committee meetings in an advisory capacity. Although they are not usually voting members, committee meetings should be attended by representatives from the plan's providers, such as the trustee, investment consultant, and recordkeeper.

It's important that the committee represent the participants, as they will be making decisions for the participant population. For this reason, you may want to include members from different disciplines and different areas of the organization, such as human resources and finance. A diverse mixture including more than just managers will help to create a more representative group. Committee membership should be voluntary. Most committees elect at least a chairperson and a secretary; other elected positions depend on the needs of your committee.

Establishing a term of service for committee members can help to keep the committee fresh. Bringing in new members periodically can add the benefit of new perspectives to the team and keep it flexible. On the hand, the experience and knowledge of long-term committee members can be of great value. Finding a balance may mean rotating some committee positions while retaining others for longer time periods.

## Item 4 Committee Education

Educating committee members is critical to the long-term success of the committee as a governing body. Committee education can be broken into three important segments:

- **Education to understand fiduciary responsibility**

Committee members should be aware of what their fiduciary responsibilities are and what liability they have. Information about ERISA's standards and requirements is crucial, so that members have the context from which to make informed decisions. Committee members should also be provided with information about fiduciary best practices. This type of information and education should be repeated periodically, to ensure that new committee members are familiar with it and that long-term committee members have it refreshed in their minds.

- **Education about functioning as a committee**

How do you avoid groupthink? How do you ensure vibrant dialogue without shutting down alternative points of view? How do you ask difficult questions and come to a consensus? Groups function differently from individuals, and having an effective



committee requires learning how to work together as a team. Knowledge of techniques for inviting participation and encouraging different points of view, as well as avoiding common group pitfalls, can help a committee make better decisions as a group.

- **Investment education**

Committee members are likely to have varying degrees of investment knowledge and sophistication. Because they will be ultimately responsible for making investment decisions on the plan's behalf, committee members should have a fundamental understanding of investment concepts. Providing investment education to the group can also help to ensure that there is a common level of understanding.

To provide committee education, you may want to partner with an outside firm to deliver fiduciary training every two to three years. New members should receive some basic training and education immediately. **CRG's Fiduciary Education** curriculum can provide fundamental fiduciary training for new and existing committee members.

## Item 5 Committee Meetings

Following and documenting the committee's processes and procedures is one of the most important actions you can take to demonstrate that you are fulfilling your fiduciary responsibilities and acting prudently. At a minimum, committees should meet annually, but generally quarterly or twice a year would be considered best practice. Legal advisors and investment consultants should be present at committee meetings.

We also recommend circulating an agenda and meeting materials in advance to committee members, particularly when decisions need to be made, so that committee members are able to prepare and maximize meeting efficiency.

A good committee chairperson is crucial to keeping the meeting on track and covering the necessary topics. The committee chair does not necessarily need to be an investment expert, but he or she should be someone who can create an atmosphere that will encourage discussion and who can facilitate decisions.

Committee meetings should cover the following topics in addition to any pertinent current issues:

- **Follow up on decisions made from previous committee meetings:** Were all decisions implemented? How successful have the changes been to date? Are any further steps required?
- **Review of investment performance and investment options:** Do any changes need to be made? Are the investment options performing in line with the guidelines set out in the Investment Policy Statement? Does the committee need to increase its monitoring of options that do not meet plan objectives?



- **Review of legislative and regulatory updates:** Has anything in the regulatory or legislative environment changed that would affect the plan?
- **Review of vendor services and fees:** Is any further analysis required? Are vendor fees reasonable? Are they performing services according to contractual terms? Are there recommendations to make any changes?
- **Review of the Investment Policy Statement:** Is it still in line with the needs of the overall investment program?
- **Discussion of any potential plan improvements:** How could the plan better serve participants? Are there areas of weakness in the plan? Are there new services available in the industry that should be researched and made available to the plan and/or participants?

Minutes should be taken at each committee meeting, documenting the topics discussed and any decisions made. The committee should review the minutes to ensure accuracy.

Written reports, analyses, recommendations, and any other due diligence should be developed, retained, filed, and organized along with meeting minutes in a fiduciary audit file.

It may be helpful to maintain a historical calendar noting when particular decisions were made or actions taken, so that they can be easily referenced if necessary. Throughout meetings, committee members should keep in mind that all decisions must be made in the interest of plan participants.

## Item 6 Service Providers & Contracts

As a plan fiduciary, your duty to act prudently extends to selecting and monitoring the providers who service your plan. You have a responsibility to ensure that your providers are offering an appropriate level of service, consistent with contractual terms, at reasonable fees.

Understand the fiduciary status of your plan's service providers; have they explicitly acknowledged that status? It is beneficial to periodically review the service contracts to check that your organization is being charged correctly and that service guarantees are being upheld.

In addition, have a schedule or mechanism in place to trigger a thorough review of service providers on a periodic basis.



A vendor review may be as simple as checking in with the vendor, or as comprehensive as a full Request for Proposal (RFP) process. While not mandated according to any regulations, we generally recommend that plan sponsors consider issuing a recordkeeper RFP at least every three to five years.

This vendor review process demonstrates fiduciary prudence by providing documentation of ongoing provider evaluation, puts you in a strong negotiating position to command competitive costs, and can help ensure that your provider is giving you an optimal level of service.

A side benefit of undertaking an RFP process is that it assists committee members to familiarize themselves with the best practices from top providers in the industry.

## Item 7 Conclusion

A fiduciary is an individual or organization that has been entrusted with the duty to act for the benefit of someone else. Because of this duty, a fiduciary must exercise a high degree of care with specific legal obligations and duties in terms of prudently managing the plan and its assets. In certain circumstances, fiduciaries may be held personally liable if they fail to carry out their fiduciary duty.

The practices outlined in this guide are designed to help you meet and demonstrate standards of prudence; these best practices can also play a role in providing your participants with the best opportunities to save for retirement.

Use the fiduciary checklist at the end of this paper to stay on track.

**Cognis Retirement Group** partners with our clients by assuming explicit fiduciary responsibility. As an independent firm, we adhere to strict standards to avoid conflicts of interest in the advice we provide to our clients. We are committed to providing the best possible service for our clients.

This includes assisting clients through the plan oversight process that addresses **plan governance and structure, professionally managed investments, and regular review and analysis of performance**. With extensive knowledge of the defined contribution marketplace, we act as advocate for you and your participants.

We provide a comprehensive consulting solution for retirement plan sponsors, including but not limited to:

- *Plan administrative consulting and governance advice*
- *Investment Policy Statement development*
- *Plan analysis & design*
- *Investment menu construction and investment manager selection*



- *Investment performance monitoring and comprehensive performance reporting*
- *Target-date fund and risk-based portfolio evaluation*
- *Vendor negotiation, selection, and monitoring*
- *Participant education*
- *Fiduciary education*



## Appendix

### Fiduciary Checklist

As a fiduciary, it is important for you to do your best to ensure that the plan is working as it should. We recommend and can assist with many of the following action items:

#### Committee organization and meetings

- Draft and maintain a Committee Charter that establishes roles and responsibilities.
- Maintain committee meeting minutes.
- Provide fiduciary training to committee members.
- Meet regularly to discuss administrative and legislative issues and review investment performance.
- Ensure that all committee members participate in meetings.
- Follow up on decisions made in committee meetings.
- Maintain a fiduciary audit file with all pertinent documentation.

#### Investment Policy Statement (IPS)

- Create an Investment Policy Statement that outlines plan objectives, roles and responsibilities, benchmarks, and monitoring criteria.
- Document the process and criteria for manager selection, evaluation, and termination in the Investment Policy Statement.
- Regularly review the Investment Policy Statement and update it as needed.

#### Selection & Monitoring of Investments

- Follow a documented process for selecting managers/investments.
- Evaluate whether managers' style and philosophy are aligned with the plan's objectives.
- Regularly evaluate investment performance against the objectives and benchmarks documented in the Investment Policy Statement.
- Regularly assess investment management fees to ensure they are reasonable.
- Follow documented processes for terminating managers.
- Regularly review the portfolio's asset allocation, where applicable.
- Regularly assess portfolio and individual investment manager risk.



## Selection & Monitoring of Plan-Providers

- ❑ Regularly evaluate whether the organization's service model and philosophy are aligned with the plan's objectives.
- ❑ When needed, conduct an evaluation of the reasonableness of fees charged by service providers to the plan.
- ❑ When needed, conduct an objective, thorough Request for Proposal (RFP) process to select plan recordkeepers or other service providers.
- ❑ When needed, benchmark the plan against peers.