

# BUILDING BLOCKS FOR RETIREMENT

## Investment Strategy

### Why a 401(k) Plan Needs an Investment Policy Statement

A 401(k) plan is a very desirable employee benefit that helps employees lay the groundwork for their future financial security and helps companies attract and retain key employees. However, it's important for plan sponsors to make sure that all the bases are covered when it comes to maintaining and administering their plan. An investment policy statement for the plan is one piece of the puzzle that is sometimes overlooked.



A written investment policy statement documents the manner in which the plan sponsor is meeting its fiduciary duty to have a process in place for selecting plan investment options. It also documents the procedures for periodically evaluating those investment options. A written investment policy statement is documentary evidence that a prudent policy for selecting investment options exists -- without one, the plan sponsor could be legally liable for poor investment outcomes for participants.

Essentially, a written policy statement provides some degree of fiduciary liability protection for plan sponsors against challenges to the investment choices or the performance of those choices, provided the fiduciary acted within the terms of the investment policy statement. The investment policy statement should be considered an official plan document and the fiduciaries who are responsible for the plan's investment selections should be guided by its instructions or guidelines.

#### What Should Be Included

The specific needs of the plan and the plan sponsor will largely dictate the content of the investment policy statement. However, most such statements typically include the following:

- A description of the plan's general investment objectives. These objectives should include offering a well-diversified selection of investment options for participants with different investment goals, time horizons, liquidity needs, and risk tolerances
- A description of the criteria and the methods used in selecting, monitoring, and replacing plan investment advisors



- The fiduciaries and other parties who are responsible for choosing, monitoring, and managing the plan's investments
- A description of the standards for investment performance, including broad performance criteria to be employed in the evaluation, such as market indices and similar funds
- The frequency of formal performance reviews of the investment options
- Information about the investment options, their objectives, and their risk levels
- An overview of the criteria used in selecting investment options for the plan
- The process that will be used to monitor and evaluate investment options
- The criteria that will govern whether an investment option will be added or dropped
- A summary of the plan's general investment administrative structure
- The name of the plan's qualified default investment alternative
- Details on any restrictions on the purchase and sale of employer stock
- The plan's strategy for meeting the requirements of Section 404(c)
- A description of the standards that will be used to account for and manage the plan's investment expenses

The plan's legal counsel and investment consultant should be involved in the drafting and review of the investment policy statement. The policy statement should be updated periodically to reflect any changes that have been made.

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