PRE-MEETING OVERVIEW

MAKING QDIA SELECTIONS

What to know before your meeting

If your company's retirement plan allows participants to direct their own investments, then you probably have a default fund for those instances where participants fail to provide investment instructions. Depending on the type of default fund and its performance, you may be exposed to unnecessary fiduciary liability. You can manage this potential liability if you use a qualified default investment alternative (QDIA) suitable for your plan. Your financial advisor can help you understand which QDIA options are available for your plan.

Plan sponsors who prudently select and monitor QDIAs for their plans, and follow notice and disclosure requirements, cannot be held liable for the eventual performance of the assets placed in the QDIAs. This can greatly simplify the investment process for plans, especially if there are participants who are not inclined to make investment decisions for their plan assets. The key is the QDIA must be suitable for the plan, and you must follow a prudent, documented selection and monitoring process.

Questions to review before your meeting

Q: What type of investment would qualify as a QDIA?

A: The Department of Labor (DOL) permits three primary types of investments as QDIAs:

- Life cycle or target retirement date funds
- Balanced funds
- Managed accounts

Capital preservation products may serve as QDIAs, but only for the first 120 days of an employee's participation. Also, QDIA relief is granted to amounts that were contributed on or before December 24, 2007, to certain default stable value products with guaranteed interest rates.

Q: What characteristics must I consider when selecting a QDIA?

A: Your choice of QDIA must be based on an objective, thorough and analytical process so that you can identify the most appropriate fund for the participants and beneficiaries in your plan. The selection process should be outlined in your plan's Investment Policy Statement (IPS). Considerations include the investment philosophy of the plan (i.e., investing "through" or "to" retirement), your employee demographics, investment fees and expenses, the quality of competing providers, and the types of investment products and services. If you are considering a target-date fund as a potential QDIA for your plan, the DOL has an informational piece on its website (dol.gov) titled, "Target Date Retirement Funds–Tips for ERISA Plan Fiduciaries." As with other investment alternatives made available in your plan, you must carefully consider investment fees and expenses when choosing a QDIA.

Q: Who is responsible for choosing a QDIA for my plan?

A: You, or another plan fiduciary that you appoint and monitor, are responsible for the prudent selection and ongoing monitoring of a QDIA for your plan. Your financial advisor can help you understand the options available so that you can determine the most appropriate QDIA for your plan.

MAKING QDIA SELECTIONS

Checklist to complete before your meeting

Your financial advisor can help you determine whether your plan would benefit from including a QDIA in its investment lineup or updating its current QDIA, if one exists. Before you meet with your financial advisor, you may want to gather some important information and documents:

- [ ] Your most current plan documents
- [ ] Information about your plan's investment options, including your IPS and current QDIA, if available
- [ ] Service provider agreements
- [ ] Employee census data

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