FEATURE

10 Steps to Better Plan Committee Meetings

Members of NAPA's Leadership Council talk about how an advisor can help.

BY JUDY WARD

A good plan advisor is gifted in the skills of diplomacy, says Paul D'Aiutolo, NAPA's President-elect for 2016-2017. "And my definition of diplomacy is, I want to get the committee to do what I want them to do, but to let them think that it was their idea," he adds.

D'Aiutolo offers a recent example of a client that he knew needed to focus more on participants' retirement readiness and make plan design changes to help improve their outcomes. But D'Aiutolo — Rochester, NY-based founding principal of the D'Aiutolo Institutional Consulting Team, a member of UBS' Institutional Consulting and DC Advisory groups — didn't try to push plan design changes on the committee. Instead, he proactively asked the plan's recordkeeper to run a report on the retirement readiness of participants age 55 and older, and with 10 or more years of service. Then at a meeting, he discussed the results and gave the committee the report, which incorporated readiness data on more than 300 of the company's 1,800 employees.

As the committee members quickly saw, the report revealed that many older employees were in bad shape for retirement. "Some of the committee members got a little ashen in their faces, and said things like, 'Oh my god, we have got people who have been here forever, and they only have $8,000 in their account," recalls D'Aiutolo. "When I introduce a report like that, the committee is not going to immediately say, 'We have to make plan design changes now.' But there will start to be internal champions on the committee." At subsequent meetings, as these champions bring up the need to improve participants' retirement income adequacy, he responds by talking about plan design changes that help — the changes he has known all along the committee needs to make.

D'Aiutolo and five other members of NAPA's Leadership Council talked about how advisors can help committees have more-effective meetings. The result: the following 10 basic elements of running successful committee meetings.

> "When working with new clients, we find that a lot of committees don't have a process for making decisions: They're flying by the seat of their pants."
>
> *— Jamie Greenleaf, Cafaro Greenleaf*

1. Help Find the Right Committee Members

A good place to start is helping to get the right people on the committee, recommends Samuel Brandwein, NAPA's 2016-2017 President. Brandwein, Boca Raton, FL-based vice president and 401(k) consulting director at Morgan Stanley, suggests advisors break that down for sponsors into three main considerations. "Number one is that sponsors need people who are going to be engaged as committee members," he says. "These are people who don't feel like they're being forced to be on the committee, who are enthusiastic about serving on the committee, and recognize that it is a serious responsibility."

Second, Brandwein says committees need members with an intellectual curiosity and a willingness to learn about plan-related issues. "Most people who are joining committees are not investment experts or experts on fiduciary policies," he says.

And third, committees need members with diverse skill sets, which helps lead to well-rounded decisions. "If you have a committee that is just four people from finance or four people from HR, it is not as good as if you have one person from finance, one person from HR, one person from sales and marketing, and one person from operations," he says.

2. Define the Plan's Mission

Many committees don't spend enough time defining upfront what they want their retirement plan to accomplish, Jamie Greenleaf finds. "So we help committees put together a mission statement," says Greenleaf, lead advisor and principal at Cafaro Greenleaf in Red Bank, NJ. "Usually, it is not even a one-pager: the shorter, the better," she says. "The committee is answering the question, 'What are we hoping to accomplish?' It helps focus people. That helps especially when you are dealing with both finance people, who are looking at the retirement plan from a dollar perspective, and HR people, who are looking at it from a human standpoint."

Defining the mission upfront with a new client provides clarity on the work a committee needs to do, says Alex Assaley, managing principal at Bethesda, MD-based AFS 401(k) Retirement Services. "We start with a blank canvas and say, 'What is it that you want this benefit to do for your employees and your company?' And then we reverse-engineer the process from there," he says.

Once D'Aiutolo has helped a new client define its goal for the 401(k) plan, his team gathers data that helps the committee better understand its workforce demographics. "We try to identify, 'Who is your core employee?' and we define that in terms of average age and average wage," he says. At many employers, he says, three-quarters of employees fall within a narrow demographic range, and committee members need to make plan design decisions with those demographic averages in mind. "If the average employee is 48 years old and makes $52,000 a year, then your goal becomes to get that average employee to replace 35% to 45% of his or her final income in retirement," he says, since Social Security likely will replace another 30% to 40%. "You utilize that as the baseline for making decisions."

3. Develop Annual Strategic Goals

With the overall mission defined, Assaley recommends discussing with the committee near each year's end a strategic plan for making progress in the upcoming year. "Help them identify what the priorities are for the retirement plan in the next year," he says. "Then you can use that strategic plan as the focus for your discussions throughout the next year's meetings. As opposed to saying, 'At every meeting, we will spend 45 minutes talking about investments and 30 minutes talking about participation data,' we focus meetings throughout the year on topics that align with the strategic objectives."

Assaley cites several strategic goals he has seen committees commonly identify for 2017:

- understanding and preparing for the Department of Labor's fiduciary rule;
- protecting their plan from potential participant lawsuits focused on fees or revenue sharing;
- developing financial wellness programs that improve employees' financial literacy and financial decision making; and
- looking at adding benefit programs that work in conjunction with the retirement plan's goals, such as a student-loan repayment program that helps younger employees free up more money to save for retirement.

4. Educate Members on Fiduciary Basics

To make sound decisions, committees need to understand how to do so consistent with their fiduciary obligations. "I make it very clear that as fiduciaries we always need to think of the 'Golden Rule': We have a fiduciary responsibility to only do things that are in participants' best interests," says Michael Perry, president of Dallas-based Retirement Advisors, LLC. "So that's my opening line for every committee meeting: 'We are here to review the investments and operations of the plan — and remember that as fiduciaries, we have to make decisions that are in the participants' best interests.'"

In addition to educating committee members on the fundamentals of fiduciary duties, Greenleaf also helps new clients set up a prudent committee decision-making process. That means having something in writing that describes, step by step, how the committee will make fiduciary decisions such as investment changes and provider selections. "When working with new clients, we find that a lot of committees don't have a process for making decisions: They're flying by the seat of their pants," she says. "Committees need a process that is repeatable and unbiased, so that if the plan were sued years later, committee members could go into a court and truthfully say, 'This is the process that we use to make decisions, and we use the same process every single time.'"

5. Structure Each Meeting's Topics in Advance

Good advance planning by an advisor

> "I try really hard not to get frustrated when a committee is not making the right decisions."
>
> *— Michael Perry, Retirement Advisors, LLC*

pays off in a more-focused discussion by committees, says Jeb Graham, Tampa-based partner and senior investment consultant at CapTrust Advisors, LLC. CapTrust does an annual fiduciary calendar for every client, so that committee members start each year aware of when they can talk in depth about important topics. "That's the key: Committee members know ahead of time what will be discussed at each meeting," he says. Typical fiduciary calendar topics include an investment policy statement review, fee benchmarking, evaluating whether the plan still has the right QDIA for that plan's participants, and a plan-design review.

CapTrust also plans the discussion topics for each meeting beforehand. "Every one of my clients gets an agenda a week in advance of a meeting," Graham says. "I go through the minutes from the committee's last meeting and cross-check that with the fiduciary calendar, and then I know what topics need to be discussed at the next meeting." He does a tentative agenda and sends it to the committee chair, makes any needed revisions, and then the agenda gets distributed to each committee member.

At the meetings, Graham takes responsibility for keeping a committee's time management on track. "Make sure that you are taking on a leadership role at the meetings. That is part of what they are paying you to do, whether that is stated or not," he says. "If you don't help the committee manage the time well, that's going to come back on you." What happens if the committee starts getting bogged down discussing a topic? "I might remind them, 'Okay, we only have 30 more minutes and we have to cover all these other agenda items, so maybe we can schedule a follow-up call to discuss this,'" he says.

6. Gently Guide the Discussion

At meetings, advisors need to help steer a committee's decision-making without dominating it. "These committee members are all very smart people who are good at what they do," Graham says. "As an advisor, you have to walk a fine line between leading them and telling them what to do."

Brandwein strikes the right balance by always keeping the conversations interactive. "If I'm presenting to a committee and it's just me rambling on, that's less effective than if I speak for five minutes and then stop to see what thoughts or questions the committee members have, before continuing," he says. "I'm constantly pausing to get their thoughts and their input."

Advisors need to lead while being patient with a committee's reactions about making changes, Perry says. "I know where a plan needs to go, but it is not always easy to convince a committee to make changes. I try really hard not to get frustrated when a committee is not making the right decisions," he says. "I recognize that I'll be back again soon, that I'll have this discussion again with the committee then, and maybe the committee will be more receptive. The more times you come back at them, the more they start hearing you."

And for reluctant committees to truly hear, advisors need to understand how to appeal to the decision-making instincts of different committee members. "Know your audience," Perry says. "There are some people in the room who will want a quantitative illustration of what you're discussing, and others who will deal on emotion. You need to know how to gently guide each of those groups to their decision."

7. Make the Complex Simple

Helping simplify complicated issues for committee members is a core part of an advisor's job at meetings, Graham says. "Part of that role is to make complex things intuitive, to help the committees make their decisions in an informed way," he says. "Some advisors want to make the simple seem complex, so that they can justify their fee or show the sponsor how much smarter they are. At the end of the day, it backfires on you if you get 'in the weeds' too much. You need to make the complex simple."

Keep in mind that advisors may encounter certain committee members who "like the details and need to get more granular," Graham says. "My approach to this is to isolate that conversation away from the meeting in a one-on-one discussion."

When talking about potential fund changes, D'Aiutolo doesn't overwhelm a committee by discussing a lot of technical investment analytics or a large number of replacement fund choices. For example, at a recent committee meeting he talked about potential replacements for three funds on the plan's investment menu. He brought a copy of the report with his team's in-depth analysis of replacement options, but he gave committee members a more-concise report called "Mutual Fund Search."

"I told them, 'We have identified two potential alternatives to each of those three funds. We have pre-reviewed these funds, and also checked with your recordkeeper to make sure they are available on its platform," D'Aiutolo says. "A lot of times we will rank the two fund choices as number one and number two, to make it easy for the committee members."

Then D'Aiutolo walked committee members through a chart comparing data on five key criteria for each of the two pre-reviewed options in the three asset classes: management tenure; expense ratio; 1-, 3-, 5-, and 10-year performance; standard deviation; and the UBS proprietary score for each fund, as well as the Morningstar score. "That makes it pretty simple and understandable for committee members to make decisions," he says. "And there's the 80 other data points in the longer research report, if we have someone on the committee who wants to challenge us on something more complex like Sharpe ratio."

8. Prevent Investment Myopia

When talking about investments, Greenleaf says, committees often spend too much time zeroing in on short-term performance data. "Everybody is second-guessing things like, 'Why didn't this fund outperform the index last quarter?'" she says. "They are focusing on the leaf in the forest — investment performance — as opposed to the forest. They need to spend more time thinking about how an investment fits into the overall menu, about usage or lack of usage by participants of an investment, and about how much an investment is helping participants with their retirement outcomes."

> "If you don't help the committee manage the time well, that's going to come back on you."
>
> *— Jeb Graham, CapTrust Advisors, LLC*

Asked how he helps committees look at investments holistically rather than focus on short-term results, D'Aiutolo says that his team doesn't spotlight quarterly performance when doing investment reviews at meetings. "We focus on 3-, 5-, and 10-year performance, and we focus on a fund's percentile ranking for funds in that asset class," he says. "We train our committees that if they can have funds in the lower third of expense ratios compared to peer funds, and with better than 50th-percentile performance over 3, 5, and 10 years, they usually have put together a menu that will help participants achieve the results they need." His clients also have passive funds for core asset classes on the menu, for participants seeking performance that matches indexes.

Over the years, Perry has learned how to talk committees down from making rash fund changes. "This is not a short-term race, it is a long-term race, and even the best managers are going to underperform in the short term sometimes," he says. "I tell them, 'We hired somebody initially because that fund met the criteria of your investment policy statement. Just because there is somebody out there who's short-term hotter, that doesn't mean we need to make a change to chase that performance. What we need to do is follow the investment policy statement, and only fire managers who do not meet its criteria over time.'"

9. Bring More Attention to Participant Outcomes

"Sometimes, a committee we just started working with hasn't previously had a focus on participant outcomes," Brandwein says. So he takes the initiative to talk about a plan's key metrics such as average deferral rates, and he explains how these factors connect to participants' retirement readiness. He also offers specific plan design ideas for what a committee can do to help improve outcomes.

"We find that once we start getting into that topic, it becomes the first thing the committee members want to talk about at meetings," Brandwein says. "Now, most committees I work with want to discuss participant outcomes at every quarterly meeting. Five years ago, maybe it was more along the lines of, 'This is something we talk about on an annual basis.' But committee members get it more now, that this is all about getting employees to a comfortable retirement."

10. Build Connections Outside Meetings

When starting to work with a committee, make the effort to get to know members individually, Greenleaf suggests. "Try to understand what makes them tick and why they're there, and maybe take that discussion off-line with them," she says. Developing those one-on-one relationships outside of meetings can help an advisor build trust and gain more insight about issues that some members may be reluctant to speak up about in a meeting, in front of their boss.

As for how to get to know committee members, Graham says, "You observe them at meetings, and you go out to lunch with committee members or take some of them out for a beer after a meeting. It also is important that they know you are available and accessible — and that you demonstrate that over time." The more he talks with committee members, the more he understands a committee's dynamics, and can lead its meetings more effectively.

When Brandwein starts working with a committee, he openly encourages the members to call him anytime to talk. "A lot of building those relationships goes into having an open line of communication with all committee members," he says. "Not just a couple of people, but every single person on a committee knows my direct phone number. They all know that they can call me directly and ask me any questions they have."

» Judy Ward is a freelance writer who specializes in writing about retirement plans.