Basic Fiduciary Obligations for New Plan Sponsors

Threats of financial penalties and legal liabilities heighten the need for proper compliance with the Employee Retirement Income Security Act of 1974 (ERISA). Let's go over the basics of what it means to be a fiduciary in an organization's retirement plan.

What is a Fiduciary?

In basic terms, a fiduciary is a person or group in a company that is responsible for the retirement plan and does what is best for the participants in the plan. There can be three different kinds of fiduciaries in a plan:

1. Named Fiduciary: This person or group is named specifically in the plan rulebook. There can be multiple people to handle different tasks such as investments and reporting.
2. Appointed Fiduciary: A named fiduciary is allowed to assign fiduciary responsibilities to another person such as an investment manager to handle monetary decisions.
3. Functional Fiduciary: This is someone that isn't appointed as a fiduciary on paper, but steps into the role. Even if they aren't officially listed on the plan rulebook, they legally become a fiduciary.

Fiduciary Obligations

According to ERISA, there are 4 main duties of a fiduciary:

1. Acting in the best interest of the retirement plan participants, not the fiduciary's or company's.
2. Making careful and knowledgeable decisions involving retirement plans.
3. Don't put your eggs in one basket. Spread out investments to reduce risks.
4. Follow the plan rulebook unless it goes against federal guidelines.

In addition to these main duties, there are additional tasks assigned to plan fiduciaries. Reporting, keeping records, and handling claims are large responsibilities that can result in major penalties if not completed correctly. To begin, fiduciaries need to annually file a Form 5500 with the government to be transparent with plan performance. Failing to do this can include up to $2,670

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per day from the Department of Labor as well as IRS penalties. Keeping records related to the plan as well as sharing these records with participants will be important for any potential legal disputes that arise. Any claims made by participants about their retirement plans must also be handled by the plan fiduciary.

Plan fiduciaries carry a big responsibility, and it's important to operate fairly for the sake of the plan participants as well as know the regulations to mitigate any future liability issues.

Source
https://www.plansponsor.com/fiduciary-basics-for-new-plan-sponsors