

TPS



BROKER SERVICE ALERT

Investment Policy Statements

In our continuing efforts to help serve investment professionals and plan sponsors, we have developed three service alerts focusing on the importance of having an investment policy statement for retirement planning. This issue has been evolving for more than 7 years and has now reached the forefront in our industry.

What is an investment policy statement?

An investment policy statement is a formal, written document outlining the procedures and requirements used in selecting a plan's investment options. It also provides procedures for the evaluation of investment performance.

Is an investment policy statement necessary?

Yes. The reasons include:

1. The first question the Department of Labor [DOL] typically asks a client in their field audits is "do you have an investment policy statement?" If not, they will inquire as to how they have documented their policy.
2. The plan sponsor is always a fiduciary. A plan fiduciary can be held **personally liable** for imprudent investments. Therefore, it is imperative that clients develop this statement to protect both their plan and themselves.
3. Pension attorneys, as well as our firm, insist that clients have an investment policy statement to protect themselves.
4. If a client is challenged in court they will need to produce evidence that the course of action the plan took was appropriate and prudent. Without a policy and procedures, they will have nothing to help their case.
5. The Center for Fiduciary Studies, the nation's preeminent source on fiduciary legal matters, states that the statement is "**the most important function a fiduciary performs**". . Since your client is a fiduciary, this is something they must complete. In addition, the Center recommends that this process have the oversight of an independent third party.
6. Finally, how can any system work without a policy and a procedure? Your client could not run their business without literally dozens of policies and procedures. An investment policy statement may be the most important policy they ever develop.

What else is involved in developing an Investment Policy Statement?

A "boilerplate" approach will not protect your client. The Center for Fiduciary Studies reports that policies must be custom tailored to each plan. In addition, a separate section must be included to administer the appropriate procedures for the policy. This includes implementation, monitoring, appropriate adjustments, employee education and communication. Review, by an independent third party, is also highly recommended to insure that the overall process is complete. In addition, all of these steps must be properly documented. As you can see, this is a complex issue and process.

TPS is committed to providing you the best and most timely information helping serve your clients in a prudent and professional manner.

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