

Establishing an investment policy statement



Wealth
Management

What are the benefits of an investment policy statement?

Although an Investment Policy Statement (IPS) is not required, ERISA section 402(b)(1) states that plans must “provide a procedure for establishing and carrying out a funding policy in a method consistent with the objectives of the plan.” There are several benefits to establishing an IPS:

- **Documentation** — Provides written documentation of the policies, practices and procedures for making investment selections.
- **Clarification** — Sets a clear baseline and framework to ensure continuity during staff turnover.
- **Evaluation** — Provides a clear standard for evaluating and monitoring the plan’s investments in seeking to achieve the IPS objectives.
- **Communication** — Participants can be assured that there is a logical and disciplined approach to the process of managing the plan.
- **Protection** — Can serve as your first line of defense against potential fiduciary litigation.

What would typically be included in an IPS?

- **Overview** — Describes the plan that is covered by the IPS and whether the plan is intended to comply with 404(c).

- **Purpose of the IPS** — Explains the purpose and intent of the IPS, not only for current plan personnel, but for successors as well.
- **Investment objectives** — Lists the objectives by which investment options will be selected.
- **Roles and responsibilities** — Identifies the various parties involved in the plan investments, including trustees, investment managers, recordkeepers and investment committees and summarizes their responsibilities.
- **Selection of investments and managers** — Describes the plan’s intent to provide an appropriate range of investment options spanning the risk/return spectrum and typically identifies the appropriate index and peer group to be used for each option.
- **Investment monitoring and reporting** — Outlines the ongoing processes for revisiting the investment option selection process and confirming that the criteria in the IPS are met. This should be a regular, disciplined and documented process.
- **Manager termination** — Describes how underperforming managers will be reviewed and replaced.
- **Participant education and communication** — Indicates the plan will communicate to employees that employees control their own investments, can make investment

changes at least quarterly, and that the plan will provide effective educational materials to help employees make informed decisions.

- **Coordination with the plan document** — Clarifies the interrelationships among the IPS, the plan document, the summary plan description and other plan materials.
- **Optional guidelines** — If your plan offers features, such as a Mutual Fund Window, Self-Directed Brokerage, Company Stock and Investment Advice to participants, you may want to add further guidelines to your IPS.

Who is responsible for drafting the investment policy statement?

Like all plan documents, an investment policy statement should be carefully drafted and thoroughly reviewed by the plan sponsor and its legal counsel. It’s important to review and update the IPS periodically to reflect any changes in the plan’s investment strategy. Your RBC Wealth Management® financial advisor can provide a sample IPS that may help you to develop your own investment policy statement or help you review your existing IPS.

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