



## CULTIVATING A CULTURE OF FIDUCIARY RESPONSIBILITY

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The essence of your company's retirement plan, whether it is a 401(k) plan, profit sharing plan or defined benefit pension plan, is the plan trust—designed to ensure future income for employees participating in the plan and their beneficiaries. Retirement plan trusts must be administered for the exclusive benefit of those participants and beneficiaries. The Employee Retirement Income and Security Act ("ERISA"), established in 1974, sets the standard of conduct for those who manage retirement trusts. ERISA created standards for plan administrators and investment advisors to protect employee pension and health plans in the private sector. The standard of conduct includes loyalty, due care and prudence. Cultivating and maintaining a culture of fiduciary responsibility is essential for an organization to navigate these treacherous waters.

According to the [Foundation for Fiduciary Studies](#), today more than five million people have the legal responsibility of prudently managing someone else's money. Given the \$10 trillion plus dollars of retirement plan assets at stake, one would assume that fiduciaries are trained and licensed to ensure proper conduct—yet there are no licensing or educational requirements for retirement plan fiduciaries. [1]. That is because the management of a retirement trust is rarely the sole responsibility of one individual—it is typically shared among a number of people that have other responsibilities in an organization. To add to the confusion, there are many different definitions, interpretations and rules regarding fiduciary responsibilities, and those that serve in this capacity are often confused as to what they should be doing. Cultivating a culture of fiduciary responsibility is critical to helping people entrusted with performing these critical duties and responsibilities, and minimizing liability for your bank and your Board.

### **Where do we start?**

Often, it is said that managing a prudent process is central to fiduciary responsibility. This focus on process can seem vague, but it does not have to be. A fiduciary must have a basic outline for the process of managing the retirement plan trust. It is this process that provides a framework to cultivate a culture of fiduciary responsibility. For example, if you have ever been asked to sit on an investment committee for a local charity, you are aware of the lack of structure in the decision making process. This same lack of structure is common with many small business retirement plans. In response to the need for

guidance for fiduciaries, the non-profit Foundation for Fiduciary Studies was established to define the prudent practices for creating a fiduciary process.

### **Step 1: Organize**

The process begins with fiduciaries educating themselves on the laws and rules that will apply to their situations. For example, fiduciaries of retirement plans need to understand that the ERISA is the primary legislation that governs their actions. Once fiduciaries identify their governing rules, they then need to define the roles and responsibilities of all parties involved in the process.

### **Step 2: Formalize**

Formalizing the process begins with creating the retirement plan trust's goals and objectives. Fiduciaries should identify factors such as investment horizon as well as an acceptable level of risk and expected return. By identifying these factors, fiduciaries create the framework for evaluating investment options.

These steps should then be outlined in a written investment policy statement, which provides the necessary detail to implement a specific investment strategy.

### **Step 3: Implement**

A due diligence process must be designed to evaluate potential investments. The due diligence process should identify criteria used to evaluate and filter through the pool of potential investment options. The implementation phase is usually performed with the assistance of an investment advisor because many fiduciaries lack the skill and/or resources to perform this step. When an advisor is used to assist in the implementation phase, fiduciaries and advisors must communicate to ensure that an agreed upon due diligence process is being used in the selection of investments or managers.

### **Step 4: Monitor**

The final step can be the most time consuming and also the most neglected part of the process. Often fiduciaries pay less attention to ongoing monitoring—particularly when they get through the first three steps correctly. However, fiduciaries cannot neglect any of their responsibilities, because they could be equally liable for negligence in each step. Creating a culture of fiduciary responsibility is critical for success in this final step. Much like safety programs in hospitals or manufacturing environments, a well established culture of safety helps people always ask the question, “Is this the right thing to do?”

### **Creating the culture**

While the steps listed above establish the building blocks of a fiduciary process, in the absence of a culture of critical thinking, the process can become hollow. Simply going through the motions can lead to a plan with high costs and poor performance. [2] If you, as a leader, start by examining your own process and adopt the prudent practices listed above, you can help cultivate a culture of fiduciary responsibility. To further cement this culture, you will need to ensure that new ways of asking questions, running meetings and conducting investment reviews become your committees' new routine. Based on a

recently released Randstad Work Watch Survey, Eileen Habelow, PhD., Randstad's senior vice president of organizational development, stated: "Going forward, companies can't ignore culture. Rather, it should be addressed as a critical component of their overall business strategy." [3] Through proper execution of the prudent process outlined in these four steps, trustees and investment committee members can reduce their liability by being confident that they are fulfilling their fiduciary responsibilities. Fiduciaries should embrace their responsibilities and understand that they will not be judged on the returns of their portfolio, but on the prudence employed in the creation of the returns.

### **The Pentegra Advantage**

Changing a culture can be challenging and it does not happen overnight. Today, trust in asset management is more important than ever. Investor trust is critical to a firm that provides fiduciary functions. Stewards of retirement plans, endowments, foundations and personal trusts are looking for proof of their investment firm's integrity. We encourage you to think about how your company handles its fiduciary responsibility. Are you following a defined prudent process and is there a culture established to support such a process? As an ERISA-named plan administrator and principal fiduciary for more than six decades, Pentegra offers comprehensive fiduciary relief and consulting services to help your organization cultivate a culture of fiduciary responsibility. For more information, please contact John Schafer, Vice President, Pentegra Retirement Services at 800-872-3473, x534 or [jschafer@pentegra.com](mailto:jschafer@pentegra.com).

[1] Prudent Practices for Investment Stewards, Fiduciary 360 & Reish Luftman Reicer & Cohen, 2008

[2] The Different Flavors of ERISA Fiduciaries, Redux, W. Scott Simon | 03-04-10

[3] New Randstad Work Watch Survey Reveals Secret Weapon for Business Success, Randstad, Atlanta, 10.04.10