

## Do 401k plan sponsors need a 401k committee?

This is the first in a series on 401k plan management and how to do it right and keep the regulators happy. We have spoken with many plan sponsors and not one of them have spoken well about all the regulations they must follow. We understand.

The regulations are only there to protect the plan participants and to make their financial lives better. We want to make sure that you have the right mindset as you work your way through this series. The only reason you should manage your plan within the regs is to help your employees. We think if you have this in mind, your employees will be better off financially. If they are better off financially they are happier and happier employees are better employees. If you follow the rules, the plan will perform better for all of your employees including you.

In today's post we want to talk about the 401K committee why it's important to have one.

First, plan sponsors need to understand that they are by law fiduciaries' to the 401K plan. That means that the plan sponsor and whoever is running the plan within the company are responsible for what goes on in the plan. They are responsible for selecting mutual funds, for monitoring the funds and for timely deposit of employee funds into the 401K. They are responsible for putting the 401K plan together so that it meets all rules and regulations of the Department of Labor and the IRS which includes many items we will talk about in other posts

So what does it mean to be a fiduciary? Being a fiduciary is a legal term. The following are the the core duties of the fiduciary:

The Core Four Fiduciary Duties<sup>1</sup>:

- Exclusive Benefit Rule (Duty of Loyalty): Must act solely in the interests of participants and beneficiaries.
- Duty of Prudence (Expert Standard): With the skill, prudence, and diligence of a prudent person acting in a like capacity.
- Duty of Diversification: By diversifying the plan's investments to minimize the risk of large losses.
- Duty to Follow Plan Terms: In accordance with the documents and instruments governing the plan.

The Department of Labor takes this seriously. It exists, in part, to make sure that retirement plans are managed for the sole benefit of the participants. So how did they do this? If the plan ever gets audited or there is an employee complaint, they are going to look to these core duties. Are they being followed and documented?

For many company owners and senior executives managing a 401k is a daunting task. Having a well-managed plan is kind of like buying insurance. You don't know how important it is to have until you need it.

Who should be included in the Committee? Usually those involved with Human Resources or officers of the company have a role on the committee, but it is also a good idea to include a member or two from the rank-and-file. There is **always** an employee or two who have a strong interest in the company's 401k plan. Maybe it is the individual who approaches HR with questions about fees or

strategies. Maybe the person who other employees come to for advice. Invite that person to join the Committee and you also gain an advocate with other employees.

In this series we will discuss in more depth the core duties of a plan sponsor. Please join us and share with your committee.

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