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Retirement Plan Management: Exception Management & Replacement

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You Can't Manage What You Don't Measure

No one likes to receive or deliver bad news. In prior editions of this column, we discussed standards-based benchmarking of retirement plan investments, based upon returns realized, risks taken and expenses paid in the management of investment-based employee retirement plans.

After the last few years of market upheaval, economic uncertainty and the bad acts of certain institutions and individuals, it is ever more important to have policies, processes, procedures and prac-

tices to ensure that 401(k), 403(b), 457 and other corporate retirement plans operate in an effective, efficient and ethical manner.

Given the creation of a quarterly performance report based upon objective standards and accurate data, you will be presented with a series of graded or pass/fail results for each of the plan's investment options.

As you review the report's noted exceptions to the plan's investment policy, it's then time to develop procedures for escalation, remediation and possible replacement of investment options.

Understand the Issue

The first step is to understand the exception and the reasons for the failure of the investment fund or product to meet your minimum needs. Why did it happen? Was it due to a change in the fund management, a misplaced "bet" on the markets, or perhaps a deviation from the stated objective or style of the fund? Ask your broker or consultant to explain the exception. They should bring this information to you as part of your exception report. If a conversation with your retirement service provider, insurance company or mutual fund is in order, do not hesitate to pursue a full understanding of the failure

and don't be put off with excuses.

Develop Alternatives

If, after a period of time on a "watch list" (usually several quarters or more), the investment fund may be determined to be suitable for replacement. During that time of close oversight, the prudent investment committee will have developed alternatives for consideration and replacement. In today's environment, modern technologies and trusted, objective professional support makes possible "open architecture" and the efficient administration of retirement plan assets provides for the use of active and index mutual funds, enhanced return strategies and Exchange Traded Funds (ETFs).

Take Action

The worst thing a CFO can do is benchmark a vendor's performance, identify long-term performance deficiencies, and then not take action. If you find a better alternative, plan the replacement and then communicate the decision with your plan participants – you will be doing the right thing, the right way.

Your retirement plan vendor/service provider, your broker or consultant should all be engaged to provide your plan participant, eligible employees and staff with a

stress-free and educational experience through the process of replacing plan investment options.

**Something New Next Month:
“Prudent Investment Practices for Foundations & Endowments”**

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