

An Investment Policy Statement (IPS) can serve to facilitate a prudent process for monitoring the investments offered by the plan.

The Basics of a 401(k) Plan Investment Policy Statement

Having an Investment Policy Statement (IPS) is not a requirement for a plan sponsor under ERISA. However, having an IPS for the plan is considered a prudent practice.

An IPS is much like a business plan for the 401(k). The IPS can serve to facilitate a prudent process for monitoring the investments offered by the plan, which is at the heart of what acting in a fiduciary capacity is all about.

Here are some of the basics of an IPS for a 401(k) plan to consider in drafting or revising an IPS for your plan sponsor clients.

Executive summary and introduction

The executive summary should list information like the name of the plan, the type of plan such as defined contribution 401(k), whether the participants direct their investments as well as the names of key plan service providers.

The introduction section should cover the purpose of the plan, generally the plan's intent to provide a long-term retirement savings vehicle for the organization's employees. This section should indicate the plan will meet these and other objectives while complying with ERISA 404(c) rules as well as the rules of the Pension Protection Act of 2006.

Purpose of the IPS

This section should briefly spell out the purpose of the IPS. This should include defining the roles of the plan's investment advisor and the investment committee. Who has discretion in terms of making investment decisions when changes to the investment lineup are indicated?

The IPS should describe the criteria to be used in monitoring and selecting the investment options for the plan. It should also describe the means in which an investment option will be replaced if deemed necessary.

Roles of the investment committee and plan advisor

The role of the plan sponsor's investment committee should be defined in the IPS. What role will they play in the plan's investment process? The role of the plan's investment advisor should be defined as well. Will they serve in an advisory capacity to the investment committee, or will they have the discretion to replace investment options, In other words, is the investment advisor a 3(21) fiduciary or a 3(38)?

Plan investments and monitoring criteria

This section will discuss the types of investments offered by the plan such as mutual funds, separate accounts, company stock (if applicable) and others. If there is a QDIA such as target date funds tied to a participant's age that would be covered here as well.

Specific funds or investments would not be mentioned in the IPS, but rather the asset classes to be offered.

The selection criteria for investment options should be discussed in this section. This might include criteria such as:

- » A minimum level of assets.
- » A minimum track record.
- » Fund performance relative to its peer group.
- » The fund's expense ratio.
- » The stability of the investment manager's organization, also the depth of research available to the manager.

There may be a host of other criteria that the investment advisor and the investment committee agree upon and these all should be included here.

Further, the process by which the investment menu is monitored should be spelled out. How would the decision to replace a plan investment option be made? How would its replacement be selected?

Reporting and review frequency

How and how often does the investment advisor report on the performance of the investment options within the plan relative to the monitoring criteria laid out in the IPS? What will this reporting look like?

Ideally the investment advisor and the investment committee will agree on a reporting format and frequency and adhere to this on a regular basis.

Communications with plan participants

The IPS should spell out the process to communicate changes in the plan's investment lineup with plan participants. This communication should spell out the new fund(s) to be offered and what the participant's options would be regarding investments in the funds that are to be replaced.

Overall

The actual section titles and the verbiage of the IPS will vary from plan to plan. What is important for each IPS is that it clearly lays out the criteria to be used to select, monitor and if needed to replace a fund held in the plan.

The responsibilities of the advisor and the members of the investment committee should be spelled out clearly as well.

Most of all, the IPS should lay out a process by which the plan sponsor, with the help of their investment advisor, will manage the plan for the benefit of the plan participants. A process that is clearly spelled out and one that is adhered to are among the best ways to demonstrate that the sponsor and the advisor are doing their fiduciary duty with regard to the plan participants.

As an advisor to your plan sponsor clients, reviewing an existing IPS and helping to draft a new one if needed should be among the first things you do when working with a new plan sponsor client. Ongoing, ensuring that the IPS is reviewed and revised as needed on a regular basis is a critical way in which you provide value to the plan sponsor.

Sources:

<http://planpilot.com/creating-an-effective-investment-policy-statement/>
<https://www.plansponsor.com/in-depth/ips-doesnt-necessarily-increase-plan-sponsor-liability/>
http://www.401khelpcenter.com/cw/cw_invest_policies.html#YJXEx7VKhPZ
<https://www.forbes.com/sites/chrisarosaa/2019/11/18/7-basic-questions-concerning-401k-investment-policy-statements/?sh=1b668853b8c8>

Calamos Advisors, LLC and its representatives do not provide accounting, tax or legal advice. Each individual's tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation. For more information about federal and state taxes, please consult the Internal Revenue Service and the appropriate state-level departments of revenue, respectively. This information is provided for informational purposes only and should not be considered tax or legal advice.

You should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized advice from Calamos Advisors LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Calamos Advisors LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice.

CALAMOS[®]
I N V E S T M E N T S

Calamos Advisors LLC
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com
caminfo@calamos.com

©2022 Calamos Investments LLC. All Rights Reserved.
Calamos[®] and Calamos Investments[®] are registered
trademarks of Calamos Investments LLC.

8556 0822 IR