Over the past decade, the investment climate has proved difficult. Equities have sustained two bear markets and interest rates have fallen to historic lows. As a result, many participants in 401(k) plans have watched their balances rise and fall, triggering fears that their retirement savings may not carry them through their golden years. Growing uncertainty in retirement plan programs has led to increased attention on those responsible for supervising these plans: the investment committees.

Selected by the Plan’s trustee, the members of investment committees serve an important role as overseers of defined contribution plans. As fiduciaries, they are charged with the responsibility to make investment decisions in the best interest of plan participants. Their role includes: reviewing the services provided to plan participants, establishing the investment policy for the retirement plan, hiring investment advisors and managers, monitoring plan and investment performance, and insuring that the plan’s fees are reasonable in light of the services being provided.

Given the importance of the job, one might think that all investment committees follow clear guidelines to ensure they are making decisions that best serve their program participants. Unfortunately, this is not the case. In fact, it’s surprising just how many investment committees lack the requisite investment expertise to get the job done.

But as retirement plan fiduciaries, investment committees must be careful, or they could face significant trouble. Regulators are turning up the heat on fiduciaries by enacting a number of oversight requirements, while participants have been filing lawsuits. In fact, this past spring, the U.S. District Court for the Western District of Missouri awarded plaintiffs more than $35 million in a class action suit for breaches of fiduciary duty related to 401(k) plan expenses.

So, what are the best practices? Here are five guiding principles that every investment committee, no matter the size of the business, the amount of assets in the retirement plan, or the experience level of the participants, should follow. They include:

1. **Create an investment policy statement that clearly outlines the goals for the investment plan.** In defined contribution plans such as a 401(k), the committee must consider the purpose of the plan and time horizon for investors when creating an asset allocation strategy. Further, the committee should consider ERISA and Department of Labor regulations regarding participant directed investment accounts to assure that they leverage government provided fiduciary protection.

2. **Select plan investment managers.** After the investments have been vetted, committee members should vote on the selections and document their decision process in the event decisions are questioned in the future. Meeting minutes should be kept to demonstrate how the committee arrived at its decisions. Remember: investment committees are judged on process more than outcome.
3. **Control expenses, and account for them.** Investment committees must have a clear understanding of the costs of running their plans. This includes the cost of administration, recordkeeping and the investments selected. This requires knowledge of the differences in share classes and revenue sharing arrangements of different share classes. It also requires committees to interpret fee disclosure reports from their providers and to benchmark total plan expenses against those of other comparable plans.

4. **Monitor the activities of the program.** Investment committees need to hold regular meetings, ideally more than once a year, in order to keep a close eye on the performance of the investments they are overseeing. To effectively monitor their programs, investment committees must have guidelines for measuring performance against indices and peers.

5. **Avoid conflicts of interest.** Conflicts of interest between members of the investment committee and service providers should be avoided, but at a minimum must be disclosed and monitored. A good practice is to ask each member of the committee to sign an affidavit regarding any conflicts they may have. This will be good documentation in the event questions arise later about relationships between plan fiduciaries and related service providers.

If the economy continues to sputter and 401(k) plans fail to achieve their goals, you can bet that the end consumer – plan participants – will grow ever more curious about the way in which investment decisions are made. This could spell disaster for investment committees that have failed to define and adhere to a clear set of guidelines. However, with a little guidance and a commitment to best practices, investment committees can greatly protect themselves while increasing the potential for favorable outcomes.

In January 2007, John negotiated the sale of Sentinel to Focus Financial Partners where he retains management control over the Sentinel enterprise and an ownership interest in both Focus Financial Partners and Sentinel Management Company, LLC.

John graduated cum laude with a B.A. from Bowdoin College, Brunswick, ME in 1985. He earned his Juris Doctor degree from Suffolk University Law School in 1991. He serves on several boards including his high school alma mater, St. John’s Preparatory School in Danvers, MA.

He is registered with FINRA holding the Series 6 (Investment Company and Variable Contracts Representative), 7 (General Securities Representative), 24 (General Securities Principal), 26 (Investment Company and Variable Contracts Principal), 63 (Uniform Securities Agent State Law) and 65 (NASAA-Investment Advisors Law Exam) registrations. He is also a licensed Life 7 Health insurance agent.