

GOVERNANCE GUIDE

An overview of public sector retirement plan governance structures and fiduciary principles

INTRODUCTION

Defined contribution (DC) plans are an essential part of employees' long-term financial security. These plans are governed by sections of the Internal Revenue Code (IRC) and must be both carefully designed and administered to remain compliant with the IRC, sound fiduciary principles, and other applicable requirements.

While private sector defined contribution plans, primarily 401(k) plans, are subject to a common set of fiduciary principles under the Employee Retirement Income Security Act of 1974 (ERISA), public sector plans are exempt from ERISA regulations. Instead, they operate under fiduciary rules determined at the state level, which introduce unique governance responsibilities for each plan sponsor. This state-based governance means that, while many public sector plans voluntarily follow ERISA standards, they must still adhere to state-specific guidelines and nuances, which vary across jurisdictions.

This guide provides broad information on governance structures and mechanisms that help plan sponsors manage their plans effectively. While the guidance aligns with general fiduciary principles, it's essential for each plan sponsor to educate themselves on their state's specific regulations to ensure full compliance.



Neither NAGDCA, nor its employees or agents, nor members of its Executive Board, provide tax, financial, accounting or legal advice. Resources released by NAGDCA should not be construed as tax, financial, accounting or legal advice; they are provided solely for informational purposes.

GOVERNANCE GUIDE

CONTENTS

Governance Best Practices - Quick Guide	3
Who is a Public Sector DC Plan Fiduciary?	4
Board and Committees	5
Outside Expertise	8
Plan Design	11
Administrative Policies and Procedures	15

To develop this guide, we assembled a group of experts from across the public plans industry to participate in a Governance Task Force. We are grateful for their valuable contributions and commitment to advance the public sector defined contribution industry.

THANK YOU TO THE GOVERNANCE GUIDE TASK FORCE:

- Stephanie Biddle, Empower
- Dan Freiberg, City of Goodyear, AZ
- Paul Nacario, Innovest
- Wendy Orcutt, City of Ann Arbor
- Al Otto, PlanScope360
- Mo Raihan, New York City Health + Hospitals
- Sarah Reeder, California Savings Plus
- Linda Segal Blinn, Voya
- Brian Simms, Lincoln Financial
- Audrey White, Hyas Group

GOVERNANCE BEST PRACTICES – QUICK GUIDE

Governance and Fiduciary Oversight

- [Establish a Diverse Board Committee](#) - Form governance boards with at least five members from varied backgrounds, including voting members with investment expertise and retired participant representatives.
- [Document Roles and Responsibilities](#) - Define responsibilities in by-laws or a charter, specifying roles by job function rather than individual names to ensure continuity.
- [Conduct Regular Meetings with Minutes](#) - Schedule regular meetings and document discussions, decisions, and follow-up actions in accessible minutes to ensure accountability.
- [Engage Outside Expertise](#) - Consider consultants or investment advisors to supplement internal expertise in areas like investment, education, and compliance.



Use the links to jump to corresponding sections in this guide.

Education and Training

- [Provide Initial Fiduciary Training](#) - Ensure board/committee members receive initial training on fiduciary responsibilities, ethical standards, and plan operations.
- [Maintain Ongoing Education Programs](#) - Offer annual fiduciary training and regular updates on legislative changes to keep members informed of evolving responsibilities.

Participant Communication and Education

- [Develop a Comprehensive Education Program](#) - Educate participants from enrollment onwards on plan options, risk tolerance, retirement income, and financial wellness.
- [Set Measurable Goals for Engagement](#) - Track participation rates, savings behaviors, and contribution allocations to assess the impact of education programs.

Administrative and Financial Management

- [Create a Policy Manual for Operational Clarity](#) - Develop a manual that outlines responsibilities, roles, and delegation processes for effective plan administration.
- [Implement Vendor Due Diligence](#) - Conduct thorough reviews of vendors' services and costs, and maintain documentation on vendor performance and service agreements.

Record Retention and Compliance

- [Retain Key Records Indefinitely](#) - Keep essential documents like plan amendments, contracts, and participant records for long-term governance accountability.
- [Audit Regularly](#) - Conduct annual plan audits with a standardized checklist to ensure compliance and maintain plan integrity.

WHO IS A PUBLIC SECTOR DC PLAN FIDUCIARY?

In the context of a public sector defined contribution plan, a fiduciary is an individual or entity entrusted with specific responsibilities related to the management, administration, or investment advice of the plan. Specifically, a fiduciary of a public sector defined contribution plan is identified as someone who:

1. **Exercises Discretion:** They have the authority to make decisions regarding the plan's management or its assets.
2. **Has Discretionary Authority or Responsibility:** They are entrusted with decision-making powers over plan administration.
3. **Provides Investment Advice for Compensation:** They offer guidance or recommendations on plan investments in exchange for compensation.
4. **Is a Named Fiduciary:** Every plan must have at least one fiduciary explicitly identified by office or by name. Most plans have more than one.

These fiduciaries must act solely in the interest of plan participants and beneficiaries, following standards of conduct established at the state level. They are obligated to act prudently, diversify plan investments, ensure compliance with plan documents, and seek to minimize fees paid by participants.

To ensure effective fiduciary management, individuals assuming fiduciary roles within public sector defined contribution plans should consider receiving appropriate training to understand and fulfill their responsibilities adequately. Additionally, documenting decision-making processes and regularly reviewing service providers are key aspects of prudent fiduciary practices, aimed at protecting the interests of plan participants and mitigating fiduciary liability.



ERISA ALERT – While public sector plans are exempt from ERISA regulations, ERISA fiduciary principles can serve as valuable guidelines for fulfilling fiduciary duties in these plans.

According to ERISA, fiduciaries must:

- Act prudently.
- Act in the sole interest of plan participants and beneficiaries.
- Follow the plan document.
- Diversify investments to minimize the risk of large losses.
- Avoid conflicts of interest.

BOARD AND COMMITTEES

The most common form of plan governance involves the creation of a specialized board (or committee) to assume oversight responsibilities of the defined contribution plans.

Members

Board/committee size varies but is typically between five and nine members. Ensure a diverse composition, drawing from various departments, backgrounds, and employee groups within the defined contribution plan.

Consider supplementing voting member positions with private sector representatives possessing investment or financial service expertise to enhance decision-making capabilities. Additionally, incorporating representatives from the retired participant community can offer valuable perspectives and insights. Strive for a balanced blend of expertise and representation to optimize governance effectiveness.

By-Laws or Charter Documents

These documents are meant to clearly outline items involved in the governance of your plan, such as the individuals or body that is responsible for carrying out plan duties. Members are best identified by job function rather than individually since the faces will change over time.

If there is a governing board, the by-laws may outline the composition of the board, its size, the length of terms served, the frequency of board meetings, any qualifications or expertise that is required, the process for selecting members, and potential attendance requirements. The by-laws should address any issues the plan sponsor considers critical to the successful operation and oversight of the plan, and steps that will be taken to ensure ongoing compliance.

Meeting Frequency

Such boards/committees should meet on a regular basis (e.g., quarterly) and meeting minutes should be taken at each meeting.

Note, if your plan is smaller, it may not warrant a full oversight committee.

Key Responsibilities

- Completing its duties with respect to the plan solely in the interest of the plan's participants and beneficiaries.
- Exercising reasonable care, skill, prudence, and diligence.
- Facilitating and promoting the benefits of the plan among employees and emphasizing the importance of plan participation.
- Designing the plan investment menu and monitoring the investment options.
- Approving plan administrative and investment policies.
- Approving changes to the services and features of the plans.

BEST PRACTICE ALERT



Good meeting documentation is crucial for fulfilling your fiduciary role and ensuring transparency in decision-making processes.

[LEARN MORE](#)

BOARD AND COMMITTEES

- Establishing a member communication and education plan.
- Overseeing and monitoring the delivery of services to the plan in coordination with any established plan goals and objectives.
- Procuring for plan services and evaluating performance of any hired service providers or consultants.
- Providing ongoing input on the plan services being delivered.

Education and Onboarding

Proper education and onboarding are essential for board and committee members to effectively fulfill their roles. Your plan's recordkeeper, consultant, and NAGDCA can provide valuable resources to ensure that members are well-informed about their responsibilities and the governance of the plan.

Key Elements of Education and Onboarding:

The following items should be provided during a welcome meeting for the new board/committee member:

- **Overview of the Plan**
Board and committee members should understand the types of retirement plans available under the Employee Retirement Income Security Act (ERISA). While most public sector plans are not subject to ERISA, the distinctions are helpful for understanding the broader retirement landscape.
 - Defined Benefit Plans: These plans guarantee a specific monthly benefit, usually determined by a formula based on the employee's salary and years of service.
 - Defined Contribution Plans: These plans do not guarantee a specific benefit amount. Contributions are made by the employee, employer, or both, and are invested. The employee's retirement benefit consists of the balance in their account, including any investment gains or losses. Common defined contribution plans include 401(k), 403(b), and 457 plans.
- **Review of Plan Provider and Vendor Responsibilities**
Members should be familiar with the tasks and responsibilities of the plan's service providers, including the recordkeeper, investment consultant, and any additional vendors. A clear understanding of these roles will enable better oversight and decision-making.
- **Summary Plan Description (SPD)**
The SPD is a key document that provides an overview of the retirement plan. It includes details about eligibility, participation, and the benefits available under the plan. While ERISA mandates an SPD for private sector plans, many public sector plans include similar documents for transparency.
- **Investment Policy Statement (IPS)**
The IPS serves as a guide for fiduciaries in making investment decisions for the plan. Ensuring familiarity with this document helps board and committee members oversee investment-related decisions effectively. Learn more about the IPS [here](#).

BOARD AND COMMITTEES

- **Quarterly Plan Review Reports**

Board and committee members should regularly review the quarterly reports provided by the plan's service providers. These reports detail plan performance, investment results, and financial activities. Consistent monitoring helps ensure the plan's health and compliance with governance standards.

- **Fiduciary Training**

Initial training on fiduciary responsibilities is crucial to ensure members understand their duty to act in the best interest of plan participants. This training should cover the legal and ethical standards that apply to plan governance.

Ongoing Education

Regular, ongoing education is essential to keeping board and committee members informed of their evolving responsibilities.

- **Annual Fiduciary Training**

Annual fiduciary training should be conducted by the record-keeper, investment consultant, or legal counsel. This training ensures members remain up to date with their duties and responsibilities. It's important that all training sessions are documented for reference, especially in case of an audit or legal review.

- **Legislative and Regulatory Updates**

Periodic training should be provided on any new legislation or regulatory changes at the federal, state, or local level that may impact the plan. Staying informed of legal updates is essential for maintaining plan compliance and adjusting governance practices as needed.

- **Investment Option Review**

Ongoing education should also include a review of the plan's investment options. Board and committee members should ensure that a diverse range of asset classes is offered to participants and that the plan's investments continue to align with participant needs and risk tolerance.

Oversight Alternatives for Smaller Plans

Not all plans are of a size where they can afford external expertise, but the proper governance of these employers' plans is no less critical. Although a plan board/committee approach is preferred, some smaller plan sponsors may choose to assign the responsibilities to a designated administrator within the employer, and the administrator is then granted the authority to make key decisions for the plan. If there is more than one individual designated, language should be clear around where the various responsibilities and authorities lie.

Due to their lack of internal resources, administrators in this role often rely more greatly on the experience of and the information and guidance provided by the plan recordkeeper. Administrators in this situation should nevertheless provide ongoing scrutiny of all service providers to ensure the proper execution of their oversight role. Further, assigning such duties to an administrator does not relieve the governmental plan sponsor, the primary plan officers and elected officials of their fiduciary responsibilities.



NAGDCA RESOURCES

If your plan is a member of NAGDCA, your board and committee members have access to all of NAGDCA's educational resources.

[EXPLORE RESOURCES](#)

OUTSIDE EXPERTISE

The expertise of board members can vary, and it is often beneficial for both the board and the plan sponsor to hire outside experts. These professionals can assist in ensuring that the board effectively executes its responsibilities in overseeing the plan and making informed fiduciary decisions.

Consultants and Advisors

Hiring consultants or advisors can provide valuable guidance on best practices and industry standards, particularly in the areas of education, plan administration, and fund lineup design and review.

- **Plan Consultants**

Consultants may be engaged to advise on various aspects of plan management, including participant education, plan administration, and ensuring compliance with regulatory requirements. They can also help design or review the investment fund lineup, making sure it aligns with the needs of the participants.

- **Investment Advisors**

A more specialized investment advisor may be responsible for recommending investment menu design, overseeing investment performance, and making recommendations for fund lineup changes. Investment advisors typically work closely with the board, sharing responsibility for plan-level investment decisions. While they may recommend investment actions, ultimate authority and oversight remain with the board members.

- **Investment Managers**

In some cases, the board or plan sponsor may hire an investment manager who assumes full responsibility for selecting, monitoring, and evaluating the investment options in the plan. The investment manager will inform the plan sponsor of its actions and any related investment issues. However, the plan sponsor retains the fiduciary duty of periodically monitoring the investment manager's performance.

It's important to note that in governmental plans, there may be multiple investment providers, and board members need to clearly understand the scope and limitations of an investment manager's duties.

- **Combined Roles**

Some plan consultants also offer investment advisory services, eliminating the need for separate consultants and advisors. Typically, these consultants offer one of three service models based on the level of fiduciary responsibility they assume:

1. **Plan Administrator:** Has discretionary authority over plan administration.
2. **Investment Advisor:** Provides non-discretionary investment advice to the plan.
3. **Investment Manager:** Has discretionary authority over plan management and/or assets.

OUTSIDE EXPERTISE

- **Cost Considerations**

The plan sponsor is generally responsible for covering the costs of outside expertise. These costs may be passed on to participants through the recordkeeper, so it's important to balance the value of these services with their costs.

In addition to their investment and administrative support, plan consultants can assist the board with establishing governance processes. This includes defining roles and procedures, facilitating fiduciary training, and helping the committee follow a prudent decision-making process. Consultants can also assist with organizing regular meetings and documenting fiduciary decisions, such as maintaining meeting minutes.

Classification for Fiduciary, Consultant, and Advisor

Since governmental retirement plans are not subject to the rules of the Employee Retirement Income Security Act (ERISA), board and committee members must be aware that state laws govern their fiduciary responsibilities. These laws can vary significantly by state, so it's crucial for board members to understand the specific regulations that apply to their jurisdiction.

- **Fiduciary**

A fiduciary is a person who, by function or appointment, has the authority to manage plan assets or oversee plan administration. The fiduciary's duties and responsibilities are outlined in state statutes and regulations and must be clearly understood by all board members.

- **Consultants**

As noted earlier, plan consultants help plan sponsors and committees address plan issues in a prudent and informed manner. It is essential to thoroughly understand the consultant's role, duties, and the scope of their services, as outlined in their contract. Additionally, consultants must disclose any potential conflicts of interest.

- **Advisors**

Advisors may provide advice to either the plan or its participants.

- **Conflicts of Interest**

Plan committees should be particularly mindful of conflicts of interest. For registered investment advisors, the [SEC Form ADV Part 2](#) requires full disclosure of all conflicts. A prudent plan committee will address these conflicts and take steps to mitigate them to ensure they do not negatively impact plan participants.

OUTSIDE EXPERTISE

Investment Advice to Plans

Plan advisors may offer non-discretionary investment advice, meaning they make recommendations to the plan committee but do not have authority over plan-level decisions. In this case, the committee retains responsibility for implementing the recommendations. If an advisor provides discretionary advice, they are considered an investment manager, and they assume responsibility and liability for selecting, monitoring, and evaluating the plan's investment options.

Investment Advice to Participants

Participants in the plan may also receive investment advice, which can come from various sources:

- **Independent Third-Party Advisors**

Independent financial advisors provide unbiased guidance to plan participants. They are typically representatives of an SEC-registered investment advisory firm and do not sell products, helping to avoid conflicts of interest. These advisors work under a formal contract for services with participants.

- **Registered Representatives**

These individuals are licensed to sell commission-based financial products, such as mutual funds or variable annuities. They receive commissions based on sales, which can sometimes lead to conflicts of interest, as their recommendations may be influenced by compensation.

- **Insurance Agents**

Insurance agents are licensed to sell products manufactured by insurance companies, such as annuities or life insurance policies. Similar to registered representatives, their compensation is based on commissions from sales.

- **Managed Accounts**

Managed accounts involve a professional money manager making active investment decisions on behalf of the participant. The manager is responsible for adjusting the portfolio according to the participant's risk tolerance, financial goals, and overall asset size. There is usually a fee for this personalized service.



PLAN DESIGN

Plan Document

Governmental employers have the option to sponsor different types of retirement plans, including a 401(a) qualified plan, a 457(b) deferred compensation plan, or a 401(k) plan (if established before May 6, 1986). Public schools, hospitals, and health systems, as governmental entities, are eligible to sponsor a 403(b) tax-deferred annuity plan.

The IRS requires that each of these retirement plans be maintained by a “written plan.” While IRS guidance allows for a collection of written documents to fulfill this requirement, most employers choose to adopt a formal plan document to ensure compliance with IRS standards.

The plan document serves as the blueprint for the features and benefits of the retirement plan. It must align with the applicable provisions of the Internal Revenue Code (IRC) and IRS guidance. A key provision in this document mandates that plan assets be held in trust or a similar custodial arrangement exclusively for the benefit of plan participants and beneficiaries. This rule also applies to any investment products associated with the plan.

Failure to administer the plan in accordance with its terms can jeopardize the plan’s federal tax-qualified status, leading to potential tax consequences for participants and beneficiaries.

IRS Approval of Plan Document

Securing IRS approval of your plan document can provide reassurance that the plan complies with federal tax laws. However, a favorable IRS determination letter does not guarantee compliance with the operation of the plan as outlined in the plan document, federal law, or IRS guidance.

There are two types of plan documents, each with different pathways for IRS approval:

- **Individually Designed Plan:** Employers, often in consultation with legal counsel, may create a plan document tailored to their specific plan design needs.
 - In certain situations, employers may submit a 401 or 403(b) plan to the IRS for a favorable determination letter. This requires a user fee and verification that the document meets current federal laws and IRS regulations.
 - A governmental employer may also request a private letter ruling from the IRS confirming that its 457(b) plan complies with regulatory requirements. This request also requires a user fee.
- **Pre-Approved Plan Document:** A service provider or law firm can submit a 401 or 403(b) plan to the IRS for an advisory opinion letter, typically every 6 years, to confirm the plan complies with current federal laws and regulations. Employers using a pre-approved plan must operate it without deviations from the pre-approved document terms.
 - As of now, the IRS does not offer a pre-approved plan document program for 457(b) plans.

PLAN DESIGN

Key Plan Document Provisions

A plan document must clearly outline all material terms relevant to its operation. Organizing the document into logical sections ensures all required and optional plan features are covered. Typical sections include:

- **Plan Background:** This section outlines the statutory authority establishing the plan, the status of the document (amendment or restatement), effective dates, and applicable IRC sections (457, 401, or 403(b)).
- **Definitions:** Clearly defines key terms used throughout the document to avoid ambiguity.
- **Eligibility and Participation:** Specifies who is eligible to participate and under what conditions, including:
 - Eligibility criteria, such as age or service requirements
 - Periods of participation and the impact of certain events like leaves of absence, military service, and reemployment on eligibility.
- **Contributions:** Describes the types of contributions permitted, including:
 - Whether pre-tax and/or Roth contributions are allowed (applicable to 401(k), 403(b), and 457(b) plans)
 - Any after-tax or employer contributions
 - Vesting schedules for employer contributions
 - The ability to defer leave or vacation pay
 - Contribution limits (e.g., IRS deferral limits, age-based catch-up contributions, special 457 catch-up provisions)
 - Acceptance of rollovers and plan-to-plan transfers
 - Correcting excess deferrals or contributions.
- **Investments of Contributions:** Outlines who determines investment alternatives, how participants make investment elections, and what happens if no election is made.
- **Accounting:** Details how participant accounts are maintained, including:
 - Tracking contributions from employees, beneficiaries, and alternate payees
 - Segregating pre-tax, Roth, employee, employer, and rollover sources
 - Handling forfeited employer contributions for non-vested participants.
- **Distributions:** Specifies the conditions under which distributions are available, such as:
 - Events triggering access (e.g., termination of employment)
 - In-service withdrawals for hardship, unforeseeable emergencies, or birth/adoption (in line with the SECURE Act)
 - Distribution forms (e.g., lump sums, installments, or annuities)

PLAN DESIGN

- Required Minimum Distributions (RMDs)
- Rollovers to other eligible plans
- Special provisions for beneficiaries and alternate payees, including those subject to Qualified Domestic Relations Orders (QDROs) and rules for military leave.
- **Portability:** Details when participants can access their account even without distribution eligibility, including:
 - Service credit purchases
 - Loan provisions and terms
 - Plan-to-plan transfers.

Amending a Plan Document

Employers must ensure that plan documents are kept current with federal laws, IRC provisions, and discretionary plan design changes. Amendments to 401 and 403(b) plans are generally required:

- Every six years for federal law and IRS guidance updates
- By the end of the plan year in which a discretionary feature is introduced, unless otherwise specified by law.

Amendments to 457(b) plans must typically be made by the last day of the plan year in which they take effect unless otherwise dictated by legislation.

Investment Policy Statement (IPS)

Fiduciaries are required to diversify plan investments to minimize risk. An Investment Policy Statement (IPS) provides guidelines for the selection and monitoring of investments. The IPS should define acceptable investment types, standards for reviewing funds, performance metrics, and guidelines for making changes.

The IPS should also outline the authority of investment consultants, if applicable, and their level of oversight.



PLAN DESIGN

Communication and Education for Plan Participants

In participant directed plans, effective plan design as well as ongoing education and advice are essential if participants are to make well-informed decisions. Offering such programs is a way of minimizing the plan sponsor's fiduciary risk, while increasing the likelihood of adequate retirement savings for plan participants.

One of the best practices in employee education is to offer plan participants a comprehensive education program, beginning at enrollment. As more plans utilize automatic enrollment, a good enrollment program includes a description of the plan defaults, key dates, and clear information on how a participant can take action on their account.

Plan sponsors should also review plan design alternatives to assist participants in saving for retirement. A combination of great plan design and investment information will provide participants with the opportunity to make informed investment decisions for retirement savings.

In terms of ongoing education, best practices are varied, depending on the employer's assessment of their workforce's needs, as well as the methods devoted to ongoing education. At a minimum, ongoing education programs should provide general information about savings rates, risk and reward, and asset classification. The programs can be delivered in a wide range of media and on a range of topics:

- Overview of plan benefits and investment options
- Investment education, including risk tolerance and asset allocation
- Retirement income projections and planning
- Social Security and Medicare education
- Estate planning and beneficiary designations
- Financial wellness education, including budgeting and debt management
- Engaging plan participants

Measuring Success

Plan fiduciaries should set specific objectives and measurable results for their education and advice programs. Plan fiduciaries should also examine high-level measures to gauge the success of their plan — including plan participation rates, savings rates, and asset allocations and contribution allocations for investments.

Plan fiduciaries are most successful coupling effective plan design with their education programs when they set goals for specific behavioral change among targeted groups—for example, getting nonparticipants into the plan, low savers to increase deferral rates, or participants who are invested too conservatively or too aggressively to take steps to diversify their portfolios.

ADMINISTRATIVE POLICIES AND PROCEDURES

Policy Manual

A policy manual is an operational guide that outlines who is responsible for carrying out the various administrative responsibilities running smoothly. Roles and responsibilities are clearly defined and, where appropriate, it can reference the responsibilities that are being delegated to the plan provider or recordkeeper.

Additional Governance Documents

Plan documents are important to structure decision-making processes. Below are examples of additional documents that may be helpful in defining the rules, regulations, roles, and relationships, and also set the why and when around the plan's steps forward.



1. Board Meetings and Documentation

The governance of defined contribution plans benefits from structured, transparent board meetings. Proper documentation and adherence to formal meeting procedures ensure accountability and effective oversight. Key elements include:

- Meeting Schedule and Agenda: Board meetings are typically held on a regular basis (e.g., quarterly). Agendas, distributed via email a week before each meeting, should follow a standardized template. Consent agendas may include routine items reviewed by board members in advance, streamlining meeting discussions.
 - [Click here](#) to download a sample meeting agenda.
- Meeting Minutes and Documentation: Minutes should be taken at each meeting and uploaded to a secure location accessible to all board members. Minutes must capture key discussion points, decisions made, and action items to ensure future reference and continuity. Tracking follow-up actions is recommended. (Consideration: Establish clear roles for board members in reviewing and approving minutes.)
- Board Elections and Roles: Election processes and board position requirements should be documented, specifying terms, eligibility, and election procedures. Records of election notifications and outcomes should be maintained as part of the plan's governance documentation.

2. New Participant Onboarding and Termination Procedures

Proper onboarding and termination protocols are crucial for maintaining participant records and compliance. This includes:

- Authorized User Setup and Training: New participants should receive training on retirement plans conducted by the recordkeeper or designated personnel. Authorized users should be set up in the system with appropriate access credentials and responsibilities.

ADMINISTRATIVE POLICIES AND PROCEDURES

- Termination and Forfeiture Processing: Procedures should address the handling of terminated employees' accounts, including forfeiture processing for non-vested balances. A clear checklist can ensure compliance with the vesting schedule and proper recordkeeping. (Consideration: Outline steps for tracking vested amounts and re-allocating forfeited funds as per IRS rules.)

3. Participant Distributions and Approvals

The procedures for processing participant distributions, particularly for in-service and separation distributions, should be well-defined. Elements include:

- In-Service and Separation Distributions: Eligibility for in-service distributions (e.g., at a specified age) and separation distributions should be outlined with approval requirements. Separated employees who have taken prior distributions may not need further trustee approval, but a final check for forfeitures should be completed.
- Disability and QDRO Processing: Permanent occupational disability distributions and Qualified Domestic Relations Orders (QDROs) should involve coordination with legal counsel, if applicable, to ensure compliance and tax treatment. Forms and documentation should be processed efficiently to support participants.

4. Plan Audit and Compliance Procedures

Annual plan audits are vital for maintaining compliance and financial integrity. Audit procedures should include:

- Auditor Contact and Documentation: Maintain updated contact information for the audit firm and a list of required documentation. A standardized audit checklist ensures that all necessary documents and procedures are in place for review.

5. Financial Management and Budgeting

Effective governance requires strict financial controls and budgeting processes:

- Banking and Invoice Processing: Contact information for banking and financial institutions should be readily accessible. Procedures for preparing and approving invoices, paying expenses, and maintaining transaction records are essential for budget control. Monthly and annual reviews ensure adherence to budgetary guidelines.
- Budget Reporting and Analysis: A comparison of actual expenses versus budgeted amounts should be presented periodically to the board. This transparency supports accountability and effective financial planning.
- (Consideration: Include any thresholds for expense approval, if relevant.)

6. Vendor Due Diligence and Contract Management

A process for selecting and overseeing vendors is essential for plan administration. This includes:

- Vendor Selection and Oversight: The board or designated personnel should conduct due diligence on potential vendors and negotiate contracts. Ongoing oversight and evaluation of

ADMINISTRATIVE POLICIES AND PROCEDURES

vendor performance ensure that service levels meet plan requirements.

- **Authorized Signers and Contractual Authority:** Authorized signers should be designated, and their responsibilities clearly defined. Regular review of vendor agreements ensures continued compliance and relevance.

7. Record Retention and Documentation

Proper record retention supports the plan's long-term accountability and operational integrity. Retention practices include:

- **Administrative Records:** Indefinite retention of critical documents, such as plan documents and amendments, service provider contracts, election records, and evidence of fiduciary decision-making, is recommended. This includes maintaining Annual Plan Reviews and records of participant education efforts.
- **Participant Records:** Participant and beneficiary records should be retained until accounts are fully distributed, with industry best practice favoring indefinite retention of certain records. Electronic systems can support beneficiary tracking and updates.
- **System and Access:** Access to records and other secure systems should be documented to ensure that records are readily accessible to authorized personnel.
- (Additional Note: A policy for routine reviews of retention practices can ensure compliance with any state-specific requirements.)

Recordkeeper Responsibilities

The role and responsibilities of the recordkeeper can depend on the services established between the plan and the recordkeeper. The plan contemplates what services they want to maintain while evaluating what is offered through the recordkeeper. Recordkeepers track participant information like account status, balances, contributions, and all transactions that occur as well as overall plan information. Often, recordkeepers provide participant communications and education.

The [chart on the following page](#) outlines some of the service responsibilities that can be administered by the recordkeeper and those that can be administered by the Plan Sponsor, if they prefer. Additionally, it details services that can be shared or handled by both the recordkeeper or the Plan Sponsor.

Not all services are included in the recordkeeping cost and some services may have additional fees. The services will be established in the administrative service agreement with the recordkeeper. It is important to ask your recordkeeper what services are being provided and their related costs. For more information you can reference the [NAGDCA Fees Guide](#).

Other service considerations include the role of a Fiduciary and the responsibilities of the designation. To learn more, refer to section four, [Outside Expertise](#).

ADMINISTRATIVE POLICIES AND PROCEDURES

SERVICE	Recordkeeper	Plan Sponsor	Either
Contribution processing	x	x	x
Monitor deferral limits	x	x	x
Monitor vesting, if applicable	x	x	x
Loan processing	x		
Approve incoming rollover contributions	x		
Distributions approval	x		
Required minimum distributions	x		
Unforeseeable Emergencies approval	x	x	x
Outgoing rollover distribution approval	x		
QDRO approval and processing	x	x	x
In-service distribution approval	x	x	x
Beneficiary recordkeeping		x	x
Statement production and delivery	x		
Investment lineup establishment		x*	
Access to fund prospectus	x		
Provide historical fund performance	x		
Provide general investment education	x		
Investment lineup change including participant communication	x		
Communication	x	x	x
Education	x	x	x
Financial wellness	x	x	
Managed accounts	x		

*Typically, in conjunction with a third-party consultant or fiduciary service.

ADMINISTRATIVE POLICIES AND PROCEDURES

Plan Record Retention

It's a good idea for plan sponsors to retain indefinitely critical documents that demonstrate the effective management and administration of the plan including:

A copy of every version of the plan document, including amendments and adoption agreements, should be kept for at least six years after the termination of the plan.

Signed contracts with service providers, including any updates or amendments that may have taken place over time, should be readily available, along with any communications to plan participants regarding plan changes or amendments.

Evidence of the selection process of Committee members that was used, including filling vacant spots on the committee, should be retained, along with meeting notes.

It is also a good idea to retain evidence of steps taken to review and monitor plan services delivered, including the educational outreach efforts to plan participants, their outcomes, and the performance of the investment line-up. This may be accomplished each year through the careful review of a detailed Annual Plan Review, or similar document, from your plan recordkeeper, which may store much of this information in a single document.

You should also check whether state or local laws identify specific time periods for retaining plan records.

Participant Record Retention (including Beneficiary Data)

While the Department of Labor (DOL) does not have specific requirements regarding the retention of participant records, in particular participant beneficiary records, a common practice is to retain all participant records at least until the account has been totally depleted, either through extended benefit payments or transfer to another plan or IRA. Even then, industry practice is often to retain beneficiary records for an unlimited period of time. As with other plan administration functions, the plan sponsor may delegate record retention to the plan recordkeeper.

If there is no paper trail of a beneficiary designation, the plan may rely heavily on electronic communications and confirmations to plan participants. Therefore, the Plan Document should provide clear guidance on the designation of a default beneficiary, in the event participants fail to make a selection upon enrollment. To ensure participants are aware of the beneficiary designation they have on record, steps such as posting current beneficiaries on participant statements and providing participants with written confirmations of all beneficiary record changes, help to ensure that participant records remain up-to-date and accurate.

You should also check whether state or local laws identify specific time periods for retaining certain types of participant records.