5 INVESTMENT COMMITTEE TRAPS
(Source: Envision 401k Advisors)

Investment committees are supposed to run their plan for the sole interest of their employees and their beneficiaries. Are your retirement investment options helping or hurting your employee's chances for a independent retirement? Might one of these traps trigger your personal liability?

Investment Committee Trap: Not independently monitoring investments

You likely don't get paid to monitor the menu. Some sponsors think that is what the provider is paid to do. Some think that it is a voluntary program- the employees can take it or leave it. Unfortunately, the law says that you are responsible for making sure that the options are good. While the law points to risk/return, most sponsors and employees look at gross return. However, it is not common that they consider gross return against benchmarks, such as broad-based stock or bond indices.

Investment Committee Trap: Too many options

You are responsible for deciding what investments go into your 401k. You are only required to have 3 investments. If you have more than that, why do you? Recently, I spoke with a CFO that shared his menu was selected because it includes at least one stock (equity) choice from each of Morningstar's style boxes. Morningstar developed that system to help analyze the different styles of stock investments that a given investment may fall into. Those who believe in asset allocation might use investments in several of the categories to develop their portfolios. Do the employees know that is why there is so many investment choices? Do they have the tools and knowledge to build "modern portfolios"?

The Employee Retirement Income Security Act only requires three investments- a stock, a bond and cash. As the majority of stock and bond investors fail to beat the benchmarks, the majority of employees might be better off to simply pick the least expensive Stock and Bond equivalents in the proportions that fit their risk/return investment needs retirement.

Investment Committee Trap: No employee education

One of my private wealth clients said that her employer's chosen recordkeeping provider didn't educate her on her options. I spoke with a representative of the recordkeeper and they said that it was the responsibility of her employer. Enough already.

Another one of my clients sends me an email when there is a change to his menu. It is clear that without education few of us would get good results on anything, much less the investments that will help us create the retirement income we will need to live on. Do you provide an annual education program or in-plan advice?

Investment Committee Trap: Failing to monitor the 404(c)

The law allows you a safe harbor against the chance that employees make bad choices and try to blame you. Many plans elect the option, still some others have and don't know it. You must meet the requirement annually. Noted ERISA Attorney Fred Reish has said few firms qualify. As electing 404(c) provisions is optional, why have a Department of Labor investigator look for something you haven't done?