



# **U.S. Retirement Plan Governance Risks & Responses**

**2011 Towers Watson Retirement Plan Governance Survey**

**June 2011**

# About the 2011 U.S. Retirement Plan Governance Survey

- The Towers Watson Governance Survey was conducted from April through mid-May, 2011
- Reports on three main topics
  - What are the current issues and expectations of plan sponsors?
  - What plan management strategies have been adopted to reduce fiduciary and organizational risk and measure plan effectiveness?
  - What governance structure and practices are plan sponsors using to fulfill their fiduciary and plan management responsibilities?

245 employer responses, primarily Fortune 1000 and P&I 1000 companies

- Broad range of industry sectors
- 81% sponsor both DC and DB plans

# What is Good Governance?

## Good Governance Helps Employers

- Maximize benefit values at reasonable costs
- Meet fiduciary responsibilities
- Support regulatory requirements
- Minimize lawsuit risks and negative press

## Detailed Policies

- Metrics for accountability
- Documentation of decisions

## Procedures

- Compliance with governmental requirements
- Efficient (value)s

## Right People

- Committed and skilled
- Internal or delegated (outsourcers, vendors, etc.)



# Why Good Governance of Retirement Plans is Increasing in Importance

- Recent court decisions reinforce value of well-documented decision making
  - The Supreme Court's decision in **Cigna** highlights need for clarity in communicating plan amendments
  - The Seventh Circuit's decision in **Kraft** illustrates importance of having market comparisons for negotiating fees
  - The **Tibble** District Court decision suggests a duty to ask vendors probing questions
- Pending DOL regulations require appointment of “responsible plan fiduciaries” to select and monitor vendor fee reasonableness and service quality
- Increasingly, the DOL is regulating through new disclosure requirements
  - While vendors will typically own fulfillment and take the lead in drafting, employers can manage risks and add value through employer branding by carefully considering when to modify and supplement what vendors automatically provide

# Overview of Survey Findings: Cost, Regulatory Complexity and Risk Management Continue to be Major Challenges

- Plan sponsors identified these top challenges to their retirement plans
  - Benefit costs
  - Regulatory complexity
- These challenges come with three major risks
  - DB and DC plan investment volatility
  - Regulatory compliance
  - Vendor service quality
- In response, many plan sponsors intend to increase their governance budget by spending more time and resources on governance issues over the next two years

# Overview of Survey Findings: Inconsistent Use of Risk Management Strategies

- Although regulatory complexity and compliance are major concerns, relatively few plan sponsors are proactively addressing them
- Only about half of plan sponsors have adopted specific metrics to measure the effectiveness of many aspects of their retirement plans
  - Specific metrics are more common with DB than DC plans
- Governance documentation of some fiduciary processes is prevalent, but some important fiduciary issues are not being addressed
  - A majority of respondents have adopted a committee charter, keep committee minutes and have adopted an investment policy statement
  - But a large percentage of respondents have not adopted a fee allocation policy and do not keep records of decisions regarding plan interpretations
- A majority of plan sponsors don't regularly educate committee members on plan or fiduciary matters and don't have an "ERISA expert" regularly attend meetings
- While a majority of respondents are very concerned with compliance, only 26% regularly schedule compliance reviews
  - Most wait until issues are identified rather than proactively seek to avert them

# Overview of Survey Findings: Current Governance Structures Vary in Design and Effectiveness

- The board or a board-level committee appoint committee members 50% of the time
  - Board level involvement in committee appointments may increase fiduciary risk
  - Chief HR and CFO positions are the most frequent positions on governance committees
- About half of respondents use one committee for all retirement plan governance where all members support all governance activities
  - 75% of the other half have separate committees for investments and administration
- 80% do not have separate committees for their DB and DC governance
- Committee specialization correlates positively with greater use of risk management tools such as:
  - More use of metrics to measure effectiveness of decision-making
  - Increased use of documented policies
  - More training
  - Increase in inclusion of persons with special ERISA expertise in meetings

## For More Information

- For more detailed information about the survey findings, please contact your local Towers Watson consultant, or call Towers Watson at 800.388.9868.
- A more in-depth report will follow in the coming weeks.