PLAN SPONSOR GUIDE: INVESTMENTS

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Congratulations on your decision to sponsor a retirement plan - one of the most valuable benefits you can deliver to your employees!

While you can expect a number of significant rewards from your efforts, your plan's fiduciaries must be careful to comply with some of the most technical and consequential rules and regulations under the law.

In order to protect employees' savings, the Employee Retirement Income Security Act of 1974, as amended (ERISA) mandates that any person(s) responsible for managing or administering a retirement plan (the plan's "fiduciaries" or "you") act prudently. The Department of Labor (DOL) is tasked with periodically investigating ERISA-covered plans to ensure the fiduciaries are complying with applicable laws and regulations.

When it comes to selecting investments for the plan, ERISA requires fiduciaries to follow an objective process, which takes into account the needs of the plan's participants, in order to make well-informed decisions. Fiduciaries are required to consider relevant information (or that which they should know to be relevant) about the investment options available to the plan and to designate an appropriate number of different types of investments such that participants can create well-diversified portfolios to minimize the risk of large losses.

Where the plan's fiduciaries lack the necessary investment-related expertise to make informed decisions, ERISA requires them to hire professional assistance. Hiring an experienced plan consultant will help ensure you meet your fiduciary duties, and he/she will often have specialized knowledge and tools to streamline the investment selection and review process.

OVERVIEW OF FIDUCIARY RESPONSIBILITIES

Selecting and monitoring investments for your plan is one of your primary responsibilities as a fiduciary. This Guide will help you understand your duties and implement a process to manage fiduciary risk, saving valuable time for you and your employees.

ERISA requires plan sponsors to act prudently when making decisions relating to the management or administration of the plan. These "fiduciary functions" must be performed solely in the interests of plan participants and beneficiaries, with the exclusive purpose of providing benefits, while defraying reasonable expenses. In addition, when it comes to selecting investment options, plan fiduciaries have a duty to diversify investments and defray reasonable expenses.

Some plans, such as most 401(k) and profit sharing plans, can be set up to give participants control over the investments in their accounts and limit a fiduciary's liability for the participants' investment decisions. For participants to have control, they must be given the opportunity to choose from a broad range of investment alternatives. According to the DOL, the plan fiduciaries must designate at least three different investment options so that employees can diversify investments within an investment category, such as through a mutual fund, and diversify among the investment alternatives offered. Participants must also be given sufficient information to make informed decisions about the options offered under the plan.

Given that most plan sponsors lack the requisite investment-related experience, it is quite common for the fiduciaries to engage outside assistance. If you don't have the internal resources to properly evaluate the number and types of asset classes that are appropriate for your participants and/or to track the performance and costs associated with each designated investment alternative (DIA), then you should consider engaging third-party assistance. Unless you have properly delegated your investment-related duties to an "investment manager," then you should designate at least one person on the plan committee to work with an investment professional to ensure the DIAs are prudently selected and monitored, and if necessary, replaced.

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1	IDENTIFY THE NUMBER/TYPES OF ASSET CLASSES FOR DIAS
2	DOCUMENT DESIRED INVESTMENT PHILOSOPHY
3	EVALUATE SHARE CLASSES & FUND EXPENSES
4	SCREEN AVAILABLE FUNDS AND SELECT DIAS
5	MONITOR DIAS AND REPLACE AS NECESSARY

A prudent investment selection process begins with an objective approach to reviewing each investment option that is being considered for the investment line-up, taking into consideration the performance of a fund relative to its peers, market benchmarks and expenses. Most plans elect to adopt an investment policy statement (IPS) to provide a consistent and repeatable process for selecting, monitoring and replacing the plan's DIAs.

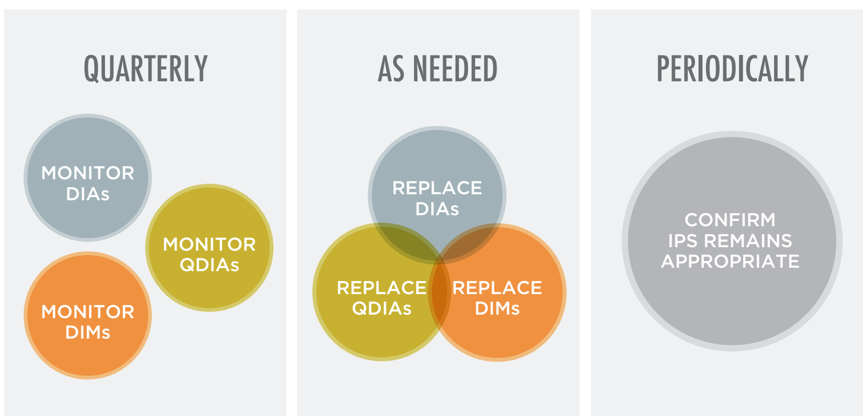
Once the appropriate number of types of DIAs are selected, then the fiduciaries (in consultation with the plan's investment professional) should periodically monitor the funds to ensure they continue to be appropriate based upon the objectives set forth in the IPS. If they are not, the fiduciaries should replace the DIA with one that meets the IPS criteria.

An IPS can reduce the time plan fiduciaries spend selecting, monitoring and replacing investments for the plan by streamlining decision-making and required documentation.

ADOPTING AN INVESTMENT POLICY STATEMENT

A properly drafted IPS can be a valuable tool to help the plan's fiduciaries manage their investment-related risk. It can reduce the time plan fiduciaries spend selecting, monitoring and replacing investments for the plan by streamlining decision-making and required documentation. At a minimum, your IPS should include the following:

- **Identification of the plan's fiduciaries responsible for investment-related decisions;**
- **Investment objectives of the plan and the role of service providers;**
- **Description of any investment philosophies or fee policies to be considered that may limit the universe of available investments;**
- **Process for selecting and replacing DIAs and, if applicable, model asset allocation portfolios (Models), qualified default investment alternatives (QDIAs) and/or designated investment managers (DIMs) available through the plan; and**
- **The frequency at which the DIAs, QDIAs, and DIMs will be monitored (e.g., quarterly, semi-annually, etc.).**



There is no perfect formula or checklist for creating an IPS; the key is to have criteria for assessing investment options and follow that criteria. Generally, the plan committee in conjunction with the plan's investment advisor or consultant will draft the IPS with assistance from legal counsel if necessary. Many retirement plan service providers will offer template IPS forms; however, to be effective, each IPS should be customized to the extent possible to match the needs of the plan participants and beneficiaries.

ADOPTING AN INVESTMENT POLICY STATEMENT CONTINUED

Generally speaking, plans with less investment savvy employees should have fewer DIAs and promote diversified, age- or risk-appropriate investing through Models and/or QDIAs. Plans with more sophisticated employees may find it prudent to offer more DIAs or even self-directed brokerage accounts from which the participants can create their own diversified portfolios.

The IPS should be a guide for decision-making, but not a mandate as to how and when funds should be added and replaced. It needs to appropriately reflect the plan's investment philosophy while creating rules and benchmarks upon which to administer the evaluation process. Generally, this would include rules for investment manager selection and termination, basic fund evaluation criteria, and parameters with respect to when investment options should be put on the watch list.

In addition, you should review the policy periodically to ensure compliance with the document, as well as make adjustments according to the needs of the plan. Keeping an IPS up to date will help to demonstrate you are meeting your fiduciary duties.

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SPECIAL CONSIDERATIONS FOR QDIAs

"The intent is to ensure that an investment qualifying as a QDIA is appropriate as a single investment capable of meeting a worker's long-term retirement savings needs."
DOL

ERISA allows participants to be automatically invested in a QDIA when they are automatically enrolled in the plan and/or fail to direct the investment of their individual accounts. Plan fiduciaries are relieved from liability so long as they can demonstrate that the plan's QDIA is prudently selected and monitored and certain procedures are followed.

There are four types of QDIAs; however, the fourth "capital preservation" option is a short-term only option for the first 120 days of participation in the plan. The three standard QDIA types and key considerations are outlined below:

QDIA TYPE	DESCRIPTION	KEY CONSIDERATIONS
GROUP-BASED INVESTMENT PRODUCT	**A product with a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual (e.g., balanced fund)**	APPROPRIATE QDIA WHEN EMPLOYEES: • HAVE AGES AND INCOMES THAT ARE CLUSTERED • KNOW WHEN/HOW TO INVEST MORE CONSERVATIVELY; AND • DEMOGRAPHICS AND BEHAVIORS CAN BE READILY MONITORED
INDIVIDUALLY-BASED INVESTMENT SERVICE	**An investment service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date**	APPROPRIATE QDIA WHEN EMPLOYEES: • HAVE AGES AND INCOMES THAT ARE WIDELY DISPERSED; • MAY NOT KNOW WHEN/HOW TO INVEST MORE CONSERVATIVELY; • DEMOGRAPHICS/BEHAVIORS ARE DIFFICULT TO MONITOR; • INVESTMENT MANAGERS ARE READILY AVAILABLE; AND • FIDUCIARIES ARE EQUIPPED TO SELECT/MONITOR MANAGERS
INDIVIDUALLY-BASED INVESTMENT PRODUCT	**A product with a mix of investments that takes into account the individual's age or anticipated retirement date and becomes more conservative over time (e.g., life-cycle or target date funds)**	APPROPRIATE QDIA WHEN EMPLOYEES: • HAVE AGES AND INCOMES THAT ARE WIDELY DISPERSED; • MAY NOT KNOW WHEN/HOW TO INVEST MORE CONSERVATIVELY; • INVESTMENT MANAGERS ARE READILY AVAILABLE; AND • FIDUCIARIES ARE EQUIPPED TO SELECT/MONITOR MANAGERS

SPECIAL CONSIDERATIONS FOR QDIAs CONTINUED

While there are benefits and challenges associated with implementing each of the QDIA types, the chart below outlines some additional considerations:

Given that the majority of defaulted participants tend to remain invested in the QDIA, you should work closely with your plan's advisor or consultant to ensure that you have selected an appropriate QDIA and are providing the required notices and disclosures – particularly if you select a target date fund – as the DOL has issued additional Tips for ERISA Plan Fiduciaries that should be considered.

A properly implemented QDIA can not only significantly mitigate your fiduciary risk as a plan sponsor but can go a long way in helping participants save appropriately for retirement.

WORKING WITH 3(38) INVESTMENT MANAGERS

> "If an investment manager is properly appointed, then no trustee shall be… under an obligation to invest or otherwise manage any asset of the plan which is subject to the management of the investment manager…"
> ERISA SECTION 405(D)(1)

ERISA permits plan fiduciaries to delegate day-to-day responsibility for selecting all or a portion of the plan's investments to an "investment manager." If properly appointed and monitored, the fiduciaries will not be liable for managing those investments over which the investment manager exercises discretion.

If you determine that it is necessary to engage an investment manager, there are a number of considerations you will need to document to ensure you have effectively delegated your duties. The following questions are designed to help you select and monitor an investment manager:

1. **Is the investment manager a bank, registered investment advisor or insurance company?**
2. **Does the investment manager acknowledge his/her fiduciary status in the contract with the plan, and are the other terms reasonable?**
3. **Does the investment manager have the requisite background, experience and/or insurance to perform the services?**
4. **Is the investment manager properly licensed and in good standing?**
5. **How is the investment manager compensated, and does that present any conflicts of interests?**
6. **Is the value provided reasonable in light of the compensation received by the investment manager?**
7. **Are participants satisfied with the services provided?**

It is also important to consider what functions the investment manager may not be willing or able to perform. Often times, the manager's services may be provided remotely and/or limited to managing the plan's DIAs, QDIAs and/or participants' accounts. In these cases, it may still be necessary to engage a local plan advisor or consultant to help with other aspects of the plan (i.e., providing advice or education to participants directly, helping the fiduciaries select and monitor the plan's service providers, including the investment manager, etc.). The table below shows that the distinctions among the various types of investment professionals relate primarily to their investment-related functions.

INVESTMENT PROFESSIONAL	INVESTMENTS	SERVICE PROVIDERS	ADMINISTRATION
BROKER/AGENT	INVESTMENT EDUCATION AND GUIDANCE	EDUCATION AND GUIDANCE	
INVESTMENT ADVISOR	INVESTMENT RECOMMENDATIONS	EDUCATION AND GUIDANCE	
INVESTMENT MANAGER	INVESTMENT SELECTION/REPLACEMENT	EDUCATION AND GUIDANCE	

FIDUCIARY CONSIDERATIONS FOR BROKERAGE WINDOWS

Some plans may offer participants the ability to invest outside the plan's DIAs, QDIAs or DIMs through a self-directed brokerage account (SDBA). In many cases, these SDBAs allow participants to invest in stocks and bonds in addition to mutual funds and ETFs. While plan fiduciaries will typically not be liable for a participant's investments made through an SDBA, the decision to offer SDBAs is a fiduciary act in and of itself. Consequently, you should carefully evaluate whether or not SDBAs are appropriate for your participants.

Before coming to this decision, you may wish to consider the following:

- **Is the participant population sophisticated enough to benefit from the ability to invest in the universe of securities available through the SDBA?**
- **Should a minimum balance in the participant's core retirement plan account be achieved before the SDBA is made available?**
- **Will there be a limitation on what percentage of a participant's total account balance can be diverted to an SDBA?**
- **What service providers, if any, will be available to assist participants in making prudent investment allocation decisions?**
- **Is the service provider offering the SDBA able to adequately meet the needs of the participants at a reasonable cost?**
- **How will investments made through the SDBA affect the allocation of administrative costs of the plan among all participants?**

If you determine that an SDBA is a necessary plan feature, then you are required to include a description of the SDBA features, limitations, fees and expenses, at least annually, to participants as part of their 404(a)(5) participant-level fee disclosures. In addition, you want to consider having participants acknowledge the risks of investing outside the prudently selected and monitored DIAs, QDIAs and/or DIMs. While fiduciaries cannot disclaim away their fiduciary duties, providing additional acknowledgments can serve as a reminder to the participant regarding the benefits available through the plan's traditional investment options or serve to show they assumed the risks of investing through the SDBA.

Acknowledgments to consider include, but are not limited to:

- **risks associated with making investments through the SDBA;**
- **SDBA investments are not reviewed or approved by the plan sponsor; and**
- **the participant is solely responsible for all SDBA investment decisions.**

Even with adequate disclosure, plan sponsors have a fiduciary obligation to review whether offering a brokerage window is in the best interest of the plan participants. Simply offering a brokerage window does not abrogate the plan sponsor's fiduciary liability with respect to the core investment options available to plan participants; it also does not relieve them of their responsibilities to prudently monitor the associated fees and costs of administering the plan with a brokerage window option.

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G-MAP: MODEL ADMINISTRATIVE PROCEDURES FOR PLAN GOVERNANCE

With respect to selection of investments for the plan, ERISA requires you to follow an objective process. In order to make well-informed decisions, you are required to consider relevant information (or that which you should know to be relevant). The following procedures are part of G-MAP (Model Administrative Procedures), Steps 8-9, a framework for selection and monitoring of investments.

Selecting and monitoring investments is a fiduciary function. Fiduciaries are required to have investment-related expertise or hire professional assistance. Unless delegated to an investment manager, Fiduciaries must approve the inclusion or removal of any investment option. Steps 8-9 provide a framework for developing investment policies, selecting and monitoring investments and coordinating participant education.

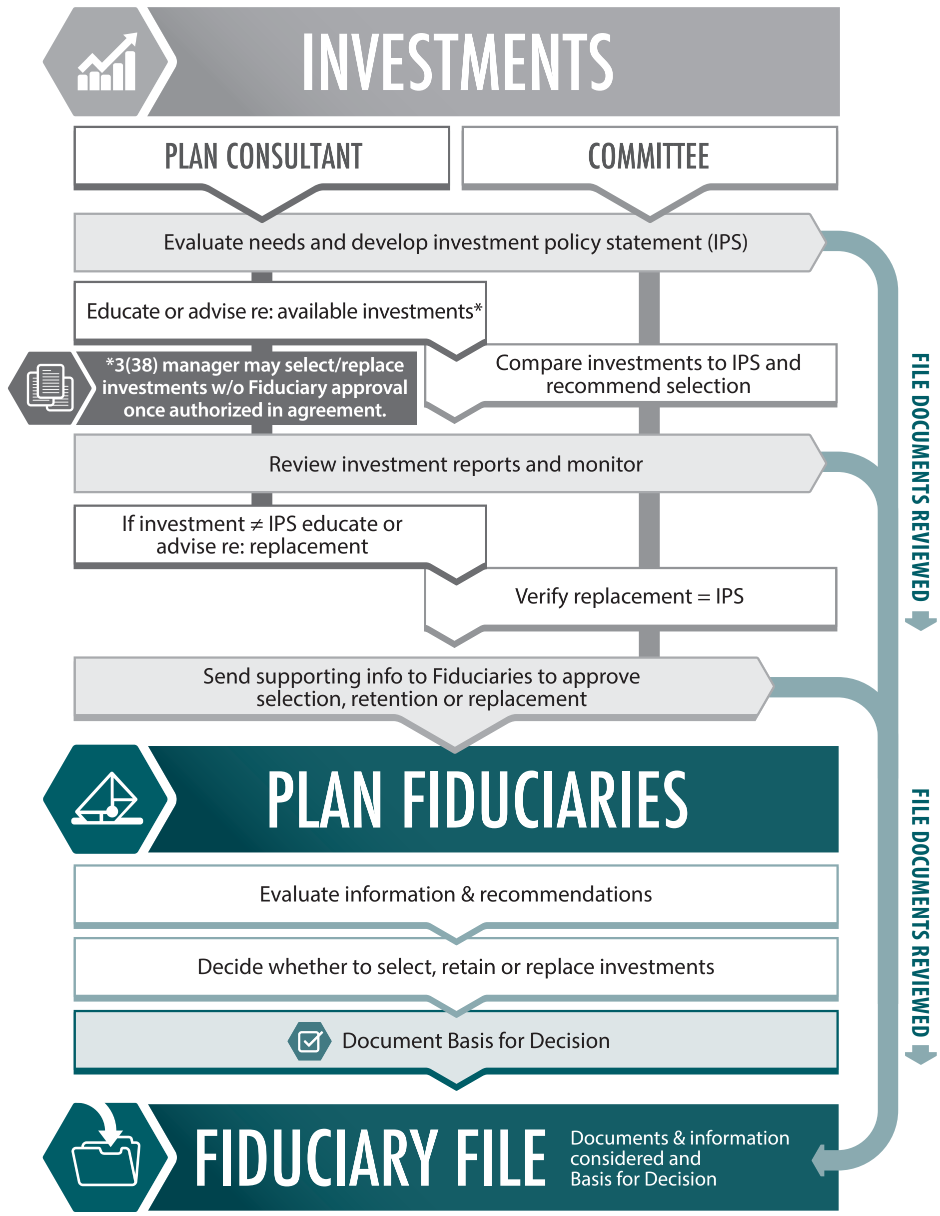
Monitor Investments

Fiduciaries should establish and periodically review Investment Policy Statement (IPS) to confirm preferences re: selection, monitoring and replacement of:

- **Designated Investment Alternatives (DIAs)**
- **Qualified Default Investment Alternatives (QDIAs), if necessary**
- **Designated Investment Managers (DIMs)**

Review Participant Communication Policies

Fiduciaries need to take steps to regularly make participants aware of their rights and responsibilities under the plan related to directing their investments. In most cases, they must receive this information before they can first direct their investments and annually thereafter. Committee should coordinate and monitor the delivery of investment-related information to all eligible employees.



Additional information and G-MAP compatible resources available at https://portal.pension-resources.com.