Summary of accounts/plan review intro

Retirement Plan account summaries/reviews should be integral components of your plan sponsor service model. This document can be a guide that helps you demonstrate and communicate your value to plan sponsors.

- Acting in a fiduciary role (with specific, required duties) reinforces the importance of establishing a service model that incorporates both quarterly and comprehensive annual account reviews of plan activity and performance.
- Best practice independent fiduciary advisors create and execute account review processes that assess, analyze and address the specific needs of the plan to maximize its value to the organization by delivering better plan outcomes.
- This is accomplished by supporting the following areas:
  - Manage fiduciary risk
  - Improve operational efficiency
  - Increase employee satisfaction
  - Streamline investment selection and analysis
  - Enhance the suitability of retirement plan’s investment menu for optimal plan performance
  - Optimize employee participation and education
  - Identify and recommend cost efficiencies
  - Keep the plan ERISA compliant
- Account/plan reviews detail the services the advisor provides to the plan sponsor, what was done by the advisor to more effectively manage the plan and actions the advisor took to help assure that the plan continues to achieve its objectives.
- In an increasingly regulated and competitive 401(k) industry, advisors are always looking for ways to bring more value to plan sponsor clients. By differentiating services and demonstrating processes and procedures that highlight your retirement planning expertise, you can build deeper trust with clients, continue to reinforce your subject matter expertise and stand out from the competition.
- The account/plan review process, as part of a proactive client service model, is not just required as a fiduciary. It presents a great opportunity to reinforce and remind plan sponsor clients of the value you bring to the table.
- Establish a proactive service schedule so you and your clients know what that looks like and what to expect and when. Schedule key management events and customer service interactions and demonstrate a reliable process. This will create a more professional approach to managing your business and client expectations.
Categories of advisor support

Plan administration: Risk and fiduciary compliance

Employers that offer 401(k) plans take a risk. They take on fiduciary responsibilities – they must act in the best interests of their employees. Since employers cannot know everything, they hire consultants with specialized knowledge to help. 401(k) advisors help employers protect themselves by managing fiduciary liability and using systems to help employers meet their responsibilities.

The best retirement plan advisors review the following with clients at least annually:

- Trends in the retirement plan industry
- Implications of new retirement plan regulations and legislation (IRS, DOL)
- Specific plan objectives, status, plan design and any potential improvements
- The plan’s Investment Policy Statement (IPS), investment menu, investment performance, portfolio managers and potential changes to investing options
- How plan investment options support overall plan goals
- Building and executing employee education and communications programs to deepen awareness of plan value and get participants to take action
- Conducting vendor reviews, assess vendor fees, benchmark and conduct price comparisons
- Suggesting changes, when appropriate, to improve administration and compliance
- Plan benchmarking assistance vs. peer group

Fiduciary standards

Advisors must be experts qualified in fiduciary standards of care and assessment. Most firms providing retirement plan administration services do not guarantee the completeness or accuracy of their services – they process the information plan sponsors provide to them.

As a result, advisors must demonstrate support regarding:

- Proof of plan’s intent to comply with ERISA 404(c) regulations as well as fee disclosure rules under 408(b)2
- Compliant records management that includes the distribution of required materials to participants including the Summary Annual Report
- An archiving process for fiduciary documents including the requisite plan and trust documents, due diligence reports, meeting minutes and retention of records related to the Form 5500
- (Re) definition of plan goals and objectives
- The financial commitment the company is willing to make to support the plan
- Reconfirmation of optimal plan design
- Organization and consolidation of plan compliance files
- Documentation of plan management activities (e.g., Governance/Oversight Committee meetings)
- Sharing recent plan design trends, including automatic enrollment, automatic escalation, plan reenrollment and a match that is aligned with the principles of behavioral economics
- Assess fidelity bonding and fiduciary liability insurance
Fiduciary formalization and governance

- Identification and formalization of plan fiduciaries and roles
- Reconfirmation of individuals who have fiduciary responsibilities and liability
- Support in helping fiduciaries understand plan fiduciary specifics
- Providing documents for setting up a formal investment committee, fiduciary acknowledgement letters and basic fiduciary training, if necessary
- Documentation of committee roles and the ongoing monitoring and completion of documentation of the committee
- Committee meeting minutes as well as any changing roles within the committee
- Documentation of fiduciary responsibilities defined, understood and acknowledged in writing
- Provision of any required educational content for plan fiduciaries, e.g., Plan Management Education Guide, DOL Guide to Meeting Your Fiduciary Responsibilities

Service provider due diligence/fee review

- Placing your services and fees into perspective
- Reviewing your scope of service including fiduciary services
- Reviewing all categories of your fees charged
- Presenting and reviewing any changes to Form ADV
- Providing written documentation of fees
- Providing education on full plan cost
- Providing fee breakdown among the plan service providers
- Disclosing if you get bonuses based on how much business you place with certain firms or funds
- Assessing if service providers have preferred vendors because they receive additional compensation
- Does the firm have a policy on receiving gifts of any kind from the vendors and companies they do business with?
- Identifying all plan services and costs that recordkeeper, trustee and custodian are/should be providing/charging
- Maintaining written disclosure of all third-party services and fees
- Providing 408(b)w2 fact sheet
- Providing periodic review and benchmarking of service providers documented (services and fees)
- Recommending service providers that work well together and will fit the employer’s needs (recordkeepers and TPAs)
- Conducting Fee Benchmarking to compare fees (both commission and fee-for-service) to a database of industry norms for a selected plan size
- Ensuring fees and services are reasonable and necessary – this is a key fiduciary duty under ERISA
Investment oversight

Business owners and HR personnel who develop 401(k) plans may not have adequate training and exposure to the complexity of investing. These individuals can make themselves and the company liable for poor investments based on the decisions they make and information they provide to employees. Good 401(k) plan advisors have experience and training to help employers make informed decisions by providing support in the following areas:

Investment strategy
- Developing an investment strategy that helps employers meet their obligations and manage fiduciary liability
- Introducing programs that can improve employees’ chances of successfully saving for a comfortable retirement
- Planning investment selection and monitoring process and documentation

Investment Policy Statement (IPS)
- Reassessing the Investment Policy Statement
- Identifying how IPS continues to support plan
- Addressing any issues regarding an outdated or unexecuted IPS
- Assuring IPS is adhering to its fund replacement criteria and revenue-sharing application
- Verifying the plan is actually being managed in accordance with the IPS, update as needed
- 404(c) compliance

Investment option monitoring/performance
- Working with and guiding the investment committee since ERISA’s test of prudence is one based on process and not performance
- Confirming the appropriateness of the plan’s investment portfolio with a specific focus on the portfolio options
- Assessing designation of the Qualified Default Investment Alternative (QDIA)
- Complying with the plan default investment rules in the Investment Policy Statement
- Reviewing the plan investment menu, including percentage of plan assets across asset categories
- Documenting any changes in investment strategy of fund
- Reviewing overall plan investment performance
- Documenting periodic investment due diligence and monitoring
- Documenting proper review of funds in the plan’s investment portfolio to ensure participants have adequate choice
- Conducting, reporting and filing quarterly investment reviews
- Having detailed discussions/reviews of fund performance annually; this is an opportunity to ensure that the investments in the plan remain suitable and appropriate for the plan participants; reviews are comprised of both qualitative and quantitative assessments and include:
  - Assessing overall performance over prior year, three years and five years
  - Manager performance updates/changes
- Investment policy changes
- Significant changes to investment strategy
- Fully documenting discussions regarding plan investment performance, benchmarking or changes
- Selecting fund alternatives and rationale
- Making recommendations and providing rationale for making new fund options available based on sound fiduciary compliance and the IPS
- Analyzing reporting of asset distribution by category and by specific fund

**Ongoing investment due diligence/menu changes**
- Maintaining and documenting the history of fund changes and mapping
- Documenting funds that might need to be deleted or added
- Documenting the process of evaluating the competitive market for comparable funds
- Deleting a good performing fund or using alternative share classes to create more revenue sharing to offset fees violates investment policy statement criteria and the exclusive-benefit rule; fund replacements must provide a reasonable investment advantage to participants
- Documenting the investment review and decision-making process

**Participant/employee education**

Best practices focus on the promotion of the 401(k) plan as an important employee benefit which includes educating the participants on the benefits of saving for retirement, the benefits of investing and why a 401(k) plan is a beneficial vehicle to accomplishing each of these. The recent evolution of this communication has moved into broad-based financial education that transcends only retirement and includes the financial topics that are most relevant in employees’ lives. These educational programs are now delivered in multiple formats and venues and can be customized to the sponsor’s company’s demographics and geographic dispersion. A robust investment menu is just one part of a successful retirement plan. Plan participants – employees who contribute to the plan – need to know how to use the plan.

The following are areas in which advisors can help to support their clients develop or maintain good education practices:
- Creating an Educational Policy Statement and Employee Communications Plan
- Building an education budget
- Assessing partners and partner tools to support delivery
- Supporting foundational communication distribution
- Analyzing participant learning styles
- Creating effective campaigns
- Assessing and implementing most effective delivery methods
- Execution:
  - Conducting initial enrollment meetings
  - Providing the distribution 404(c) notice
  - Providing appropriate educational content, e.g., fact sheets, worksheets, tool
  - Conducting individual consultation meeting
– Responding to participant questions during meetings and via phone or email
– Providing one-on-one guidance to employees

■ Identifying success metrics
■ Creating test scenarios
■ Assessing employee education initiatives, effectiveness by:
  – Audience
  – Objective
  – Media
  – Number of meetings
  – Number of attendees
  – Timing
  – Direct employee feedback

401(k) plan annual account review checklist
A. Plan Overview and Fiduciary Oversight and Governance
B. Investment Policy Statement
C. Service Providers and Fee Assessment
D. Investment Related and Portfolio Manager Due Diligence
E. Employee Education and Communications
### A. Fiduciary oversight and governance

#### Plan Overview/Summary

<table>
<thead>
<tr>
<th>Plan purpose</th>
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<tbody>
<tr>
<td>Full plan name</td>
<td></td>
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</table>
| Stated goals/objectives of the plan | Goal 1  
  Goal 2  
  Goal 3 |
| Total plan assets ($MM) | $MM |
| Total # of eligible employees | # EEs  
  % Total EEs |
| Total # of active participants with balances | # PPTS with balances  
  % All EEs |
| Total # of active participants without balances | # PPTS without balances  
  % All EEs |
| Annual contributions to the plan ($MM) | $MM |

- Assess key plan success metrics such as participation rates, salary deferral rates, investment diversification and retirement income readiness on a periodic basis
- Review and consider changes to plan design, plan services or investment options as warranted in order to improve plan success metrics
- Conduct all required testing for plan based on plan design and address any testing results that require action
- Establish an ERISA-compliant process to respond to participant claims against the plan

#### Fiduciary Governance

- Review trends in the retirement plan industry
- Highlight implications of new plan regulations and legislation (IRS, DOL)
- Review specific plan objectives, status, plan design and any potential improvements
- Assist in ensuring sponsor is meeting fiduciary duties
- Provide assurance that up-to-date plan document is being used
- Amend plan document for all legislatively required changes
- Operate plan in accordance with its terms and new legal requirements that may not yet be reflected in plan documents
- Ensure that plan’s trustees have been properly appointed and the plan’s trust agreement has been properly executed
Documentation that supports the following:

- All plan fiduciaries are identified and the scope of their responsibilities are defined and documented
- All plan fiduciaries have been made aware of and understand their fiduciary responsibilities
- Any employee acting as a fiduciary has received sufficient training and assistance to fulfill their responsibilities in accordance with ERISA’s fiduciary status of conduct
- Provision of any required educational content for plan fiduciaries, e.g., Plan Management Education Guide, DOL Guide to Meeting Your Fiduciary Responsibilities
- Periodic meetings are held with all plan fiduciaries to review their fiduciary responsibilities and provide fiduciary training as appropriate
- Service contracts exist with all plan fiduciaries and service providers, clearly outlining their responsibilities
- A fidelity bond is maintained, covering fiduciaries and all persons handling plan assets
- If appropriate, fiduciary liability insurance coverage has been purchased as a protection against personal liability
- All salary reduction deferrals and loan repayments are being collected and invested in the plan as soon as administratively practicable
- Maintenance of due diligence file containing documentation supporting fiduciary process and decision making
- No plan fiduciary has used assets of plan for his or her personal interests
- Plan committee can demonstrate that it followed a prudent process in evaluating investments and fees in the event investments or fees are challenged in litigation or DOL audits; activities to support this include:
  - Documentation of all issues considered at the committee meetings and the reasons for the decisions made
  - Set out issues in written meeting agendas and minutes
  - Retain written agendas and meeting minutes in the plan’s records
  - Consider implementing a fiduciary education program for the committee members to ensure that all the committee members are familiar with their responsibilities
### B. Investment Policy Statement (IPS)

<table>
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<th>Investment Policy Statement (IPS)</th>
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<tr>
<td>Ensure the plan maintains and abides by a written Investment Policy Statement (IPS)</td>
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<td>Conduct an IPS Review that benchmarks and monitors: plan performance, plan expenses and ERISA guidelines</td>
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<td>Monitor and if necessary, remove any funds that do not meet IPS standards, or if any material changes occur with the fund manager</td>
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<td>Ensure that plan fiduciaries have selected a broad range of investment options for the plan consistent with IPS</td>
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<tr>
<td>Document review and decisions made with respect to the investment options to be deleted or retained by the plan in accordance with the IPS</td>
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<tr>
<td>Document each of your meetings, the results of your review and monitoring of investments and service providers, and the decisions made with respect to the plan</td>
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<tr>
<td>Compliance with ERISA section 404(c), if applicable</td>
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### C. Service providers and fee assessment

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<td>Provide fee breakdown among the plan service providers</td>
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<td>Provide opinion that fees being paid by the plan are reasonable and competitive based upon the investment options and services being provided</td>
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<td>Monitor experts and providers retained to provide services to the plan periodically to ensure they are meeting the performance standards set for them</td>
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<tr>
<td>Review service provider contracts at least every three years</td>
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<tr>
<td>Document all of service provider findings</td>
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<tr>
<td>Ensure plan sponsor receipt of plan’s covered service providers’ required disclosures about their fees and services and timely updates of those disclosures in the event of a change</td>
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</table>
File an accurately completed Form 5500 in a timely manner
Include an accountant’s opinion with plan report (generally 100 or more participants)
Maintain a defined communication process with service providers to ensure that services are integrated in a timely, accurate and cost-efficient manner
Ensure that plan has not engaged in any financial transaction with a party-in-interest (i.e., a fiduciary, service provider, employer, owner, employee or officer) that is not exempt

D. Investment related and portfolio manager due diligence

**Fund Performance and PM Due Diligence Review**

Create customized investment report

Compare investment portfolios in plan within appropriate peer groups using unbiased third-party data (e.g., Morningstar)

Review the current plan investment menu to confirm:

- Appropriate correlation
- Full spectrum of risk and reward
- No bias toward a particular asset class
### Qualitative Factors
Assess funds along qualitative factors as part of due diligence process:

**Manager quality**
- Necessary experience to manage portfolio size and type
- Prior experience

**Staff turnover**
- Professional staff experience of the investment company
- Significant turnover

**Organizational structure**
- No perceived organizational or significant legal problems
- Same portfolio management team intact for three + years
- If one member of a team of investment managers leaves a fund, the fund should be placed on a watch list and further investigation performed
- Any structural changes to the investment company
- Firm’s mergers or acquisitions activity

**Service levels**
- Investment service levels vs. fees
- Other fund share classes or separately managed accounts
- Potential cost savings

**SEC Reporting**
- Quality
- Timeliness

**Requests for information**
- Response times vs. agreed-upon service levels
- Customer care standards
- Response relevance

**Investment education**
- Adequate explanation of the investment decisions made and the factors considered in making decisions
- Ability to easily articulate the portfolio mandate, the plan to follow the mandate, and any problems seen in achieving the mandate

**Regulatory oversight**
- Ensure that all investment managers are a regulated bank, an insurance company, a mutual fund organization, or a registered investment adviser

### Quantitative Investment/Fund Analytics
#### Quantitative Measures
Each of these measures should tie back directly to the investment policy/IPS

**Asset Allocation**
- Assess how the entire group of managers or funds chosen relate to each other
- Ensure an appropriate allocation is in place: one that, looked at in its entirety, has asset classes with low correlation to each other
- Review underlying securities for overlap: funds or managers with more than 20% of the same securities indicates that the funds in question may not provide adequate diversification
- Assess percentage of plan assets across asset categories
- Assess distribution of assets by asset category and by specific fund

**Correlation to style or peer group**
- Assess correlation of investment option to the asset class. This is one of the most critical parts of the analysis since much of the remaining due diligence involves comparisons of the manager to the appropriate peer group
### Performance relative to peer group and appropriate benchmark

- Overall performance over prior year, three years, five years
- Performance against the appropriate benchmark and peer group’s median manager return, for 1-, 3- and 5-year cumulative periods
- Funds or managers chosen should typically be top quartile performers for all periods, and existing funds in the menu should be in the top two quartiles
- If a fund underperforms for one or more quarters, the reasons for the underperformance need to be understood

<table>
<thead>
<tr>
<th>Minimum track record</th>
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<tr>
<td>Ensure inception date is greater than three years, and managers should have a minimum of three years of experience managing the proposed asset class (if not the specific product) with a verifiable track record</td>
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<tr>
<th>Assets under management</th>
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<tbody>
<tr>
<td>Ensure that fund has at least $75 million under management (large plans may need to set a higher minimum, and plans should avoid comprising more than 5% of any fund)</td>
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<thead>
<tr>
<th>Attribution analysis</th>
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<tr>
<td>Ensure that fund has no more than 20% of the portfolio invested in “unrelated” asset class securities. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities</td>
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<th>Expense ratios/fees</th>
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<tr>
<td>Ensure that the fund’s expense ratio or manager’s fees are not above the median of its peer group</td>
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### E. Employee education and communications

**Employee Communications**

- Draft an Education Policy Statement that clearly states the objectives of participant education and ways to measure progress toward those objectives
- Compare investment portfolios in plan within appropriate peer groups using unbiased third-party data (e.g., Morningstar)
- Clearly define specific communications plan objectives (beyond simple plan participation to help ensure that all participants have adequate savings at retirement)
- Establish a budget and the outline program scope
- Assess and leverage appropriate partner educational resources
- Review quality and credentials of education partners

**foundational Communications**

- Distribute mandatory plan documents
  - Provide up-to-date Summary Plan Description to all employees
  - Redistribute the Summary Plan Description or distribute a Summary of Material Modification whenever plan design changes dictate
  - Provide Summary Annual Reports and any required notices based on the plan design
  - Provide eligible recipients with initial, quarterly and annual disclosures required by the participant disclosure rule
## Plan Participant Analysis
It is essential that plan sponsors analyze plan data and survey employees to gauge their knowledge level and ascertain areas of need. This analysis will help yield specific plan metrics that can identify areas of opportunity for improving retirement readiness.

## Campaigns
An education campaign addresses the needs of employees and meets the plan sponsor’s predefined objectives (e.g., increase participation rates and deferral levels).

Successful general campaign elements include:
- Sustained time frames yearlong in duration
- Understandable themes
- Compelling messaging that supports plan goals
- Continuous stream of communications that help employees maintain their focus on achieving their retirement goals

## Communication Methods and Delivery
Plan sponsors should appreciate that a diverse workforce means that the preferred (and most effective) means of content delivery will vary by individual.

Assess employee learning dynamics:
- Type of learner: visual, auditory, read-write or kinesthetic

Explore all potential communication methods:
- One-on-one counseling
- Group and individual meetings
- Voluntary classes/workshops
- Websites and web-based information tools
- Call centers
- Quarterly statements and newsletters
- Group education
- Social media

## Success Measurement
The ability for plan sponsors to measure key metrics, compare them over time and against plan goals, document behavior changes and provide benchmarks for future campaigns, is a critical prerequisite to a process of continual improvement in education development and delivery.

- Identify communications plan success metrics
- Create/support testing to measure participant behavior
- Assess changes in response to the communications strategy
- Create/support survey of plan participants to determine if they are receiving and understanding the information targeted at them
- Continuously assess and question communication objectives, strategies and outcomes to reinforce that you are doing your part to help plan sponsors and participants navigate the complexity of the retirement world, and ultimately support desired plan outcomes

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