

# Retirement Plan Committee's Guide to Effective Plan Governance

How to create a framework for overseeing a defined contribution plan and fulfilling the committee's fiduciary responsibilities.



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## **Governance: The Foundation of an Effective Defined Contribution Plan**

Providing employees with robust, diversified retirement savings tools is an essential element of attracting and retaining talent. Creating and managing a defined contribution plan, however, involves knowledge beyond many plan sponsors' core strengths and places fiduciary responsibilities on those charged with overseeing the plan.

This combination of specialized knowledge and legal liability underscores the importance of taking a thoughtful, strategic approach to retirement plan governance.

Drawing on Morgan Stanley's experience in guiding companies of all sizes through their journeys as plan sponsors, we explore the elements of effective plan governance. We identify best practices for retirement plan committees and examine how plan sponsors can optimize their relationships with consultants and other external partners to serve the interests of plan participants, the plan sponsor and other stakeholders.

We welcome the opportunity to discuss how your company can strengthen its retirement plan through strong governance and a highly effective retirement plan committee.

Thank you,  
**Jeremy France**

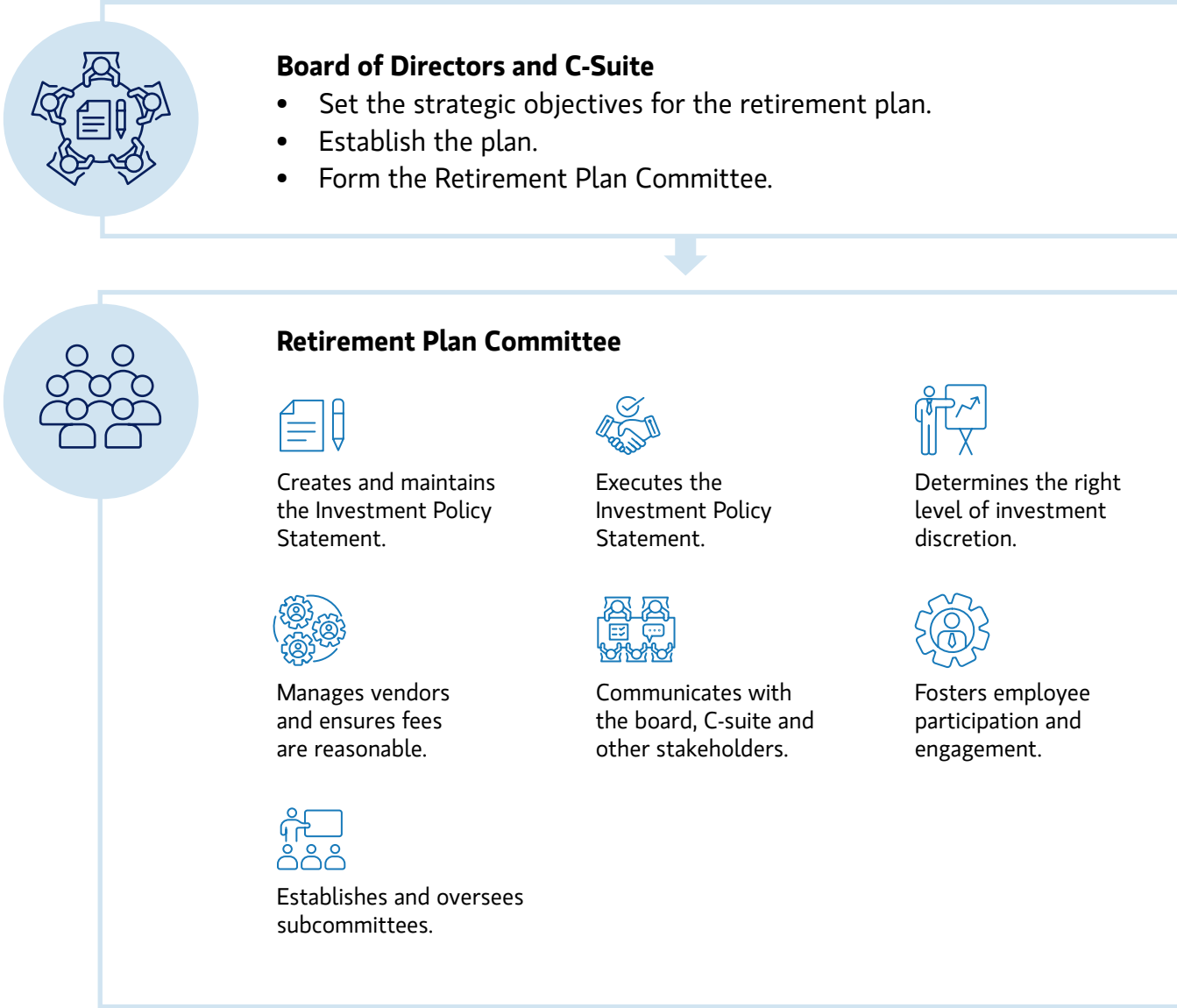
In this e-book, we explore:

# Understanding Plan Sponsors' Roles and Responsibilities

The decision to create a defined contribution (DC) retirement plan rests with the board of directors and the C-suite. The organization's leadership also must determine how to align the plan with the company's strategic objectives.

Beyond those high-level decisions, executing and overseeing the plan involves many other core functions, which is why a lot of companies also establish a dedicated retirement plan committee.

The fiduciary responsibility to act in the best interests of the plan participants applies to the board, C-suite and members of the retirement plan committee. The complex nature of ERISA laws and regulations and the potential for lawsuits and penalties underscore the importance of having a strong governance model in place to protect plan sponsors, committee members and participants.



# Core Documents Establish the Framework for Effective Governance

Codifying the plan's objectives, rules and oversight mechanisms is essential for fostering effective governance. To create this framework, organizations often use three primary documents, outlined on the right, allowing the plan sponsor to put its corporate stamp on how the plan operates.

These documents aren't meant to be set in stone. Plan sponsors should review them annually and amend as necessary to ensure they continue to meet the organization's objectives for strengthening the overall benefits program, attracting and retaining talent, and positioning employees for a successful retirement. This is especially true as ERISA laws and regulations change and as companies grow, execute mergers or acquisitions or face shifting competitive dynamics in their sectors.

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## Plan Document

Establishes the plan and states the rules for how the plan operates, including:

- Which types of employees will be eligible to participate and when they become eligible.
- Which types of savings vehicles the plan offers (traditional vs. Roth).
- How the plan's administrative fees will be paid.
- Whether the plan will offer loans and/or hardship distributions.
- Whether the plan will use features such as auto-enrollment and auto-escalation.
- What distribution options participants will have at termination.

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## Retirement Plan Committee Charter

Creates the committee's structure and establishes rules for how the committee will operate, including:

- What decisions can be made independently by the committee and what needs to be approved by the board.
- How many members will comprise the committee and their responsibilities.
- Which subcommittees will exist and their responsibilities.
- How often the committee will meet.
- Which consultants and other advisors will join in non-voting capacities.

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## Investment Policy Statement (IPS)

Sets guidelines for how the committee will oversee the plan's investment lineup and consultant relationships, including:

- Which asset classes and investment vehicle types will be included in the plan lineup.
- What responsibilities will be assigned to consultants and other third-party vendors.
- Which engagement model and level of discretion will be granted to consultants—3(21) vs. 3(38).
- How fees and other elements of vendor relationships will be evaluated.
- What criteria will be used for selecting and monitoring third-party asset managers.
- Which investments will be used as the qualified default investment alternative (QDIA).

[Read more.](#)



# Creating a Strong Team and Meeting Structure

The makeup and meeting schedule of a retirement plan committee have important implications for effective functioning.

**SIZE**  
**3–7 members**

Generally speaking, plan sponsors should aim for a committee of 3–7 members. Small groups can find it difficult to get a quorum. With larger committees, the group dynamic can become unwieldy. Having an odd number is helpful because it eliminates the possibility of a tie when all voting members are present.

**KNOWLEDGE**  
**Diversified across functions and business units**

To ensure that the plan comprehensively addresses the company’s strategic objectives and the needs of employees, the committee should draw on perspectives across functional areas and business units. When creating the charter, identify the titles of specific roles (e.g., chief human resources officer, chief financial officer, chief operating officer, etc.) that should be represented on the committee.

**ROLES**  
**Clearly defined**

The charter should clarify the duties of: the committee chairperson, who typically leads meetings and ensures the committee fulfills its fiduciary obligations; the secretary, who facilitates communication and documents the meetings; and specific roles of representatives from HR, legal or other departments. It also outlines the expectations for other committee members, including the length of their terms.

**MEETING CADENCE**  
**2–4 times per year**

Committees typically meet on a bi-annual or quarterly basis. This cadence allows the committee to monitor and discuss the plan and meet with consultants and other advisors on a recurring basis. The committee should also be prepared to meet on an ad hoc basis to address any major market, regulatory or industry events.

**MEETING ATTENDEES**  
**Not just full, voting members**

Many committees also invite people who aren’t members with voting rights join meetings. These non-voting attendees may include executives from across the company, as well as consultants, legal counsel, third-party administrators and other external partners.

# Identifying the Committee Chairperson

Strong leadership is essential for a well-functioning retirement plan committee. Leading this group is no small task.

The chairperson, typically appointed by the company's board of directors or other members of leadership, is responsible for ensuring that the retirement plan committee meets all of its fiduciary responsibilities and executes the IPS.

Thus, the person chosen to chair the committee needs investment knowledge and an understanding of fiduciary responsibilities under ERISA to shoulder these weighty responsibilities.

## Valuable qualifications or characteristics for the role include:

- Experience serving on a high-functioning retirement committee.
- CFA charterholder or other designation that requires extensive knowledge of asset allocation, portfolio construction, manager and product evaluation, and other investment fundamentals.
- Interpersonal and leadership skills needed to help the group reach consensus without unduly influencing deliberations with his or her own opinions.



## Chairperson's duties include:

- ✓ Setting the agenda for and leading committee meetings.
- ✓ Working regularly with consultants to make sure they are executing the goals established in the IPS.
- ✓ Ensuring the retirement plan committee is operating with excellence.
- ✓ Educating committee members on their responsibilities.
- ✓ Overseeing the provision of education and guidance to elevate members' productivity.

# Establishing and Managing Subcommittees

One of the retirement plan committee's primary responsibilities is ensuring that the IPS is executed properly. This involves a host of underlying tasks, some of which may require more time and attention than the committee as a whole can dedicate.

Many retirement plan committees form formal subcommittees to address these more specific responsibilities. In some instances, the subcommittee may be empowered to make and execute some decisions; in other areas, the subcommittee may be required to provide a recommendation to the full committee.

If the retirement plan committee does not want to grant decision-making responsibilities to subcommittees, the committee could alternatively create working groups. These informal groups would require less governance structure and would present their findings to the full committee, which would evaluate the findings and make the ultimate decisions.



## Types of Subcommittees

Subcommittees can be formed to handle one-time projects or recurring responsibilities of the retirement plan committee.



### Ad Hoc Subcommittees

*Common tasks include:*

- Overseeing the merger of two plans or the termination of an existing plan.
- Evaluating and hiring a new investment consultant, recordkeeper or other key service provider.

### Standing Subcommittees

*Common tasks include:*

- Managing disclosures and other participant communications.
- Ensuring service provider fees are reasonable and in line with industry standards.

# Building a Solid Team of Advisors and Service Providers

Managing a defined contribution plan requires extensive knowledge and capabilities across a wide range of areas. One of the retirement plan committee’s most important jobs is identifying and managing advisors and service providers who can offer recommendations and perform functions in these core areas.

**In-house vs. outsource:** Some of these roles, such as investment consultant, actuary and recordkeeper, are typically performed by third parties. Other roles, including general counsel and administrator, can be performed by company employees, third parties or a combination of both.

**Selecting and evaluating providers:** Given the prominent role these advisors and service providers play, they should be selected via a robust RFP process. Investment consultants can lead or advise on this vetting process. Committees should regularly evaluate the fees and performance of advisors and service providers to ensure they are meeting expectations and are aligned with market rates.





# Determining the Level of Investment Discretion

Plan sponsors face critical decisions about the committee’s level of involvement in selecting investment options for the plan lineup and in monitoring the third-party managers of these investment vehicles.

Plan sponsors may use an advisor or consultant to support these functions, and these engagements are either non-discretionary 3(21) or full discretionary 3(38) relationships.

**Determining the most suitable type of engagement for the plan involves answering questions such as:**

- What level of support does the committee seek in terms of fulfilling its fiduciary duties?
- How closely does the committee want to be involved in executing decisions?
- What is the committee’s level of investment knowledge?

[Read More. Consultant Discretion: Assessing the Spectrum of Solutions](#)

## 3(21) vs. 3(38)–Consultant and Committee Roles

ERISA sections 3(21) and 3(38) cover the responsibilities of retirement plan advisors or consultants under the two most common engagement models.

### Non-Discretionary–3(21)

*Consultant’s role:*

- Identifies and recommends specific managers and funds to be included in the plan lineup.
- Monitors existing managers and funds; recommends potential changes to the plan lineup, taking into consideration the plan’s IPS.

*Retirement plan committee’s role:*

- Considers the consultant’s recommendations and decides whether to implement the recommendations to align with the IPS.

### Full-Discretionary–3(38)

*Consultant’s role:*

- Primarily liable for investment-related decisions.
- Adopts a higher degree of fiduciary responsibility.
- Monitors existing managers and funds.
- Identifies and recommends specific managers and funds to be included in the plan lineup and implements the changes.

*Retirement plan committee’s role:*

- Oversees and monitors the consultant’s performance and processes.

### Fiduciary duties can’t be abdicated.

While many aspects of managing a DC plan can be outsourced, the retirement plan committee ultimately retains its fiduciary responsibilities under either model.

# Trends in Consultant Engagement Models

Morgan Stanley’s 2024 survey of DC plan sponsors revealed interesting insights about the use of consultants. [Access the full survey report.](#)

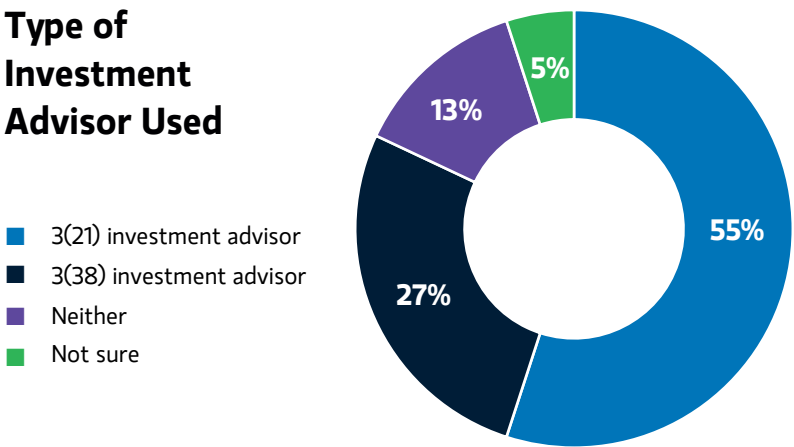
## Trend Toward 3(38) Shows Momentum

While 3(21) relationships are still about twice as common as 3(38) relationships, the gap is likely to continue closing. Nearly 70% of 3(38) users have initiated these engagements in the past five years, and about half of the non-3(38) users are considering switching to this type of engagement.

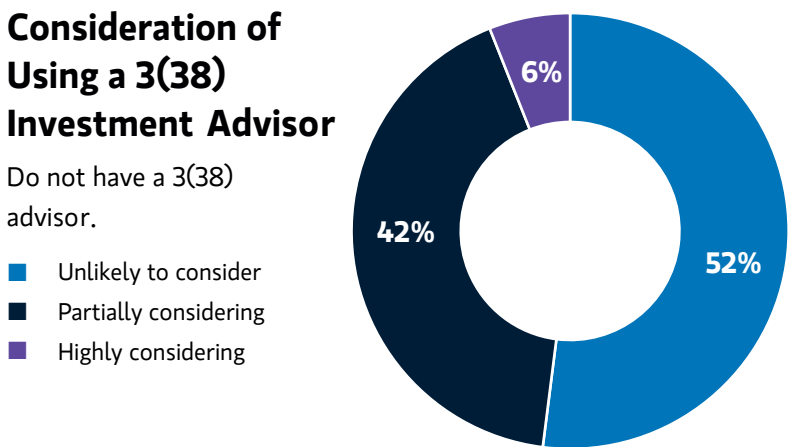
## Plan Sponsors Recognize a Wide Array of 3(38) Benefits

In addition to lessening the workload on committee members, the ability for a 3(38) to act immediately is especially valuable for sponsors seeking to ensure their lineups reflect current market conditions and opportunities. Given the difficulty of keeping up with Department of Labor regulations, the ability to transfer a higher degree of fiduciary liability to a consultant via a 3(38) engagement is another increasingly valuable feature of this model.

Type of Investment Advisor Used

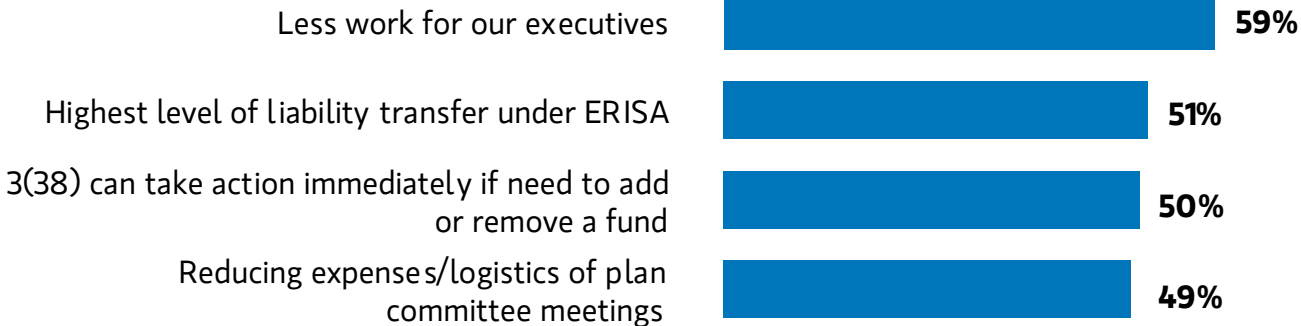


Consideration of Using a 3(38) Investment Advisor



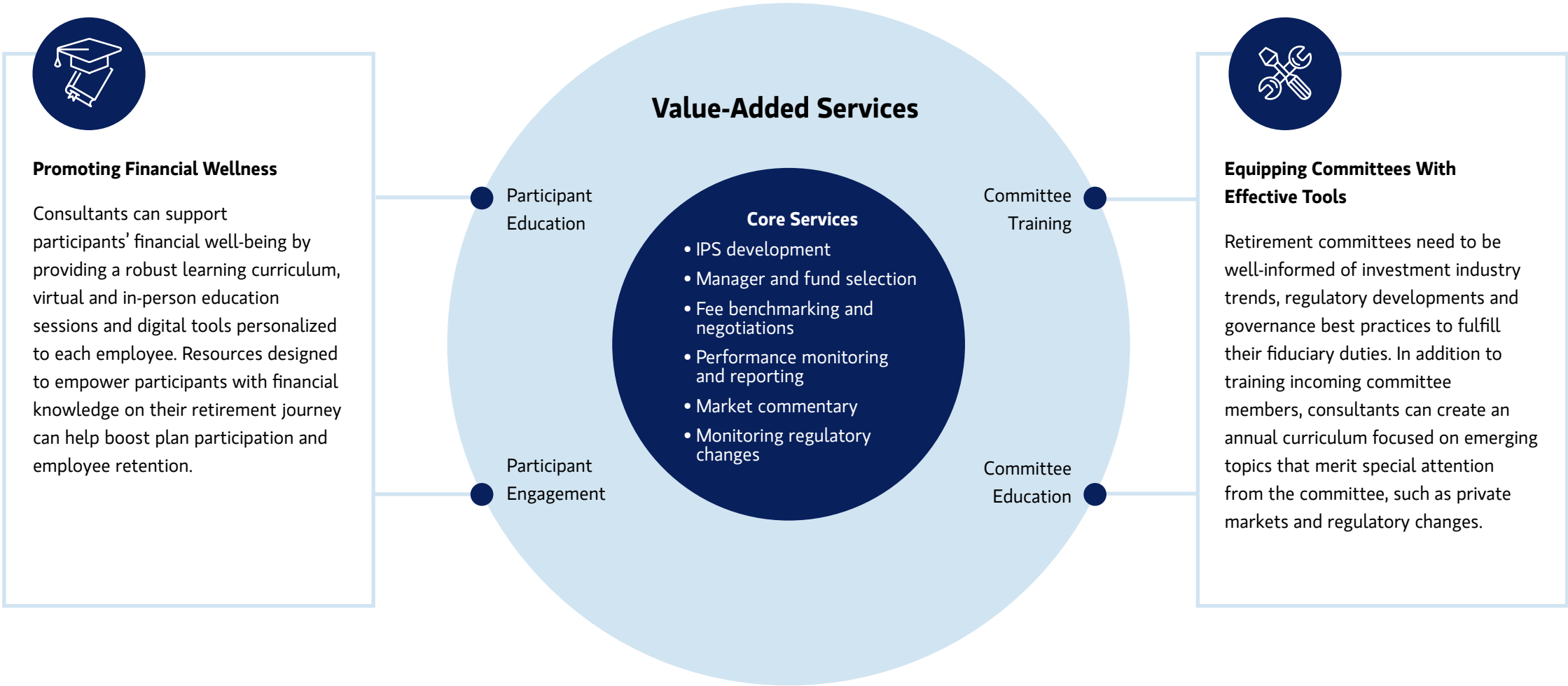
## Reasons for Considering a 3(38) Advisor

Among those using or considering a 3(38).



# Value-Added, Holistic Services

A consultant’s value proposition to a DC plan sponsor can extend far beyond the core service offering related to the investment plan lineup. Retirement plan committees should look for partners that can provide holistic support in high-value areas.



# Investment Consulting Solutions for Retirement Plans

Morgan Stanley offers a wide range of customized solutions and advice across retirement plan types.

## Defined Contribution (DC)

We are uniquely equipped to guide a DC plan through the complex, interrelated decisions involved in building an effective retirement plan that addresses the needs of the organization and its workforce.

## Defined Benefit (DB)

We can develop a customized approach to help strengthen the health of a DB plan and support plan goals such as improving funded ratios, minimizing funded status risk or de-risking a portfolio.

## Nonqualified Deferred Compensation (NQDC)

Our consultants can help develop an NQDC plan that is integrated with other elements of an organization's retirement plan and compensation program.



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in total institutional assets  
under management.<sup>1</sup>



**50+ Years**  
of experience advising  
institutional clients.



**~1,800 Consultants**  
serving institutional clients.<sup>1</sup>

<sup>1</sup> As of December 2024

### Additional Resources

Learn more about Morgan Stanley's [investment consulting capabilities for retirement plans](#) or access additional resources for plan sponsors:

- [The Retirement Plan Survey](#)
- [Beyond the 401\(k\)](#)
- [State of the Workplace Financial Benefits Study](#)
- [Turning the Key on Accumulation](#)

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