

Fiduciary Responsibilities in 403(b) Plans

What fiduciary responsibilities are being done for 403(b) plans, and who is doing them?

By Hattie Greenan

With the focus recently on fiduciary responsibilities and the role of advisors as fiduciaries to plans, PSCA surveyed 403(b) plan sponsors to get a sense of what they think are fiduciary responsibilities, and who is fulfilling those duties. PSCA conducted a brief online snapshot survey of on-profit organizations that sponsor 403(b)

plans and received 426 responses from organizations of varying sizes and industries. The full report is available on our website at: http://www.psc.org/403b_snapshot_2015. Following is a summary of the results.

Fiduciary Responsibilities

We asked plan sponsors if a variety of different fiduciary responsibilities were being done and if so, by whom. 60 percent of respondents indicated that they are reviewing the investment funds, though only 40 percent of small organizations are reviewing the funds themselves. 30 percent state that their plan

Exhibit 1: Fiduciary Responsibilities Being Performed, and Provider of Those Responsibilities

	Review and Evaluate Investment Funds	Review and Evaluate Fees	Create/Have an IPS	Monitor IPS for Compliance	Conduct Periodic RFPs	Ensure Compliance with Regulations
Plan Sponsor	60.0%	69.3%	54.3%	55.8%	41.2%	52.4%
Plan Provider	30.1%	20.6%	16.2%	20.3%	6.1%	33.6%
Investment Consultant	41.2%	38.3%	26.7%	28.9%	24.7%	13.7%
TPA	7.5%	6.1%	6.7%	11.0%	3.6%	24.4%
Attorney	0.5%	0.5%	6.2%	2.6%	0.7%	5.2%
No One	8.7%	9.2%	25.0%	20.5%	42.4%	8.3%
Other	0.2%	0.5%	0.0%	0.2%	0.7%	2.4%

Exhibit 2: Items Used to Benchmark Funds

Benchmark	Plan Size by Number of Participants				
	1-49	50-199	200-999	1,000+	All Plans
Performance	75.4%	81.3%	91.5%	92.6%	83.7%
Fees	52.6%	67.5%	80.5%	83.8%	68.7%
Risk	57.9%	62.6%	65.9%	76.5%	64.3%
Style Drift	11.4%	22.8%	36.6%	51.5%	27.4%
Other	0.0%	1.6%	2.4%	2.9%	1.6%
None	21.9%	16.3%	8.5%	5.9%	14.5%

provider is reviewing the funds, and 8.7 percent state that no one is reviewing the funds, including 16.3 percent of small organizations. Only 40 percent of organizations have an investment consultant reviewing the plan investments, including only 18.4 percent of small organizations. See Exhibit 1.

This pattern is similar when looking at fee evaluation. 70 percent of plans indicate that they are reviewing fees themselves, with 20.6 percent indicating that their plan provider is responsible for reviewing their own fees. 9.2 percent indicate that no one is reviewing fees, including 15.1 percent of small organizations.

About half of all plan sponsors have created an investment policy statement (IPS), including only 35.9 percent of small plans. One-fourth have an IPS created by a consultant, and one-fourth do not have one (including nearly 40 percent of small plans.)

40 percent of plans conduct periodic RFPs to ensure fees are reasonable, and 40 percent of plans do not. One-fourth have an investment consultant conduct the RFP. Half of plans are ensuring compliance with regulations themselves, one-third state their plan provider handles this, one-fourth have a TPA do it, and 4.3 percent of ERISA plans state that no-one does. Nearly three-fourths of plans have an oversight structure in place for ensuring adherence to the plan document.

Benchmarking Investments

The majority of plans – 85.5 percent – indicate that they benchmark their funds. Plans are mostly looking at performance in fund benchmarking (83.7 percent), but also looking at fees (68.7). See Exhibit 2. More than forty percent of plans have not replaced any funds in the last two years, including two-thirds of small organizations. See Exhibit 3.

Investment Advice and Education

403(b) Plan Sponsors rely heavily on their providers to provide investment information to participants. See Exhibit 4. 40 percent of sponsors provide a list of funds and descriptions to participants and 73 percent state this information comes from the plan provider. More than half of sponsors indicate that their plan provider helps participants make their investment decisions, and 30 percent state an investment consultant does this. Half of plans indicate that they make a financial planner available to participants, and half indicate that they provide investment advice to participants.

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Exhibit 3: Number of Investment Funds Replaced in the Last Two Years

Number of Funds	Plan Size by Number of Participants				All Plans
	1–49	50–199	200–999	1,000+	
One	4.2%	2.4%	8.3%	4.4%	4.5%
Two-Five	21.5%	43.1%	40.5%	39.7%	34.6%
Six-Ten	4.9%	7.3%	14.3%	11.8%	8.6%
More than Ten	2.8%	10.6%	8.3%	19.1%	8.8%
None	66.7%	36.6%	28.6%	25.0%	43.4%

Exhibit 4: Education and Advice Items Provided to Participants and Their Provider

Provider	List of Funds	Help With Fund Selection	Help With Asset Allocation	Investment Modeling Tools+	Online Investment Selection Help
Plan Sponsor	41.6%	5.7%	5.9%	3.6%	3.1%
Plan Provider	73.0%	59.7%	54.4%	79.8%	77.5%
Investment Consultant	9.2%	31.0%	29.5%	11.3%	12.3%
TPA	9.7%	8.5%	7.6%	10.1%	9.7%
No One	1.2%	11.6%	16.6%	7.0%	8.2%
Other	0.0%	0.0%	0.0%	0.0%	0.0%