Fiduciary Best Practices: Helping You Meet Your Obligations under ERISA

I am a Fiduciary, Now What?

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As a fiduciary, what are your duties? Fortunately for those in a fiduciary capacity for retirement plans, the roadmap is well defined.

There are four primary aspects of the role that you must fulfill. You must meet all of these criteria all of the time or face potential negative consequences.

The four primary functions are:

The Exclusive Benefit Rule: Fiduciaries must act solely for the purpose of providing benefits to plan participants and their beneficiaries. This means that your responsibility is in serving the plan participants and not the employer. You must be aware of the fees that the plan is paying and make sure plan expenses are reasonable. In carrying out this responsibility, it is paramount that you avoid conflicts of interest.

The Prudent Person Rule: A fiduciary must perform his or her duties with the care, skill, prudence and diligence that a prudent person acting in a like capacity and circumstance would use. Documentation is a key function in complying with this rule. If you are unfamiliar with or lack the expertise in terms of retirement plan processes, consider outsourcing this function to a qualified retirement plan professional.

The Investment Diversification Rule: To minimize the risk of losses in the Plan, fiduciaries are required to diversify the Plan's investment choices. Most of the retirement plans today already provide a broad range of investment options and easily meet the requirement. However, these options must be monitored periodically and adjusted accordingly. If your selected retirement plan platform comes with a fixed set of investments, that decision in itself is a fiduciary decision and should be evaluated in light of other more flexible options that may be available.

The Requirement to Follow the Plan Document: While this sounds easy in theory, it may at times be hard to comply with in practice as plan documents are in a continual state of change. Internal employees responsible for plan functions may change as well and many vendors do not have the infrastructure in place to assist in this role. Therefore, having the proper plan governance in place will greatly enhance your ability to meet this rule. If your plan is not large enough to require an audit, consider internal reviews instead. Even Plans with annual audit requirements should put proper internal controls and processes in place and periodically review them for compliance.

The role of a fiduciary is very important and held to very high standards. Fortunately, the duties are well defined and there are a variety of ways to comply. Whether you choose to handle these internally, outsource, or some combination of both, complying with these rules will help you avoid the liability of failing to comply. Remember, the process is actually more important than results.

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