

WRITING INVESTMENT POLICY STATEMENTS

What to know before your meeting

If you offer a retirement plan to your employees, you have a fiduciary responsibility under the Employee Retirement Income Security Act of 1974 (ERISA) to put in place a procedure for selecting, monitoring and replacing the investment options you offer to participants in your plan. To that end, a formal written investment policy statement (IPS) can serve as documentation for this required investment procedure to help you prudently manage your plan's assets and mitigate fiduciary risk. An IPS guides plan fiduciaries by describing the criteria and process used to select, monitor and replace plan investments. Plan fiduciaries should create an IPS and review it regularly.

An IPS can serve as a helpful framework for selecting and evaluating plan investment options. The IPS is typically one of the first documents requested in a Department of Labor (DOL) investigation for potential fiduciary misconduct. The lack of an IPS may indicate a lack of fiduciary oversight. Arguably, the only thing worse than not having an IPS is having one in place but not adhering to it (e.g., not recording meeting minutes of the investment committee). Consult your tax and/or legal advisors regarding your specific needs.

Questions to review before your meeting

Q: Am I required to have an IPS for my plan?

A: You are not required by law to have a written IPS for your plan per se. However, ERISA is clear that plans must “provide a procedure for establishing and carrying out a funding policy in a method consistent with the objectives of the plan.”

Q: What does the typical IPS consist of?

A: Because there is no formal requirement to have a tangible IPS, there is no prescribed format or template for creating the statement. Despite the lack of formal guidance, examples of effective investment policy statements include:

- The objective and purpose of the investment policy for the plan
- Roles and responsibilities of key players
- Factors the plan will take into account when selecting investments, including qualified default investment alternatives (QDIAs)
- The frequency and methodology for rebalancing investment portfolios, if applicable
- Procedures for controlling and accounting for investment expenses
- Procedures for monitoring investment performance on a continual basis, how to identify underperforming investments and put them on watch, and what the criteria are for replacing an investment, including QDIAs
- A description of how the plan will select service providers and monitor their performance for potential replacement

Q: How often should my plan's IPS be reviewed?

A: At a minimum, you should review your IPS on an annual basis — sooner if you have made material changes to your plan.

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Checklist to complete before your meeting

Before you meet with your financial advisor, you may want to gather the following important information and documents:

- The current governing plan document
- A list of the current investments for the plan and their providers
- Your current IPS, if one exists

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