

401k Best Practices:

A Fiduciary Guide To Help Keep Things On Track

In a world of changing regulations, increased complexity and evolving demands, plan sponsors want to know how to best safeguard their retirement program and ensure it remains compliant and effective.

Through the years we have developed and continuously refined a checklist of “401k Best Practices” to help our plan sponsors adhere to the more demanding regulatory requirements and better insulate them from potential liability. **Here is our update for 2021:**



PLAN GOVERNANCE

- Establish a formal committee charter and structured process for plan oversight which includes defining the roles and responsibilities for all relevant parties.
- Ensure that all individuals designated as fiduciaries are aware of their status and receive proper training to understand their duties and the potential liability for not meeting those duties.
- Select members with decision making authority and diverse functional backgrounds.
- Conduct regular meetings and keep detailed minutes that document key topics considered and the decisions made.
- Periodically review the plan document to ensure compliance with current regulatory requirements and that the plan operates according to the plan document.
- Identify any potential conflicts of interest and be sure that all decisions are made with the “Exclusive Benefit” of plan participants in mind.
- Establish plan objectives, strategies and metrics based on the unique needs and specific characteristics of the organization’s employee population.
- Account for all plan fees and provider expenses - ensure that they are fully disclosed, completely transparent and level for all plan participants, and are deemed “reasonable” under ERISA.
- Secure adequate fiduciary liability insurance and fidelity bonding coverage.

QUESTIONS/CONSIDERATIONS

Are all committee members educated on their fiduciary responsibilities, roles and decision making?

Do we have the right mix of expertise on the committee to provide diverse perspectives yet function in the most effective manner?

Are we fully documenting the committee decision making process?

Is the plan document compliant with current regulatory requirements? Is the plan operating in accordance with the plan document?

Do we have a fiduciary advocate with expertise to guide and delegate fiduciary support, and are we using ERISA safeguards to the greatest extent possible?

Have all potential conflicts of interest been identified and resolved?

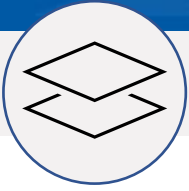
Do we have a unified vision and clear objectives for the retirement plan, as well as a full understanding of our employees’ needs and challenges for achieving success?

Have we fully reviewed the use of revenue sharing and its impact on service provider compensation and costs to participants?

Have we conducted a comprehensive assessment of the plan’s effectiveness relative to plan objectives and considered the value of services to their associated costs?

401k Best Practices:

A Fiduciary Guide To Help Keep Things On Track



PLAN DESIGN

- Assess the potential benefit of automatic design features to enhance participation, deferral rates and investment selection
- Address potential leakage considerations
- Consider both accumulation and decumulation strategies

QUESTIONS/CONSIDERATIONS

Are the majority of participants effectively utilizing the plan such that they are on track for creating an adequate retirement income?

Are participants abusing the loan feature to the detriment of their long term financial security?

Have we considered solutions that will help participants transition account balances into sustainable retirement income?



INVESTMENT MANAGEMENT

- Establish and implement a strategic framework for selecting and monitoring investments that demonstrates a prudent process and conforms to industry best practices.
- Leverage plan design insights and behavioral finance strategies to construct and maintain the investment lineup.
- Ensure that all major asset classes are represented in the investment lineup without creating unnecessary portfolio overlap.
- Offer passively managed investment options when appropriate.
- Establish and document a rigorous and objective investment due diligence process for ongoing monitoring.
- Remove any and all proprietary restraints and conflicts of interest.
- Provide transparency in investment expenses and revenue arrangements.

QUESTIONS/CONSIDERATIONS

Are the investments designed to meet the needs of the group?

Do we have an Investment Policy Statement (IPS) or other strategic framework for selecting and monitoring the investments in our plan?

Does each investment adhere to the benchmarks as established by the IPS and are we regularly reviewing and documenting this due diligence process?

Have we selected and identified a QDIA? Do we have a specific monitoring process to evaluate the QDIA in accordance with DOL guidelines?

Is there any connection between the recordkeeper and the investments being offered? How does this impact the process, fiduciary liability and results?

401k Best Practices:

A Fiduciary Guide To Help Keep Things On Track



EMPLOYEE ENGAGEMENT

- Develop an Education Policy Statement (EPS) to outline specific objectives and strategies aligned to the unique participant needs.
- Leverage provider resources to design, create and deliver a simple and effective enrollment process that drives participant outcomes.
- Focus on results-driven analysis by measuring retirement readiness of participants.
- Deliver campaigns to educate and motivate positive retirement savings behaviors.
- Provide participants with access to personal coaching on retirement and other financial planning needs
- Undertake Financial Wellness initiatives to promote improved employee financial behaviors.

QUESTIONS/CONSIDERATIONS

Do we offer employees financial education and planning as opposed to enrollments?

Are we helping participants develop adequate short term (emergency savings) as well as long term retirement savings and income?

Have participants defined their retirement income needs and analyzed their progress in order to make any necessary adjustments?

Are we addressing other financial challenges that cause our employees stress and worry that may improve their financial health and wellness?



ADMINISTRATION

- Ensure operational and administrative compliance with the plan document.
- Streamline administrative functions and coordinate with providers to assign workflow accountability and ensure all regulatory deadlines are being met.
- Provide participants with timely, accurate, and informative disclosure notices.
- Conduct periodic audit and benchmark on vendor service capabilities, costs, data security and deliverables against industry best practices.

QUESTIONS/CONSIDERATIONS

Do we have automated mechanisms in place to proactively catch errors to ensure accuracy and reliability?

Are we regularly auditing operational processes and documentation requirements?

Have we developed protocols to address missing participants as well as cybersecurity protection?

Do we have an automated process to rollover small balances for terminated employees?

Are we fully leveraging our provider's service capabilities and have we conducted a benchmarking within the last 3 years to confirm our provider remains competitive and a strong fit for our plan objectives?



Michael Rom, Managing Director at Pensionmark, is a 30-year veteran of the financial services industry and an advocate to help companies get their employees on track for retirement. Michael serves small/midsize enterprises to help remove the complexity and friction in delivering the 401(k) benefit and rolling up the sleeves to guide employees in becoming more efficient and confident with day to day financial issues.

Pensionmark Financial Group, LLC ("Pensionmark") is an investment adviser registered under the Investment Advisers Act of 1940. Pensionmark is affiliated through common ownership with Pensionmark Securities, LLC (member SIPC).