



It Takes a Committee

The Best Ways to Govern DC Plans

Effective governance of their defined contribution (DC) plans helps employers meet fiduciary responsibilities, abide by regulatory requirements, and minimize the risk of litigation and negative press. And the stakes are higher than ever given the increasing complexity of DC plan requirements (such as the Department of Labor’s new Fiduciary Rule), as well as ongoing lawsuits over issues ranging from fund selection, plan fees, and overall plan monitoring and evaluation.

To help plan sponsors better understand good governance practices, including how their peers are structuring their oversight committees, Callan fielded the *DC Plan Governance Survey* among large plan sponsors in May 2017. Our survey identified ways in which committee structure, composition—and even the number of meetings and those responsible for meeting agendas—have important implications for the priorities, challenges, and effectiveness of DC plan governance. Our findings reaffirmed our view that a properly structured and resourced committee serves as a critical foundation on which a DC plan thrives.

Callan’s *DC Plan Governance Survey* gathered responses from 106 institutions:*

- 57% corporations
- 22% public agencies
- 22% tax-exempt organizations

*Throughout the survey, charts may not sum to 100% due to rounding.

Key Findings

- *Large plans preferred to split the difference:* Plans with higher participant counts were more likely to have separate committees—administrative and investment—than smaller plans, which were more likely to have a single committee.
- *Size matters:* Across committee types, poor participation and clarity around roles corresponded with a higher-than-average number of committee members.
- *Improving the odds:* Investment and administrative committees with an even number of committee members were more likely to report challenges with strained internal resources.
- *Fiduciary training isn’t a given:* While most committees reported annual or at least periodic fiduciary training, nearly one in seven respondents from single committees noted no fiduciary training had been done.
- *The hand that rocks the cradle rules:* The party responsible for setting the agenda influenced the committee’s priorities (i.e., staff vs. committee head).
- *Committees tend to work:* In general, respondents viewed their committees as highly effective.

Callan's *Governance Survey* found that single and administrative committees were more likely to have an odd number of members than investment committees (**Exhibit 4**). Investment and administrative committees with an even number of committee members were more likely to report challenges with strained internal resources. Investment committees with an even number of members were also more likely to report poor participation, while administrative committees with an even number reported issues with the timeliness of making decisions. Single committees with an even number of members were more likely to experience challenges with clarity around roles and responsibilities.

TIP: Consider maintaining an odd number of committee members to prevent tie votes.

Exhibit 4: Incidence of Odd Number of Members by Committee Type

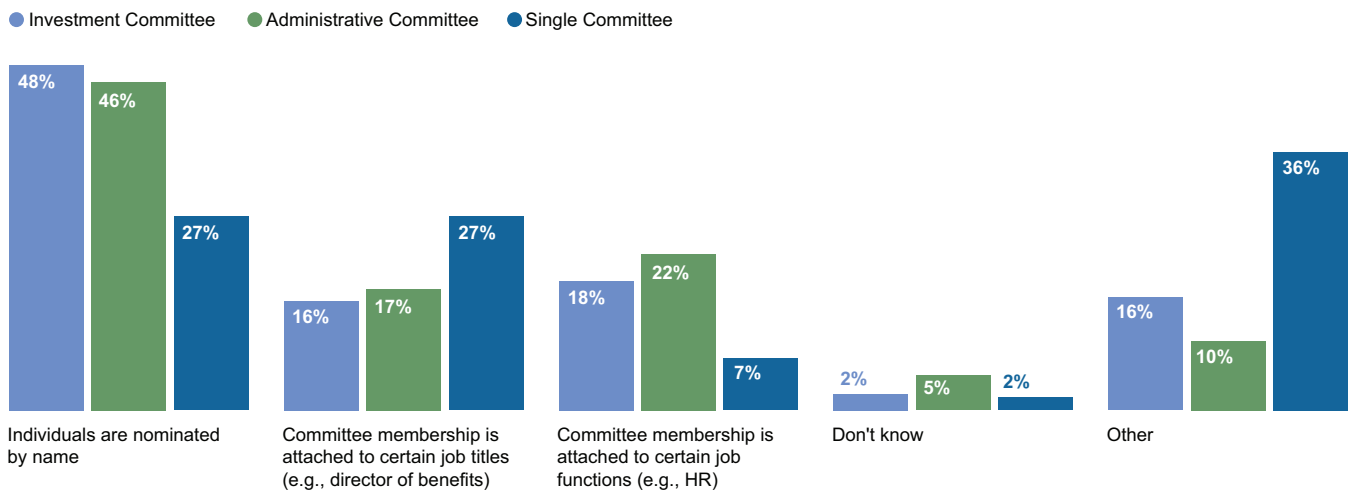


Committee Appointments

Although the *Governance Survey* found that a number of committees nominated their members by specific individual or by job title (e.g., director of benefits), some legal experts counsel against that practice. Delegating authority or oversight for DC plans is itself considered a fiduciary act: It is important to minimize the appearance or actuality that the body delegating the authority is selecting members based on perceived bias and intent. In recent litigation, the chief executive officer was specifically named, in part due to his responsibility to appoint and monitor the individuals in charge of overseeing the savings plans' investment options (*Meriwether v. Sears Holding Company*). Additionally, a benefit of designating members by job function or specific criteria, rather than by job title, is to streamline the nomination process in the event of turnover or organizational restructuring, where a specific job title may be unfilled for a period of time or even cease to exist. It is noteworthy that in public entities the process to identify committee members can be specifically limited by statute.

The survey revealed that a significant number of plan sponsors nominate individuals to the committee by name, although single committees were equally likely to attach membership to certain job titles (**Exhibit 5**). A handful of sponsors that responded "other" indicated membership was voluntary or was dependent on the facts and circumstances when a position becomes available.

Exhibit 5: Nomination Practices by Committee Type



In one instance, a plan committee was named in a lawsuit. When it came time for the depositions, several individuals were surprised to learn they were committee members.

TIP: Document and date committee members' acknowledgment that they serve as members. That way they **KNOW** they are a member and you have documentation of when they joined.

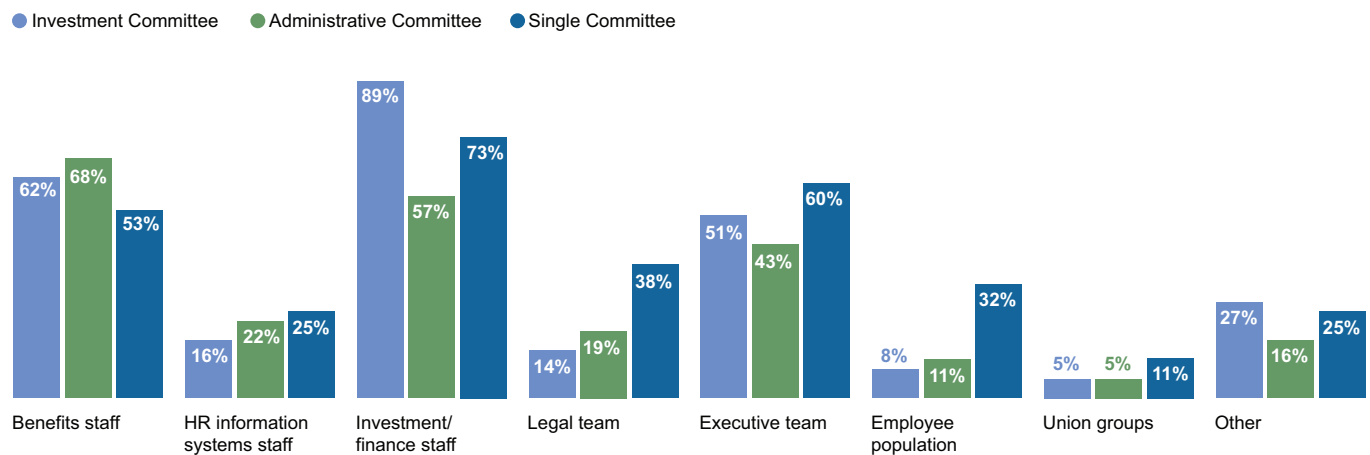
Committee Composition

The composition of the committee should be flexible to meet new issues that may require different skill sets. Corporate plan sponsors should consider the merits of including members of the C-suite (e.g., chief financial officer) or general counsel. It may be wise to insulate them and the committee from conflicts with insider information and preserve privilege, where applicable. For instance, the committee may have a stellar record in decision-making and documentation, but if legal counsel is a committee member it may not be possible to share that documentation in discovery without impacting other discussions and decisions where privilege should be maintained. Instead of including the CFO or general counsel as a voting member, committees may wish to include delegates to represent those constituencies and provide regular reporting to those parties, or consider including those parties as non-voting members.

The *Governance Survey* found that although the benefits team was generally represented on corporate investment committees, it was somewhat less common for investment and finance staff to participate on corporate administrative committees. Single committees were the most likely to include members of the executive team and legal counsel. Interestingly, between 16% and 25% of committees included human resource information systems (HRIS) staff as committee members (**Exhibit 6**). It may be desirable to include HRIS staff, not necessarily as a voting member, when decisions made by the committee(s) may affect payroll and HR technology programming or other benefits within the organization. Employee representatives may be included on the committee to provide insight into the participant population (e.g., people representing certain demographics), or union groups may be required as part of bargaining agreements.

Public organizations were the least likely to include benefits, investment, or executive team members (**Exhibit 7**). This variation may be due in part to the structure of the organization, where separate functionalized groups may not be in place or membership may be pre-defined by statute. Public organizations were the most likely to include union or employee representation.

Exhibit 6: Constituencies on the Committee by Type*



*Multiple responses allowed.

Exhibit 7: Constituencies on the Committee by Organization Type*



*Multiple responses allowed.

Term and Tenure

One of the questions that face all committees is how long any individual can or should serve. The challenge is to balance the benefit of familiarity, experience, and perspective that come with longer tenure with the value of new insights and a changing group dynamic provided by having new, qualified committee members. Pre-set terms benefit the committee by bringing new viewpoints and insights to committee considerations. However, plan sponsors may want to stagger terms to maintain the insights of the more experienced members and retain continuity and “organizational memory.” The *Governance Survey*

found that, while the majority of committees did not have pre-set membership terms, single committees were the most likely to have a pre-set term (25%). At the same time, a number of single committees with pre-set terms indicated that their average tenure was 10 years or more. Overall, single committees had the highest average tenure, as well as the greatest percentage of committee members that had served for at least five years (**Exhibit 8**). This may indicate that committee members may have their terms extended or may be re-selected as a committee member after their term expires.

Exhibit 8: Tenure, by Committee Type

	Average tenure of current members	Committees where average tenure is greater than 5 years	Does your committee have pre-set membership terms?		
			Yes	No	Don't know
Investment Committee	5.9 years	28%	11%	87%	3%
Administrative Committee	5.4 years	26%	18%	79%	3%
Single Committee	6.6 years	45%	25%	74%	2%

Exhibit 9: Average Number of Meetings by Committee Type

	Average number of in-person meetings annually	Average number of virtual meetings annually	Virtual meetings only	In-person meetings only	Virtual and in-person meetings
Investment Committee	5.6	4.0	3%	76%	22%
Administrative Committee	4.5	3.6	3%	74%	23%
Single Committee	5.2	2.4	6%	72%	22%

Committee Meetings

The most common number of committee meetings was four per year; three meetings came in second for investment committees, 1–2 meetings for administrative committees, and 5–6 meetings or more than 10 meetings per year tied for single committees (**Exhibit 10**). One respondent’s investment committee reported having no meetings during the year. Two administrative committees and three single committees also reported having no in-person meetings. Staff members are often overwhelmed by the volume of information they must collect, compile, and disseminate for committee meetings. As a general rule—unless there is a very involved project requiring concentrated attention by the committee—Callan generally recommends four meetings annually. If more than four meetings are the norm for a committee, the committee may wish to review the composition, agenda, and priorities of the committee to identify efficiencies.

27% of committees hold virtual meetings

TIP: Although less common, virtual meetings may be a reasonable accommodation for committees that collaborate well and may permit more frequent or convenient meetings. Committees that pursue virtual meetings should consider video conferencing or WebEx capabilities to foster collaboration.

Our survey found that staff is typically responsible for setting the meeting agenda; the committee head did so roughly a quarter of the time. This may indicate the committee is acting in a reactive rather than proactive fashion (**Exhibit 11**).

Exhibit 10: Frequency of Meetings Annually by Committee Type

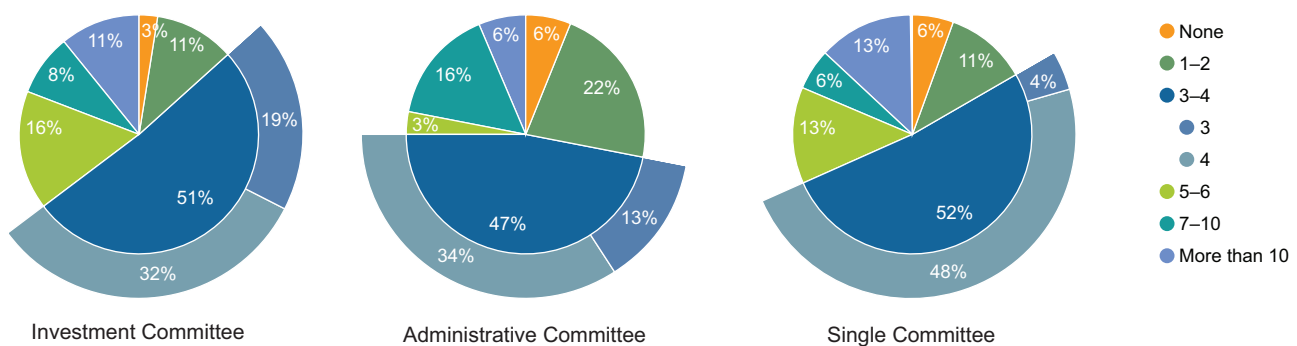
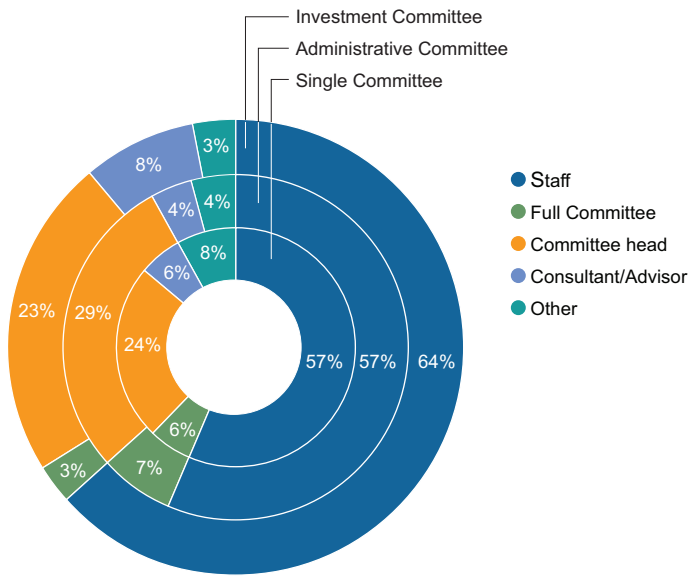


Exhibit 11: Who Sets the Meeting's Agenda?



Investment advisers were the most common non-committee advisers to regularly attend meetings for both investment committees and single committees. For administrative committees, outside counsel was the most common non-committee adviser regularly attending (**Exhibit 12**). Fewer than one in five respondents said that vendor relationship managers attended administrative committee meetings. Periodically having representatives from the plan's recordkeeper can be a valuable way to keep abreast of participant behavior and the most cutting-edge recordkeeping functionality.

TIP: Employee representation may be valuable when the DC plan is undergoing significant change, where the organization is experiencing disruptions (e.g., acquisitions, layoffs), or to address labor shortages and attract staff.

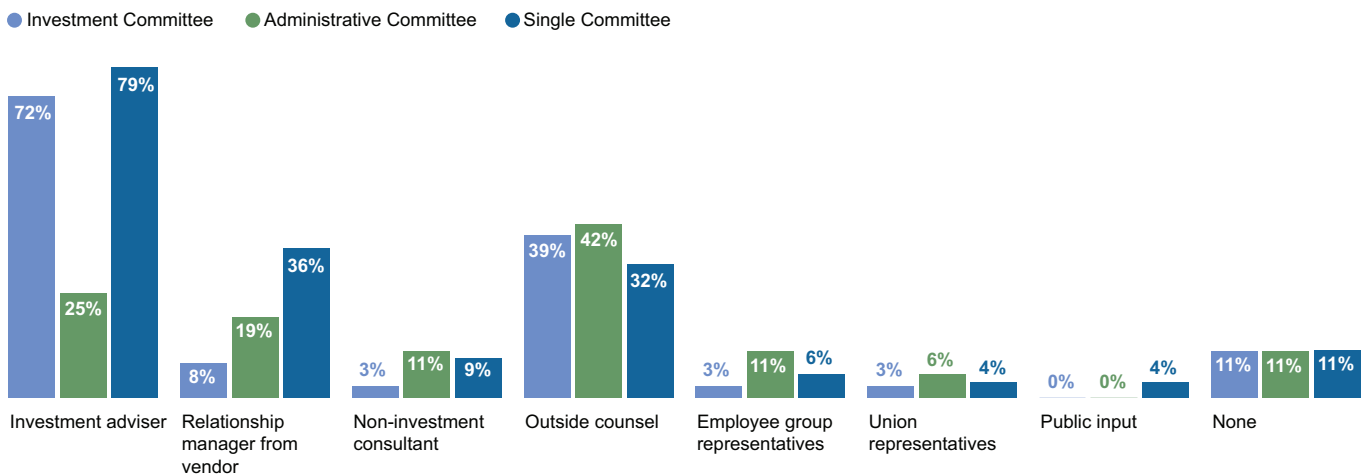
TIP: A strong partnership between the committee head and support staff can help support the committee's ability to monitor, analyze, and review the plan. Support staff generally has a more nuanced view of vendor capabilities and performance, as well as the participant experience, while the committee head will have a more strategic perspective that is also crucially important for managing DC plans.

In general, respondents viewed their committees as highly effective. Responses were tabulated on a scale of 1 to 5, where 1 denotes the least effective and 5 the most. Investment committees rated themselves a 4.6 on average, while administrative committees rated themselves at 4.7, and single committees evaluated their effectiveness at 4.5.

Top Priorities

Unsurprisingly, investment committees and single committees considered *monitoring the investment fund lineup* to be the

Exhibit 12: Attendance by Non-Committee Advisers*



*Multiple responses allowed.

Exhibit 13: Top Priority by Committee Type

	Investment Committee	Administrative Committee	Single Committee
Administrative services	3%	19%	2%
Asset allocation and diversification	16%	10%	8%
Investment fund lineup	53%	0%	29%
Investment management fees	16%	0%	10%
Lifetime income options	0%	0%	2%
Participant education and communications	0%	10%	4%
Plan administrative expenses	3%	14%	8%
Plan governance and process	0%	29%	20%
Plan risk	3%	0%	2%
Retirement readiness for participants	6%	19%	14%

top priority (**Exhibit 13**). Although *plan governance* and *plan risk* did not rank as the top priority, both were considered the second most important priority. Both administrative and single committees ranked *plan governance and process* and *retirement readiness for participants* as top priorities. Across the board, *lifetime income options* and *plan risk* were least likely to be considered a top priority. A minority of investment committees considered *retirement readiness for participants* to be a priority, in spite of the impact investments such as target date funds can have on attaining a secure retirement.

The party responsible for setting the agenda influenced the committee's priorities. When the staff set the agenda, the top priorities were fairly balanced, with the least focus on *retirement readiness*, and the most focus on *fees*, according to the survey. When the full committee set the agenda, the survey found that *plan governance* was generally a higher priority, and when the committee head was responsible for setting the agenda, the survey results revealed a greater focus on *retirement readiness*. When consultants or advisers set the agenda, *retirement readiness* and *asset allocation and diversification* tended to be most important.

Top Challenges

Strained internal resources was a top challenge for all committee types. For example, as noted before, staff must collect, compile, and disseminate a huge amount of information for committee meetings. Administrative committees struggled equally with *strained internal resources* and *timeliness of making decisions*. In contrast, *clarity around roles and responsibilities* was a bigger challenge for single committees than other committee types (**Exhibit 14**).

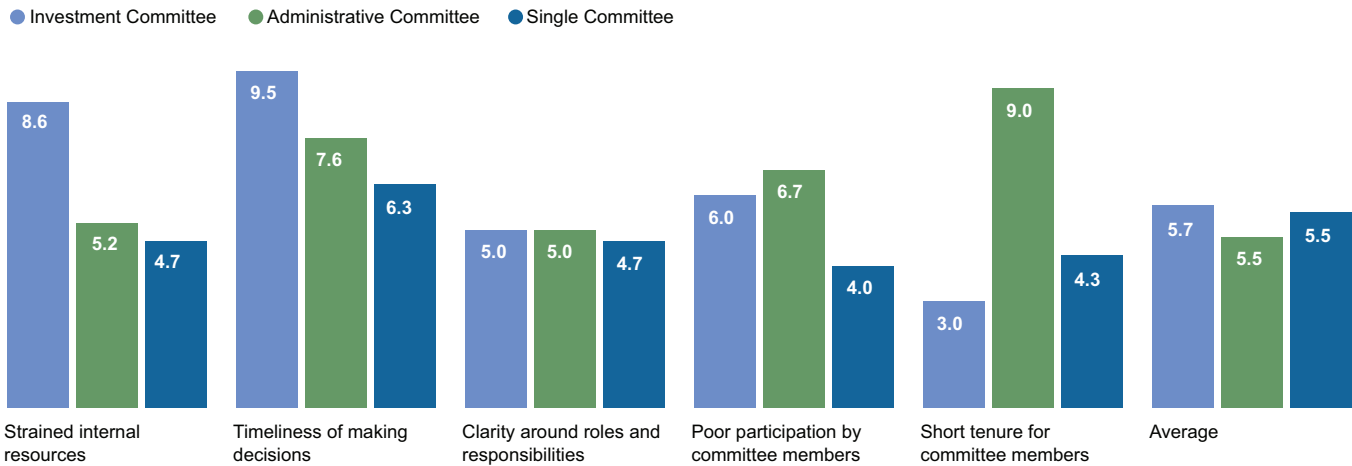
Investment committees reporting that *timeliness of making decisions* was a challenge also reported a higher-than-average member tenure (9.1 years, compared to 5.9 years for the average investment committee) and poor participation correlated to a shorter tenure (2.8 years). And for each committee type, *poor participation* and *clarity around roles* corresponded with a higher-than-average number of committee members.

When examining these challenges in the context of the number of in-person meetings, we found that investment committees which listed *timeliness of decision making* or *strained internal resources* as one of their top challenges had a large number

Exhibit 14: Top Challenge by Committee Type

	Investment Committee	Administrative Committee	Single Committee
Clarity around roles and responsibilities	8%	0%	15%
Ensuring proper documentation is in place & followed	4%	7%	8%
Keeping appropriate records	0%	0%	5%
Lack of appropriate expertise	4%	7%	5%
Meeting too often	0%	0%	3%
Poor participation by committee members	12%	14%	3%
Short tenure for committee members	12%	7%	5%
Strained internal resources	31%	29%	28%
Timeliness of making decisions	23%	29%	18%
Too much turnover of committee members	4%	7%	0%
None	4%	0%	13%

Exhibit 15: Challenges by Number of In-Person Meetings Across Committee Types



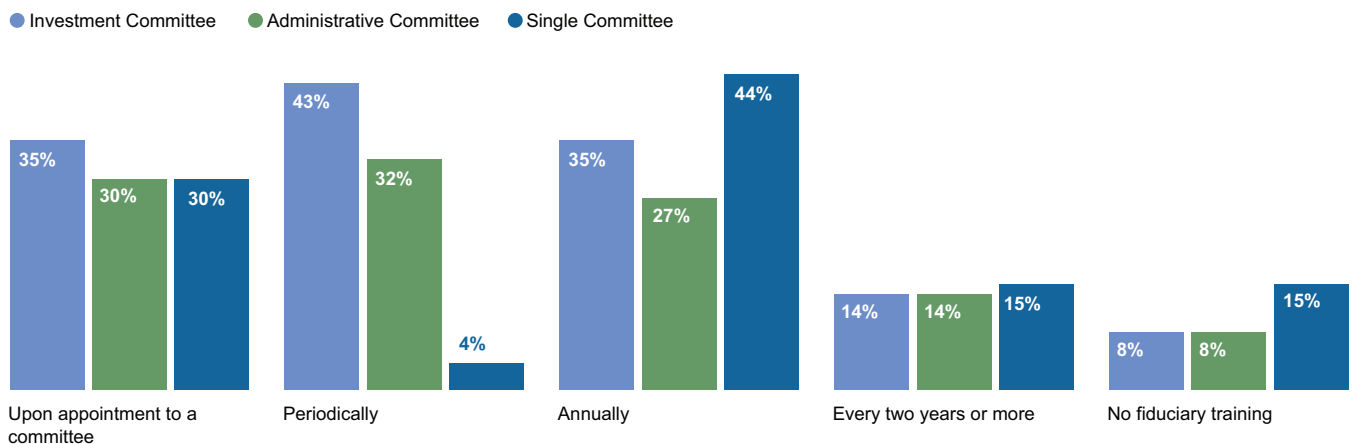
of meetings (**Exhibit 15**). Conversely, administrative committees that reported *short tenure* was one of the top challenges reported a significantly higher number of meetings, which may signify that new members require more meetings.

Fiduciary Training

Fiduciary training is vital for committees to operate efficiently and safely. Fiduciaries can be personally liable for both their actions and those of their co-fiduciaries, if they knew about and did not rein in those actions. That liability may require the fiduciaries to restore any losses to the plan or to restore any profits gained through improper use of plan assets. Typically comprehensive fiduciary training is warranted at the formation of a committee, for new members, and as a refresh for all

committees at least every few years. Committees should also receive regular updates to understand changes to laws, implications of recent litigation, and basic industry trends. According to the survey, annual fiduciary training was most common for single committees; periodically was most common for investment and administrative committees (**Exhibit 16**). At the same time, single committees were the most likely to report no fiduciary training had been conducted. In general, respondents noted that their committee members were most likely to learn about best practices in governance or stay abreast of trends in plan management from their consultant, followed by staff and legal counsel. When asked what could improve plan governance, respondents most commonly noted better education, followed by fixing structural issues of the committee.

Exhibit 16: Frequency of Fiduciary Training for Committee Members*



*Multiple responses allowed.

Conclusion

The good news is that respondents to Callan's *Governance Survey* largely believed that their committees were effective, and some even explicitly commented that they believed their committee set a high standard for governance. On the other hand, a number of respondents noted that they struggled with educating their committee, and that fiduciary training was not always routinely provided. Further, some noted structural challenges with their committee, including committees that are unwieldy in size (including the need to split into separate administrative and investment committees), have gaps in their composition, and have issues regarding the tenure of committee members.

ERISA affords plan sponsors considerable latitude for designing and maintaining their governance structure. Provided ERISA's fiduciary and other requirements are met, a plan sponsor may use any governance model that suits its nature, culture, size, demographics, and benefit plan array. Whatever the approach, the governance structure should address both investment and administrative responsibilities and activities in a way that promotes prudent decision-making and effective oversight without being overly complicated. And no governance model should be set in stone. Plan sponsors should periodically review the

Action Steps

Review and confirm the governance structure and committee processes are appropriate for the DC plan you have today.

- Assess the effectiveness of committee meetings and consider if there are areas that can be streamlined and if the number of meetings is in line with resources.
- Develop and use tools to assist governance and compliance—calendars, compliance checklists, administrative manuals—to support consistent and comprehensive review of fiduciary obligations. Along those lines, Callan has developed a **fiduciary handbook** for its clients that can be leveraged to support these needs.
- If committee members, other fiduciaries, and staff have not had recent fiduciary training, add it to the calendar.
- Review committee documentation to confirm compliance with relevant laws and regulations.

governance model itself, including the roles of all parties. Modifications may be appropriate if the model is not effective or efficient, due to organizational changes, or in the event of a merger or acquisition.

Survey Demographics

Callan's *DC Governance Survey*, conducted in May 2017, gathered responses from 106 institutions.

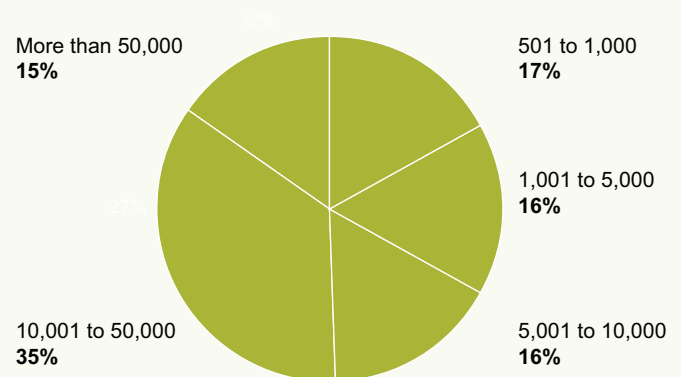
- 57% corporations
- 22% public agencies
- 22% tax-exempt organizations

Respondents represented more than 16 fields, with government agencies (19%) the most prevalent, followed by financial services (11%). Energy/utilities and health care were tied for third, at 9%. Insurance and technology were also among the top industries.

72% of respondents reported maintaining a 401(k) plan, followed by 457 plans (28%), and 401(a) plans (25%).

The survey was primarily completed by support staff (64%), followed by committee members (26%).

Respondents' Plan Sizes by Participants



Authors



Paul Erlendson is a Senior Vice President and senior consultant in Callan's Denver Fund Sponsor Consulting office. Paul has assisted a variety of institutional investors with a broad array of investment policy formulation, implementation, and evaluation decisions.



Lori Lucas, CFA, is an Executive Vice President and Defined Contribution Practice Leader at Callan. Lori is responsible for setting the direction of Callan's DC business, providing DC support both internally to Callan's consultants and externally to Callan's clients, and developing research and insights into DC trends for the benefit of clients and the industry.



Jana Steele is a Vice President and defined contribution consultant in Callan's Fund Sponsor Consulting group. Jana has more than 17 years of consulting experience on qualified and nonqualified retirement plans, including plan design, vendor management, vendor searches, fee benchmarking, data security analysis, and compliance support.

The **DC Observer** is a quarterly newsletter that offers Callan's observations and opinions on a variety of topics pertaining to the defined contribution industry. For defined contribution inquiries, please contact Jimmy Veneruso at 312.346.3536.

Editor – Stephen R. Trousdale

Designer – Jacki Hoagland

If you have any questions or comments, please email institute@callan.com.

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Callan

Corporate Headquarters

600 Montgomery Street
Suite 800
San Francisco, CA 94111
800.227.3288
415.974.5060

www.callan.com

Regional Offices

Atlanta
800.522.9782

Chicago
800.999.3536

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