



# Fiduciary Governance & Process: Plan Investments & QDIA

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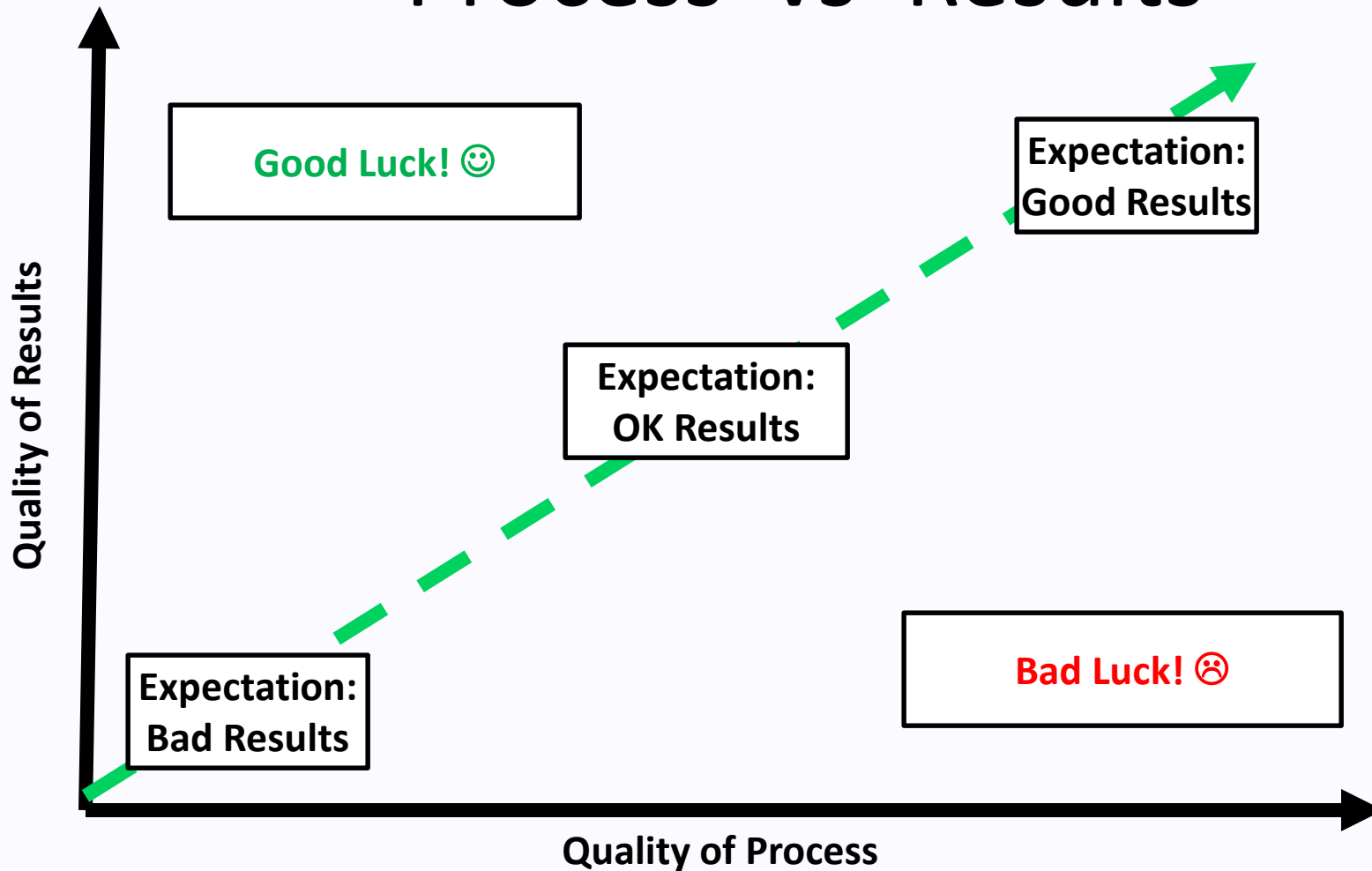
# Goals of This Session

- Basics of good investment fiduciary governance process
- Trio of centerpieces: Committee, IPS, QDIA
- Trends & emerging best practices
- Vernacular plan sponsors should be versed in
- Questions to help lead clients to better process

# Auditor Responsibility

- What is [and isn't] our responsibility on governance?
- Delineating between CPA audit requirements vs opportunity to add value to client relationship
- 1% of plan auditors audit 42% of the plans
- Providing framework to clients on qualitative process
  - What they should expect from whom
  - Questions they should ask, to whom, when, how

# Process vs Results



# Process vs Results

- ***Meeting fiduciary duty is all about quality of process!***
- Why do it? Why does it matter?
  - Good for employees: solid process → solid results
  - Good for sponsor: manage fiduciary liability risk while helping employees to actually retire
- Trio of key topics:
  - Oversight Committee
  - Investment Policy Statement (IPS)
  - Qualified Default Investment Alternative (QDIA)

# “Good” Governance Process

- Good = prudent
- Balances academic & practical i.e., must be implementable in the real world
- Well documented: Investment Policy Statement
- Re-documented: post-meeting minutes
- Repeat: this is a process - not an event
- Revisit: periodically assess potential process growth

# Plan Governance & “Committee”

- Very large plans may break into separate investment vs non-investment committees
- Small & mid-size plan typically a single c’ee with oversight over totality of plan lifecycle
- Viewpoint on best practices: what is appropriate committee size, composition, meeting frequency?
- Proper recording of c’ee decisions & logic utilized to be documented via post-meeting minutes

# IPS: In Concept

- IPS = Investment Policy Statement
- Guiding document on selection & monitoring funds
- Not required by law
- Well-established best practice
- Gov't auditors will often ask to see a copy of IPS & most recent year(s) post-meeting minutes!
- If created must be followed! [Better not to have an IPS than to have one in place that is not utilized!]



# IPS: In Practice

- Traces qualitative general guidance, ideas, concepts
- Balanced with practical implementation
- Often outlines asset classes offered & lineup length
- Less “wills” & “musts” & definitive timing: instead more “plans to” & “anticipates” & “periodically”
- Quantitative may be included: with language that any “scoring system” should not be constraining or rigid
- Always allow overlay of human judgement!

# IPS: Emerging Best Practices

- Expense policy, revenue sharing, share class selection
  - Litigation has focused on share class cost selection
  - Challenge: lack of uniform recordkeeper capability
- Index fund evaluation different vs active managers
- Acknowledgement of difficulties in evaluating Target Date funds due to multiple approaches in industry

# QDIA Overview

- Qualified Default Investment Alternative (QDIA)
  - Provides fiduciary protections
  - Requires participant regulatory notifications
- Particularly important for plans with auto-enroll features and/or non-elective contributions
- QDIA asset allocation re-enrollment sweeps

# QDIA Basics

- QDIA options
  - Not: Money Market, Stable Value, Fixed Accounts
  - Diversified funds, balanced, asset allocation, managed accounts, target risk, target date
- Massive trend to Target Date
  - Conceptually easy for participants
  - Maximum level of “hands off” for employees
  - Automatic age-based allocation today & into future

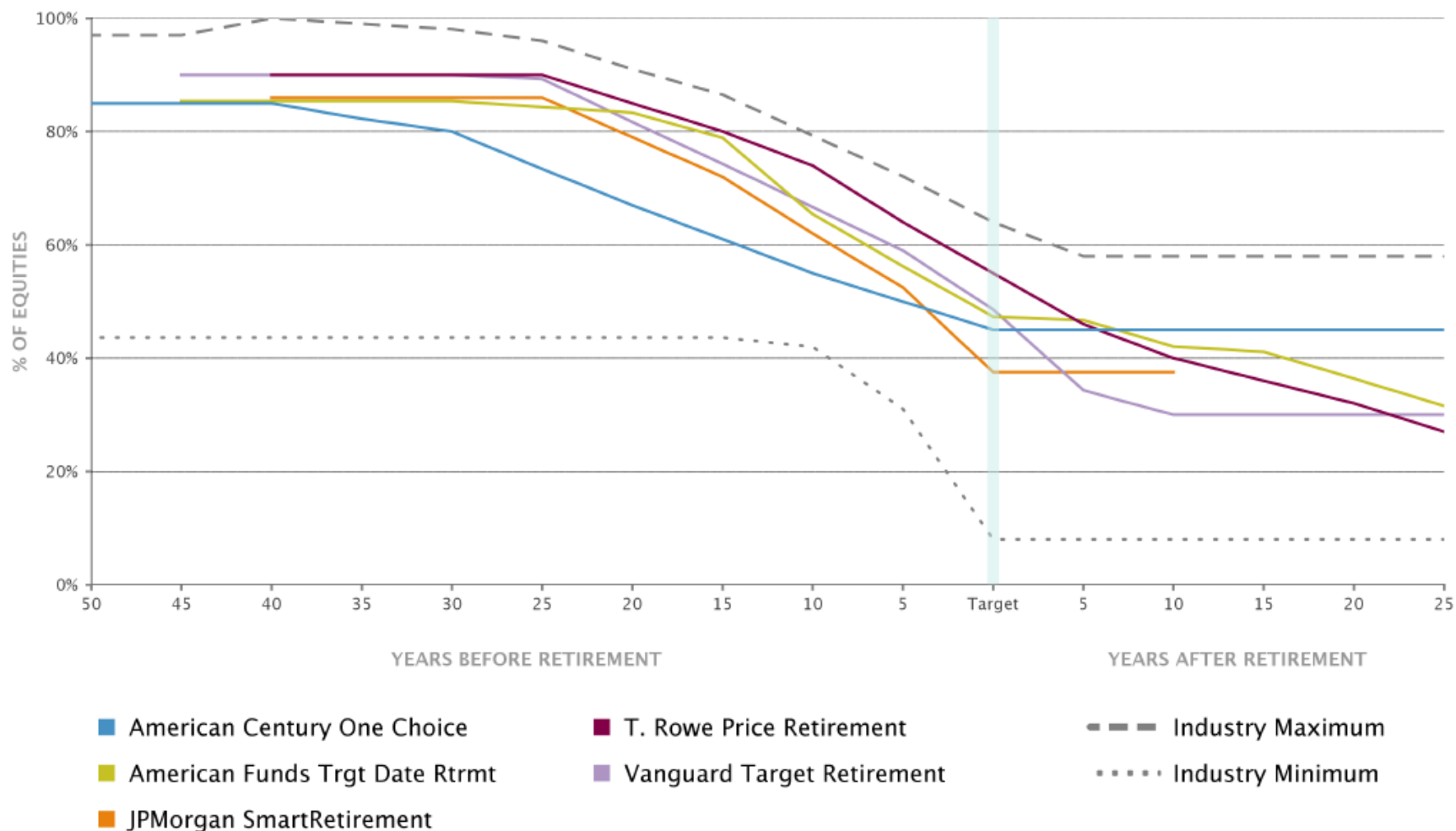
# QDIA Target Date Concepts

- Construction: can be pre-packaged vs “customized” [limited by plan size and/or recordkeeping platform]
- Criticisms of Target Date concept
  - Not all people Age X have the same view on risk
  - No uniformity in industry on right “glide path”
- Key in QDIA selection: prudent process & documenting why a particular QDIA was chosen for the masses

# QDIA Target Date “Glide Path”

- De-risking terminology: to vs through
  - To: lowest & terminal equity point at Target Date
  - Through: fund continues to de-risk beyond Target Date & hits terminal equity some point thereafter
- Concepts “beyond the glide path”
  - Sequencing of returns impact & risks
  - Character of underlying equity & fixed income: does it change throughout glide path lifecycle?

# Percent of equities vs. years before/after retirement



As of 12/31/2016 with the exception of Industry Equity Range (Min, Max), which is as of 09/30/2016.  
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# Target Date: Underlying Holdings

- Active vs passive vs combination
- Proprietary vs open architecture vs sub-advised
- Pre-packaged funds have transparency but not control
- Algorithm-driven customized funds allow control, however, tradeoff is no overall manager oversight



# Summary Re-Cap

- Being a good fiduciary is all about prudent process
- Trio of areas where good governance is key
  - Formal review Committee
  - Investment Policy Statement (IPS)
  - Qualified Default Investment Alternative (QDIA)
- Auditor role not to necessarily be part of the process
- Value add is by knowing the right questions to ask

# Questions To Ask

- Describe the formal plan & investment review process?
- Do you have a Committee established?
- What is your actual frequency of c'ee meetings?
- Do you have an IPS? Do you follow it? Describe how?
- If you were asked to produce record of decisions you made, and why, could you? [Post-meeting minutes]
- What is your QDIA? If someone asked how you to detail how & why you selected it: what would you say?

# Resources

- AICPA EBPAQC Plan Advisory – The Importance of Hiring a Quality Auditor to Perform Your Employee Benefit Plan Audit
- AICPA EBPAQC Plan Advisory – Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions
- DOL – Meeting Your Fiduciary Responsibilities

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